

NORDSTROM

Nordstrom Leadership Discussion with Telsey Advisory Group

July 10, 2020

Our President and Chief Brand Officer Pete Nordstrom, Chief Financial Officer Anne Bramman and Chief Operating Officer Ken Worzel recently discussed with Dana Telsey of Telsey Advisory Group lessons learned in COVID-19 and our approach for the future.

Pete started the conversation with opening remarks on how we're continuing to navigate through the current crisis. "What we're seeing now is really just an acceleration of pre-COVID trends. Prior to the pandemic, we had a diverse plan that was —and we still believe is —the right approach for the future. One example of this is the fact that we're not a department store. Those are traditionally mall-based retailers. For us, less than 40% of our business is in a mall-based store while the rest comes from online and Rack sales, which shows how diversified our model is and one component of how we are able to navigate through the current crisis.

"We've had to make a lot of tough decisions to manage the business through the uncertainty with a focus on inventory and liquidity. We were successful in our approach but still took valuable lessons on how we can continue to improve."

Even before COVID-19, we were rethinking how to use our stores based on the needs of the customer.

Ken highlighted our approach before, during and as we plan for operations after COVID-19. "We saw continued synergy across our model during this time through the continued linking of our digital and physical offerings. This includes store fulfillment, contactless curbside services, and bringing a lot of these offerings to Off-Price as well.

"Even before COVID-19, we were rethinking how to use our stores based on the needs of the customer. We had already shifted our labor force to be more available from a service and experience perspective beyond just selling. Activities like order pickup and returns, styling and alterations have become a big part of our service proposition.

"Post COVID, we've also shifted and invested in ways to provide a safe experience for both our customers and employees. We have a lot of adaptability within our model and we continue to evolve what that looks like to support the seamless journey for customers from digital to physical and vice versa. In general, we continue to flex on those things based on sales and demand to make sure our investment is commensurate with the volume in each channel."

We attracted new customers while our stores were temporarily closed through our Nordstrom.com and Nordstromrack.com offerings.

Ken discussed the customer behavior we've seen and how it impacted Nordstrom. "One of the things we're working on is ensuring that we continue to engage with new customers we acquired while our stores were temporarily closed. Also, our Nordy Club loyalty program continues to be a big part of our business. We saw that during temporary store closures. We're starting to see a lot of new receipts flow in now that we have newness coming back to our inventory. That's a big driver of reactivation for our customers. Another driver is our Anniversary Sale where we have really compelling product at a great price point."

We want to ensure a seamless shopping experience across digital and physical touchpoints for customers because it works for them and it works for us.

Ken continued, "We've been on this evolution journey for a while now which puts us in a good position, but the journey is far from over. For example, we've had for some time in our Full-line offering a seamless set of services and experiences for customers across physical and digital touchpoints. We've been fulfilling out of our Full-line stores for close to a decade, we have online order pickup and ship to store, and other experiences that provide convenience for our customers -- most of which have evolved to contactless curbside services during COVID. That's proven to be a big part of how we serve customers both while our stores were closed and even while they're open.

"One of the things that we had planned but accelerated is that we need to have all the same set of capabilities for our Off-Price customers. We launched store fulfill in our Rack locations in April, meaning we were able to fulfill online orders with the inventory in our stores. In general, we've accelerated our ambition to provide all of the same suite of services for Off-Price customers that we currently do for Full-Price —we know that the customer appetite is there.

"We're working toward getting all 350+ Rack and Full-line store locations into places where we can serve customers across our full suite of convenient services —including picking up a Full-line order at a Rack or making a Rack return at a Full-line location. We want to make it super seamless for customers because it works for them and it works for us. It also then exposes customers to our different brands. When we get a customer to shop across our brands, their spend increases four to 11x on average.

"We've already proved this concept works. In New York City as part of our market strategy, we set up express service hubs in our Rack locations to allow Full-Price customers to access the same services like alterations and returns at the Rack."

Our market strategy is about bringing all our assets together to serve customers on their terms.

Ken discussed the role of our market strategy stating, "What this strategy really means is the opportunity to provide an enhanced level of service and selection for customers in our top markets by using our people, product and place. We've already rolled this out in our top five markets —LA, New York City, Dallas, San Francisco, Chicago —and plan to roll it out in five more of our top markets. What this allows us to do is provide customers with up to 8x more selection available for next day pickup or delivery. It also allows us to give customers more convenience like the ability to order from the enhanced selection and be able to pick it up from any of our locations in the market. You also can meet your stylist or do an alteration at any of our locations. Our market strategy is really about bringing all of our assets together to serve customers on their terms.

"Nordstrom Local is a subset of our market strategy. They are 1,500 to 3,000 square foot neighborhood service hubs currently in LA and New York. They don't hold inventory and instead are touchpoints for customers to more conveniently engage with our services."

We exited Q1 with inventory down by more than 25%, getting us to a strong position to bring in newness for our customers.

Anne provided an update on our financial position. "As we exited 2019 and into February, we saw strong momentum and positive sales trends. We also saw a lot of strength in our model and flexibility. Once COVID started to unfold, we immediately did scenario planning to understand its impacts and what actions we should take. We quickly turned to cash, liquidity in our financial model and inventory. Thanks to our collective action, we exited Q1 with inventory down by more than 25%.

"We also did a lot of work on working capital and expense base. We expect to be break-even from a cash flow perspective by the back half of this quarter, which is quite a feat considering how long our stores were closed. However, we were able to open our stores faster than anticipated and they are performing better than we had hoped —especially Rack.

"We're also seeing fewer returns than we anticipated. It's great from a sales and cash perspective but it's adding to some of our inventory shortfalls since less is coming back to us. The good news is it's opening up dollars for us to buy more newness, which our customers love.

"We expect this to be a highly promotional environment on top of everything that happened, so we don't anticipate being at the same levels as in previous years. However, due to our quick actions, we will create some sequential improvement throughout the year. In particular, we took a lot of action on our expense base which was mostly fixed expenses, so as we see sales continue to ramp up, we should get better flow through because we permanently reduced a chunk of our expense base.

"Our financial principles have not changed, so part of us getting through this is getting back to capital allocation and debt ratio, start paying our dividend again and continue to invest in our business —particularly in our technology, data and analytics spaces."

For Holiday we are planning more inventory at lower prices than we've ever had —certainly in gifting categories.

Pete described our approach to Holiday stating, "We've been on a journey for a few years to try and improve our gifting. We learned a lot last year, then applied those lessons and data to this year. We are going to have more inventory at lower prices than we've ever had —certainly in gifting categories. What we're really focused on is finding ways to connect with customers and make Nordstrom a convenient gifting destination. We have the ability to serve customers however they want, so we're applying that approach to how we think about gifts."

We're focused on serving customers and earning their confidence and trust.

Pete concluded the conversation talking about metrics for success and what the future holds. "It's really about being relevant for customers. These times have forced us to connect on what's relevant for them for both the experience and the offer. We think we understand our customers well and are really committed to evolve how we do that. We measure success by the number of customers that feel that Nordstrom is the number one place to go to buy the things that we sell.

"Given everything that's happening in our world and industry, we have a chance to gain market share. We're aggressive about that opportunity which will ultimately lead to more business. Don't draw conclusions based on the moment of time. We're learning every day on how to improve, but we feel good about our efforts to date. We're going to battle through this time, be there for customers, earn their confidence and trust. There is always room for the best in class and we believe we are the best in class at what we do."