BLAKE NORDSTROM
CO-PRESIDENT

Good afternoon, everyone. Many of you joined us for our Investor Day last month. We appreciate the opportunity to share our customer strategy, our aspiration to be the best fashion retailer in a digital world, and our long-term financial commitments. For those who missed it, we have made the webcast available on our investor relations website. We've laid out our strategy, and we'll continue to build on this foundation as we execute and measure our outcomes.

Our second quarter results reflect our progress in achieving our long-term financial commitments. In the second quarter, we reported a total sales increase of approximately 7 percent and earnings per share of $0.95. We remain on track for 2018 to be an inflection point for profitable growth.

As a reminder, over the course of this year, there are timing impacts related to the shift in the calendar and the new revenue recognition standard. In the second quarter, this represented a favorable impact of roughly 100 basis points on total sales and $30 million on EBIT. This is expected to fully reverse in the third quarter, resulting in an unfavorable impact. To help provide further clarity, we've posted our slides ahead of this call, and Anne will share additional insights in her remarks.

Because of these nuances on total sales this year, we're also providing color on our comp sales, which are reported on a like-for-like basis with no impacts from the calendar shift or revenue recognition. For the second quarter, comp sales increased 4 percent, driven by growth across both Full-Price and Off-Price.

We had robust digital sales growth for the quarter, reflecting our market-leading presence and significant progress toward our long-term goals. Digital sales grew 23 percent for the quarter -- up 300 basis points from a year ago -- and accounted for 34 percent of our sales.

In Full-Price, we had a comp increase of 4.1 percent for the quarter. We recently completed our one-of-a-kind Anniversary Sale, an event that distinguishes us in the industry by featuring new arrivals, at reduced prices for a limited time. Anniversary generates significant volume that rivals even our holiday period.

We continue to see a heightened shift of customers shopping online during Anniversary. Digital sales accounted for more than 40 percent of our event. On the first day of early access for our Nordstrom cardholders, we had our biggest day ever online, exceeding our previous record by 80 percent at 10 times our average daily demand.

We worked hard to manage our systems for peak demand. Despite our efforts, we experienced some website issues as we encountered unprecedented levels of demand on the first day of the event. While our team resolved this, we know we disappointed many of our customers, and in response we offered cardholders 10 points per dollar on purchases made on the first day of Anniversary.

While we had a solid Anniversary overall, we're well aware that we have opportunities to better meet our customers' expectations. We've learned a lot and are highly committed to improving our execution.

From a merchandising perspective, our partnerships with strategic brands enable us to provide customers with compelling offers and strengthen our product margin. In the second quarter, sales from strategic brands grew 13 percent, making up around 45 percent of our Full-Price business. We are positioned to achieve our long-term plans for strategic brand growth that we shared during Investor Day.

Our Off-Price business delivered a comp increase of 4 percent for the second quarter. The strength of our inventory position allowed us to be fluid and respond quickly. We took swift action to accelerate inventory turns, strengthen our core assortment and improve our execution in stores. Our second quarter comp sales exceeded our plans by a couple hundred basis points, and we expect to carry and build upon this momentum during the second half of the year. We also continued to deliver 25 percent plus sales gains in our digital business, Nordstromrack.com and HauteLook.

One of the primary topics we discussed during our Investor Day was our local market strategy, a cornerstone of how we will win with customers and increase shareholder value. When customers engage with us across stores and online, on average they spend five times more and profitability per customer doubles. Through our focus on our top markets, we're combining the scale of our national infrastructure with our local assets of people, product, and place to drive increased customer engagement and gain market share.

We're starting in our largest market, Los Angeles, where we're bringing all of our digital and physical assets together in a seamless ecosystem. We're continuing to invest in supply chain, a critical enabler of the customer experience. We have identified sites for our West Coast fulfillment center and local omnichannel hub, which are scheduled to open in late 2019. These investments in our supply chain network will help address our opportunities to better serve customers, improve our efficiencies, and leverage inventory in our local markets.

Last month, we announced that two additional Nordstrom Local concepts will open in the LA market this fall. These neighborhood hubs are one component of our local market strategy to engage with customers through more convenient access to product and services, such as buy online pick up in store, alterations, store reserve, and personal styling.

Technology is a critical component of our ambition to be the best fashion retailer in a digital world. On that front, we're pleased that Edmond Mesrobian has joined our executive team as chief technology officer. Edmond brings nearly three decades of experience from large and complex international companies, including Tesco and Expedia. He will support all aspects of technology across the company and focus on advancing our capabilities to deliver the best experience to our customers, however they choose to shop with us.

In closing, we believe we are leading the future of retail through our customer strategy centered on three strategic pillars: providing a compelling product offering, delivering outstanding services and experiences, and leveraging the strength of the Nordstrom brand.

We are confident in our path forward and are well-positioned to achieve our financial plans for the year and over the long-run. Now I'd like to turn the call over to Anne to provide more color on our second quarter and expectations for the year.

ANNE BRAMMAN
CHIEF FINANCIAL OFFICER

Thanks, Blake and good afternoon everyone. Before I review our second quarter results, I'd like to reiterate our key takeaways from our recent Investor Day regarding our long-term financial plan.

- To begin with, we're targeting higher shareholder returns through three deliverables: growing market share; improving profitability and returns; and continuing our disciplined capital allocation approach.
- Second, we're on track for 2018 to be an inflection point for profitable growth as we scale our generational investments and digital capabilities.
- And third, as our model evolves and we near completion of our heavy investment cycle over the next couple of years, we plan to return to mid-teens ROIC and accelerate free cash flow.

Our second quarter demonstrated our progress in achieving these financial goals. Q2 EPS of $0.95 reflected top-line strength across our businesses and throughout the quarter. Based on our first half results, we have raised our full-year outlook from a top and bottom line perspective.

Now, I'll provide further details around the timing shifts. As Blake mentioned, quarterly comparisons to the prior year are impacted because of last year's 53-week calendar and revenue recognition changes. For the second and third quarters, the primary driver of timing shifts is revenue recognition. The shift of events -- Triple Points, Anniversary, and Half Yearly -- largely offset within the second and third quarters. For example, in the second quarter, the unfavorable impact of Triple Points was largely offset by the favorable impact of Anniversary.

For the second quarter, we had a total sales increase of approximately 7 percent, including a favorable impact of roughly 100 basis points, which will fully reverse in the third quarter. This primarily represented the impact of revenue recognition as it relates to the timing of Anniversary.

As Blake mentioned, comp sales are reported on a like-for-like basis, which means there are no impacts from event shifts or revenue recognition. While we are providing color on our comp performance given this year's unique nuances, we're focusing on total market and sales performance as comps become less relevant over time.

As a reminder, at the beginning of 2018 we made changes to our sales reporting to align with how we view our results internally. We now allocate certain corporate adjustments, such as estimated sales returns, to our Full-Price and Off-Price businesses. These allocation changes do not impact sales at a total company level but they do impact prior year comparisons for Full-Price and Off-Price.

It's also important to keep in mind that we don't believe our sales trends on a quarter over quarter basis are necessarily predictive due to the seasonal nature of our business. For example, Anniversary has become less of an indicator for second half performance as our merchandise offering continues to shift from fall to wear-now. We view our underlying trends over a longer-term horizon, which has generally been consistent over the past several years.

Now I'd like to walk through some timing impacts on other areas of the P&L and provide some color on our Anniversary execution.

First, the gross profit increase of approximately 90 basis points included a favorable shift of $30 million due to revenue recognition as it relates to timing of Anniversary. This is expected to fully reverse in the third quarter. More specifically, it represents in-transit sales that are now recognized at shipment under the new standard, rather than deferred. There is an elevated impact relative to last year due to the high volume of online sales for Anniversary at the end of the quarter.

The second call out is related to an unplanned 10-point loyalty offering made in response to the site outage on the first day of Anniversary. This reduced gross profit by approximately $12 million in Q2 and is expected to be roughly EBIT neutral by the end of the year, as customers redeem their notes. In Q2 last year, we had a similar loyalty accommodation, so the impact is minimal on a year-over-year basis.

Our gross profit performance reflected higher product margins from continued regular price selling trends and leverage on occupancy expenses. From an inventory perspective, we ended the quarter with a positive spread between inventory and sales growth, in-line with our expectations.

Moving to SG&A, our rate increased around 70 basis points over last year. This reflected higher fulfillment and delivery expenses related to digital growth and peak online demand during Anniversary. Coming off the event, we expect supply chain costs to return to recent levels. We're focused on continuing to bend the curve in expense growth and remain on track for a mid-single-digit increase for the year.

Turning to capital allocation, our philosophy is to maintain a consistent and balanced approach between reinvesting in the business and returning cash to shareholders. We're also focused on maintaining a strong balance sheet and an investment grade credit rating.

Our debt leverage remained consistent with our expectations at 2.5 times on an adjusted debt to EBITDAR basis. We had approximately $90 million in share repurchases year-to-date.

Turning to our full year guidance, we've raised our EPS outlook from a range of $3.35 to $3.55 to a range of $3.50 to $3.65. This incorporates our first half results while maintaining our assumptions for the second half of the year. From a comp perspective, we've raised our full-year expectations from a 0.5 to 1.5 percent increase to a 1.5 to 2 percent increase. This assumes a continuation of underlying sales trends in the second half of the year. From a gross profit perspective, we continue to expect modest improvement in product margins and a consistent occupancy rate relative to last year.

For the second half of the year, we expect Q3 to contribute roughly 30 percent of EBIT and Q4 to contribute 70 percent. We have the following quarterly call outs:

- Q3 EBIT margin is planned to deleverage on fixed expenses and includes a $30 million unfavorable shift from Q2 associated with the impact of revenue recognition.
- Q4 EBIT margin is planned to leverage on higher sales volume and reflects a favorable comparison of $16 million, from a one-time employee investment associated with last year's tax reform. When normalizing for this one-time impact, Q4's planned EBIT contribution in the second half is generally consistent with historical trends.

We remain confident that 2018 is an inflection point for long-term profitable growth. Our drivers of EBIT margin improvement include continued strength in our product margins, scaling of generational investments, and leveraging our digital capabilities. We're encouraged by our progress to date and we're tracking well against our financial plans. I'll now turn it over to Trina for Q&A.