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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Welcome to the Nordstrom second-quarter 2024 earnings conference call. (Operator Instructions)

As a reminder, this conference is being recorded. At this time, I'll turn the call over to Jamie Duies, Head of Investor Relations for Nordstrom. Jamie?

James Duies - Nordstrom Inc - Head of Investor Relations

Good afternoon and thank you for joining us today. Before we begin, I want to mention that we'll be referring to slides, which can be viewed in the Investor Relations section on nordstrom.com. Our discussion may include forward-looking statements, so please refer to the slide with our Safe Harbor language.

Participating in today's call are Erik Nordstrom, Chief Executive Officer; Pete Nordstrom, President; and Cathy Smith, Chief Financial Officer, who will provide a business update and discuss the company's second-quarter performance.

Please note that when discussing our results and outlook, we will be referring to them on an adjusted basis for EBIT, EBIT margin, and earnings per share. Reconciliations to the most directly comparable GAAP measures can be found in our Q2 2024 earnings press release, which is available on our website.

As we begin, I want to acknowledge the company's April 18 announcement of the Board of Directors' exploration of potential avenues to enhance shareholder value and formation of a special committee to evaluate any proposal that might be presented by Erik and Pete Nordstrom to take the company private.

The special committee will carefully evaluate any proposal that may be received and consider whether it is in the best interest of Nordstrom and all shareholders. We do not have an update to share on this topic and will not be speaking to it during our call today.

I'll now turn the call over to Erik.

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Thank you, Jamie, and good afternoon, everyone. Thank you for joining us today. I'll begin with our second-quarter performance. We delivered solid results in the second quarter with net sales of \$3.8 billion and earnings per share of \$0.96. We grew net sales as well as comparable sales and expanded margins.

At both Nordstrom and the Rack, customers responded positively to newness and their favorite brands. The momentum in our digital business continued with net sales growth of 6%. Our teams executed well throughout the quarter and delivered a successful Anniversary Sale. We are pleased that our efforts are resonating with customers.

During the second quarter, we made progress on our three key priorities of driving Nordstrom banner growth, optimizing our operations, and building upon the momentum at the Rack.

Driving Nordstrom banner growth is a key area of focus. For us, it all begins with helping our customers feel good and look their best. We do this by offering a compelling selection of great merchandise supported by our commitment to service and experience. In our Nordstrom stores, we continued our efforts to provide a more consistent offering of the brands that matter most to our customers across our entire fleet. This includes ensuring that we have the newness, relevance, and depth of merchandise that our customers value, including our Nordstrom private brands, which were relaunched earlier this year.

As we have shared previously, growing the digital customer journey is a key part of our strategy to drive Nordstrom banner growth. In the second quarter, solid sales growth at nordstrom.com was driven by an increase in our assortment across a balance of price points, improvements to search and discovery, as well as high in-stock rates of our fastest-turning items.

In April, we successfully launched our Marketplace and have since added over 15,000 items to our digital offering in nearly 100 new brands. While we're pleased with the initial response from our customers, Marketplace is not yet a material driver, and we will continue to scale it in the months ahead.

Operational optimization is another key priority for 2024, which is intended to further build upon the success we've had in optimizing our supply chain operations to serve customers with increased speed and reliability while lowering costs.

Our business is driven by newness. Consistent inventory flow ensures we have the right product at the right time for our customers. Our teams have made a lot of progress in this area, which helped drive the success at both banners in the second quarter.

At the Nordstrom banner, consistent flows drove regular price sales, including during the Anniversary Sale. We also processed inbound merchandise and returns faster, enabling freshness in all channels. And even with the volume of the Anniversary Sale, the Rack had a steady flow of fresh merchandise throughout the quarter, which contributed to its high single-digit sales growth.

We have also made progress on implementing RFID technology across our locations. RFID enables faster, real-time inventory data helping us to improve the accuracy of our inventory. Not only does this technology provide us with new insights to improve product flow and reduce shrink, inventory accuracy enhances the customer experience, allowing us to fulfill the items our customers are looking for.

During the second quarter, we made the strategic decision to cease build-out and planning of a leased omnichannel center intended for future use in the Pacific Northwest. Logistics networks have recovered from the supply chain challenges that began during the pandemic, and we've improved our supply chain operations over the last few years. We found that we can serve West Coast customers more efficiently from our existing

supply chain network while avoiding additional cost to build out the facility. Therefore, we have taken an asset impairment charge that is reflected in our results.

Turning now to our priority to build on our momentum at the Rack. During the second quarter, we opened five new Rack stores, bringing our year-to-date total to 11. We're planning to open 12 more new Rack stores this year ahead of the holiday season. Financial results continue to be strong at the Rack banner. Rack stores that were opened last year are performing well, delivering a solid return on investment while attracting new customers.

The Rack banner's digital business is a differentiator in off-price retail, enabling our customers to shop when and how they want. We've built and refined industry-leading digital capabilities at nordstromrack.com, which delivered strong results in Q2. An expanded merchandise offering of great brands at great prices, combined with a focus on in-stock rates, drove the results.

In summary, we are pleased with our second-quarter results and the direction we are heading. In the quarter, we grew sales and expanded margins. Our teams executed a successful Anniversary Sale, and we made progress on our key priorities. This progress, along with our results, provide us with confidence in our full year guidance.

And with that, I'll turn it over to Pete.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Thank you, Erik, and good afternoon, everyone. I'll focus my remarks on our Anniversary Sale, touch on category performance in the second quarter, and offer some commentary on our inventory health. Our Anniversary Sale is a unique event that rewards and engages our customers with brand-new product from the best brands, marked down for a limited time. The sale is meaningful to our best customers who look forward to the event each year.

We are always humbled by the stories we hear from customers every year. We have learned about generations of shoppers that make the sale an annual family event, planning their summer activities around it. This year, we had great participation in the Anniversary Sale, especially by our most loyal customers, with 75% of our Icon and Ambassador Nordy Club members shopping the sale.

Anniversary sales were driven by newness and fall fashion from the brands that matter most to our customers, including our Nordstrom private brands. Growth in beauty sales provided support to Anniversary success and the active category, which includes shoes and apparel, continued to show strength throughout the event, registering double-digit growth.

As Erik mentioned, our Nordstrom private brands are gaining traction, especially in women's apparel. Our private brands delivered mid-single-digit growth during the Anniversary Sale with the Nordstrom brand and Zella as the top two volume brands of the event. Since the refresh of our namesake Nordstrom brand, it's become the most reviewed on our site and customer sentiment about it has grown impressively. Our private brands help improve the balance of price points in our selection. Customers are finding that the merchandise is high quality and offers a great combination of value and style. Although we still have a way to go, we're encouraged by the progress our private brands are making.

Our Anniversary Sale provides us with a special opportunity to engage our customers, and one way we do so is through in-store and online events. We strive to make our Nordstrom stores not only a compelling place to shop, but an interesting, fun, and engaging environment.

This year, our teams rolled out new events and offers to serve and engage customers which drove incremental purchase trips throughout the sale. From refreshed and expanded private shopping events to truck shows featuring notable brands, our teams hosted over 900 in-store events, roughly 20% more than last year, with nearly 500 of those events exclusive to our Nordy Club members. Customers responded positively as event attendance tripled compared to last year. We continue to focus on growing our New York City store. For all the obvious reasons, our New York flagship store is important to us. Year-to-date, it is the top sales store in our fleet and amongst our fastest growing. In advance of our Anniversary Sale, we opened our first ever Icon Lounge in that store. It is a place where our highest tier Nordy Club members can enjoy a private lounge experience, complete with complimentary food and drink, as well as dedicated services to enhance their in-store shopping experience.

Turning to category performance in the second quarter. Our top-performing categories were active, women's apparel, beauty, and kids. The active category was our top performer for the sixth consecutive quarter. Active sustained growth across both banners in the second quarter with sales increasing by double digits. This growth was supported by brands that include, On, New Balance, and Vuori.

Sales growth in women's apparel continued in the second quarter, driven by contemporary styles with notable strength in dresses and knit tops. In the Nordstrom banner, well-known brands such as Vince, Cinq à Sept, and Free People were strong.

At the Rack, a key driver of the growth is a high degree of overlap with the brands customers find at our Nordstrom stores. We continue to focus the Rack selection on these brands, which drove notable growth in women's apparel for the Rack in the second quarter.

The beauty category continued to be a top performer for us at both banners. Its second quarter sales growth was supported by the strength of fragrances and hair care essentials throughout the Anniversary Sale. The kids category sustained its momentum in Q2 as well. Baby gear has been a solid contributor to growth and has become a more sizable business for us. The growth is a direct reflection of customer interest in this type of product, as we've leaned into car seats and strollers with great brands like Nuna. Overall, customers responded well to our curated assortment, which helped to drive an increase in regular price sales and margin expansion in the second quarter.

Moving on to our inventory health. In the second quarter, our increase in inventory exceeded our sales growth for the first time in several quarters as we invested in inventory primarily to support our existing Rack stores, our new Rack stores, and our digital channel, nordstromrack.com.

While the growth was higher than we typically like, we feel good about the content of our inventory. We closed the quarter with an increase in newness and a commensurate decline in clearance and age inventory at both banners. In the future, we do expect our sales to inventory spread to improve.

In closing, I'd like to echo Erik's comments. We're pleased with our second-quarter results and confident that we are heading in the right direction.

And with that, I'll turn it over to Cathy to discuss our financial results and outlook.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Thanks, Pete. And thank you, all, for joining us today. I'll begin by covering our second-quarter results, then discuss our outlook and close with our capital allocation priorities. In the second quarter, we delivered solid results with growth in net sales and EBIT as well as margin expansion. Total company net sales increased 3.4% in the second quarter, driven by strength in both banners. The timing shift of the Anniversary Sale, with one day falling in the third quarter this year versus eight days last year, benefited net sales by approximately 100 basis points. Comparable sales increased 1.9%, with positive comps in both banners and particular strength in digital channels. And GMV increased 3.5% in the second quarter.

Nordstrom banner net sales and comparable sales each increased 0.9% and GMV increased 1.1% in the second quarter. The timing shift of the Anniversary Sale had a positive impact on Nordstrom banner net sales of approximately 200 basis points.

Nordstrom Rack net sales increased 8.8%, with comparable sales increasing 4.1%. On a two-year stack basis, we are pleased to see the quarter-over-quarter sales increases.

Digital sales grew by 6.2% in Q2, representing the fifth consecutive quarter of sequential improvement. The timing shift of the Anniversary Sale had a positive impact on digital sales of approximately 100 basis points. Digital sales represented 37% of total sales during the quarter.

Gross profit as a percentage of net sales expanded 155 basis points to 36.6% on strong regular price sales, leverage on higher sales, and slight improvements in shrink. Ending inventory increased 8.3% versus a year ago. As Pete said, while the quality of inventory is good and largely supporting the Rack momentum, we aim to bring the inventory growth more in line with sales demand.

SG&A expenses as a percentage of net sales increased 160 basis points to 34.4%, largely due to the supply chain asset impairment charge that Erik discussed. When excluding the \$54 million charge, SG&A expenses increased 20 basis points to 33.0% as last year's second-quarter results included a gain on sale of a real estate asset.

Our EBIT margin expanded by 115 basis points to 6.4% in the second quarter. Income tax expense of \$42 million, or 25.7% of pretax earnings, was higher than the 17.2% recorded in the year-ago quarter. Last year's second-quarter income tax benefited from the favorable resolution of certain tax matters.

Second-quarter earnings per share of \$0.96 is favorable to last year's \$0.84, largely driven by the expansion of our gross margin and to a lesser extent, expense management. We ended the second quarter with \$1.5 billion in available liquidity, including over \$650 million in cash. Our balance sheet and financial position remains solid.

Before moving to our outlook, I'd like to offer some additional commentary on our second-quarter results. First, our efforts to improve the customer experience are taking hold, as evidenced by the strength of our top line. In the second quarter, we grew our customer count, recorded an increase in customer trips, and expanded margins.

Second, our credit card revenues as a percent of total revenue declined modestly versus Q2 of last year. The decline was driven by higher losses, partially offset by higher balances and yield on the portfolio. This was consistent with our expectations, continuing the general trend over the last few years as the consumer has faced increased budgetary pressures.

Turning to our outlook for the year. While we are pleased with our first-half results, the external environment remains uncertain. When considering the puts and takes and appreciating that there is still a lot of this fiscal year left, we believe it is prudent to be appropriately cautious with our outlook.

We are updating our guidance for the year slightly. Our updated guidance includes full-year revenue in the range of a decline of 1% to an increase of 1%, which includes a headwind of approximately 135 basis points from the 53rd week in 2023's results. We continue to expect revenue to follow a typical quarterly cadence.

As a reminder, the timing shift of our Anniversary Sale, with one day falling in the third quarter this year versus eight days in 2023, is expected to have a negative impact of approximately 100 basis points in our third quarter net sales this year.

We now expect the total company comparable sales in a range of flat to an increase of 2% in 2024, versus 52 weeks in 2023. As our fiscal 2023 included a 53rd week, we calculate our 2024 comparable sales using a realigned 52-week 2023 period for comparability.

Turning to profitability. We expect a full-year EBIT margin in the range of 3.6% to 4%. We continue to expect our effective tax rate to be approximately 27% for the full year. From an earnings per share perspective, we now expect full-year results in the range of \$1.75 to \$2.05 excluding the impact of any share repurchases.

Another note regarding expected reported results. During the second quarter, we made the strategic decision to change how we store and access data. This transformational change will enable us to improve data access and analysis capabilities and enhance our ability to leverage generative AI solutions and services at a faster pace. We expect to complete this change by the end of the year, and as a result, plan to accelerate the depreciation of the IT assets that we will stop using. This is expected to result in charges approximating 10 basis points to our reported SG&A expense as a percentage of net sales in Q3 as well as Q4.

Our capital allocation priorities remain unchanged. We'll invest in the business to better serve our customers with high ROI projects, reduce our leverage, and return cash to shareholders. Last week, our Board of Directors declared a quarterly cash dividend of \$0.19 per share.

In closing, we are encouraged that our focus and priorities are resonating with customers, driving top-line strength, and expanding margins. I continue to look forward to the progress that we'll make this year with the growth opportunities we have both in the Nordstrom banner and the Rack. We thank you for your interest in Nordstrom.

And with that, Jamie, we are ready for questions.

James Duies - Nordstrom Inc - Head of Investor Relations

Thank you, Cathy. Before we get started with Q&A, we will ask participants, please limit themselves to one question and one follow-up. We'll now move to the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Dana Telsey, Telsey Advisory Group.

Dana Telsey - Telsey Advisory Group - Analyst

Hi, good afternoon, everyone. As you went through the Anniversary Sale, any cadence to the Anniversary Sale that you saw that gives an indicator of consumer health for the balance of the year? And also with your private brand launch versus the brands and the good reception on womenswear, how are you thinking about the women's category overall?

And then just lastly, on credit, Cathy, the debt levels and what you're seeing there, how did that differ from the first quarter? And how are you planning for the balance of the year? Thank you.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Hi, Dana. It's Pete. With regards to Anniversary, I mean we were essentially on plan. I think there's really nothing there relative to the cadence specifically, but we do have -- one thing that's great about the sale, we get an early read on fall categories. Because as you know, the sale has new product in there and so getting marked up. And we had good performance in both outerwear and sweaters, which I think bodes well for the fall for us.

But over the years that it's become a bit of a balance on people buying with anticipation of fall, also buy now wear now. So we're always trying to find that balance. So I don't think I have any super impactful information for you about how it's going to relate to future sales. But we were happy with how Anniversary went.

With regards to private brands, we've had strength really across all categories, which is super encouraging because as you know, we've been talking about for a while that we have a lot of headroom there to grow that business. But the most important part is when we have success in women's apparel because it's such a big category, and we had a lot of success in women's apparel in the Anniversary Sale in private brands. So again, that gives us a lot of confidence going forward.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Good afternoon, Dana. I'll take the last two parts of your question. With regards to customer insights, possibly, we saw good growth across all income cohorts at the Rack. And then at Nordstrom stores, our higher income consumers or customers, we saw spending improve the most out of that -- in that banner.

And then on credit losses, we shared early in the year that we expect to see losses tick up modestly this year. That's, I think, consistent with what the industry has been seeing and that's no different, but it's within our plan and our guidance. So nothing that's unforeseen there, but we are seeing credit losses tick up a little bit.

Operator

Oliver Chen, TD Cowen.

Oliver Chen - TD Cowen - Analyst

Hi, Erik, Pete, and Cathy. You had strong regular price sales on the gross margin, which was quite nice. How did that triangulate with the inventory position that you're in now? Which parts of the inventory might you be a little bit over inventoried?

And you mentioned operational optimization. Just would love details on that -- that headline. Rack continues to see great progress as well. It's a difficult business in that the inventory flows are so important. Do you see continued positive comps in great momentum there? Are you in the right place for where you want to be there? Thank you.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Oliver, it's Pete. With our inventory levels, as Cathy mentioned in terms of the quality of what those are, I think that's probably the most important point. We were a little over in that inventory grew faster than the sales. But if you look at where it is and what the content of inventory is that helps, I think, bring some clarity. So most of that really showed up in the Rack business.

And to your point that we have this Rack momentum, I think particularly the new stores we're opening and then the rack.com business, that's really solid. If you look at where we have the quantities that are over last year, it's largely there.

And I think that's a pretty good sign. Also what you would see in terms of being able to forecast how this impacts our profitability going forward is -- if you look at aging, primarily, and our aging is really good across both banners, both Rack and Nordstrom.

So I think we feel pretty good about it. It's -- obviously, we pay really close attention to inventory levels, and we want to bring it down some, but we're not particularly concerned. And certainly, it doesn't create any overhang for us that we're anticipating for the second half.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

And Oliver, I'll pick up on operational optimization and then throw it to Erik on the Rack. On operational optimization, it's been, as you know, a priority of ours all year and we'll continue to focus on it. Our team makes -- is making really good progress. And I think you hit on the one that's really encouraging, which is that consistent flow of merchandise is so important, to continue that thread of newness for our customers in both banners.

It helps to drive those regular price sales, and we saw the increase in regular price sales again this quarter, which is great. But underneath that, we're seeing us process inbound merchandise faster, which gets us, and returns faster, which enables that freshness, too, and again, a better customer experience.

And RFID, we continue to roll it out across our fleet. But more importantly is we're now starting to get the benefits that that insight gives us. And again, it enhances the customer experience as we're able to fill their orders.

And then lastly, we'll continue to look to leverage our existing supply chain network, always balancing the best customer experience we can with speed and cost. So just good progress across the board.

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Hey, Oliver, this is Erik. On Rack, yeah, we feel good about our results. Our team is executing well on the plan. Rack is an important growth vehicle for us. And that's new stores. We continue to see opportunities to add new stores at the pace we're currently adding. And certainly, the comp store business, as well as our digital business. You mentioned flow. Yeah, customers come to Rack to find a constant flow of newness from the brands that they associate with us. So our focus on great brands at great prices continues to serve us well. And we feel really great about that.

The digital piece -- it is a point of differentiation. There's not many online off-price retailers out there. It works for us because it's part of our bigger ecosystem. And we see more opportunities there to leverage on capabilities to engage with customers more and get a bigger share of wallet. So we're delivering on our plans and have plans going forward to continue that growth.

Operator

Simeon Siegel, BMO Capital Markets.

Simeon Siegel - BMO Capital Markets - Analyst

Thanks afternoon, everyone. Hope you all have a nice summer. Cathy, what's the margin impact from Anniversary Sale timing shift in 2Q? You guys had a nice gross margin, called out strong full price sales. So just curious about how to think about Anniversary Sale gross margins versus the non-sale and just that impact of the timing shift to margins on top of the revenue that you mentioned?

And then just appreciating -- appreciate the color and depreciation commentary you gave us for the tech that you're not going to be using any more, any costs we should be thinking about for the new approach to storing data ahead? Thanks.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Yeah. Thank you. Good afternoon, Simeon. So gross margin, I'm smiling on your comment around impact to Anniversary Sale and Pete should weigh in here, too. But the great news is our team does a good job of negotiating with our vendors and we get good new merchandise for our customers. So I wouldn't have called out a specific margin impact specifically for Anniversary.

And we also noted strong reg price sales. So I think in total, I wouldn't have necessarily called anything special out for Anniversary impact on margin. We did share in the prepared remarks reg price sales up, just more volume, which helps on margin on that gross margin year over year you're seeing and then slight improvement in shrink, all of those favorably impacting our gross margin.

And then I'll answer on tech and then if Pete wants to add anything more on Anniversary specifically to margin. On the technology, no, I would say, generally, we'll always think about total technology spend within a budget or a level that we're wanting to afford. So we'll fit our expenses inside that envelope going forward. The specific call out was to help with a little bit of a reported guidance we're giving. So you can see there's going to be a small impact in the next two quarters.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Yeah, this is Pete. Just real quickly on the Anniversary thing. If you're looking for how that impacts margin, has a lot more do it going forward than it does with looking backwards. If we sell through according to plan, then we don't have any kind of overhang that creates markdowns, if we don't then potentially that does.

As I mentioned, we were just right about on plan there with our sell-throughs. And so I think we feel good about how that impacts our margins and profitability going forward.

Simeon Siegel - BMO Capital Markets - Analyst

That's really great. Maybe just quickly a follow-up on that then. What would the gross -- what you expected gross margin trajectory built into the full-year EBIT guidance? How should we think about that?

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Yeah, I can help there. So what's included in our full-year guidance, little bit of change between Q3 and Q4, but all in for the full year, taking in the first half, we'll see a small amount of margin expansion in gross margin for the year.

Simeon Siegel - BMO Capital Markets - Analyst

Great. Thanks so much, guys. Best of luck for the rest of year.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Thank you.

Operator

Lorraine Hutchinson, Bank of America.

Lorraine Hutchinson - Bank of America - Analyst

Thank you. Good afternoon. I wanted to follow up on the Rack rollout. What's the payback on a typical new Rack store? Have the new stores that hitting your plan? And what's the runway for the number of Racks you expect to open over time?

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

Hey, Lorraine, this is Erik. I'll start, and Cathy can chime in and shed some more color. We've opened a lot of Rack stores and our return on investment is pretty darn consistent. We get mid- to high-teens IRR and again, we see lots of opportunity to continue to add stores there.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

We shared in the prepared remarks, too. We've opened 11 year-to-date, we intend to open 12 more this year. So that's 23. That's pretty consistent with last year. So it seems reasonable that we would expect it to be in the same range going forward next year.

Operator

Alex Straton, Morgan Stanley.

Alexandra Straton - *Morgan Stanley - Analyst*

Perfect. Thanks a lot for taking the questions. Just on -- to follow up on the inventory question. I think you said that Rack was where some of that excess was concentrated -- was that intentional, like a build into holiday? Or if you can just give us some more color there.

And then just on the full-year guidance, given you beat the second quarter EPS by a lot, but you're only increasing the full year by a little. Does that mean you have a worse back half outlook than you did three months ago? Or how should I contextualize that? Thanks a lot.

Pete Nordstrom - *Nordstrom Inc - President, Chief Brand Officer, Director*

It's Pete. I'll start with the Rack inventory levels. I don't want to overstate this. I mean, we're slightly over there. And as you mentioned, it really is concentrated mostly in the Rack.

And I think most of that -- there are some timing issues when you're receiving inventory like this. We want to be opportunistic about that. Sometimes we have the opportunity to buy something and bring it in, in anticipation of stores opening.

So I think when you look at it in a month-by-month way, that doesn't really paint the whole picture. So we're always concerned about inventory levels, and we appreciate being lean, but we are not particularly concerned about being a little bit over in this moment in Rack particularly given the fact that we've got the positive momentum in our comp Rack stores, we have new Rack stores coming on, and the rack.com business is growing, too.

Cathy Smith - *Nordstrom Inc - Chief Financial Officer, Treasurer*

And Alex, I'll take the guidance question. So I appreciate your question. We are encouraged, obviously, by the performance through the first half. We're really pleased to see the continued strength on the top line at both banners. But the environment does remain uncertain, and we've got a really big part of the back half of the year as with all retailers.

Two-thirds of our profits typically come in the second half, and we're just being thoughtful around that. So we're being prudent and hopefully a little appropriately cautious with our outlook. And we'll see how the next two quarters play out.

Operator

Chuck Grom, Gordon Haskett.

Charles Grom - *Gordon Haskett Capital - Analyst*

Hey, thanks for much and congrats on the success at the Rack. Curious on the traffic ticket composition of the 4.1% comp, how the comp phased throughout the quarter? And any thoughts on the first few weeks of August, specifically at the Rack.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Yeah. I'm happy to start. So throughout the quarter, I wouldn't say there was any specific pattern for the Rack in particular. The quarter generally played out stronger toward the end in July, but I wouldn't have picked out any particular pattern there. And then total Rack banner, 8.8% sales, comp was 4.1%.

New stores are largely the difference. We have, I think, one or two small closures in there. Other than that, that's pretty much what's making up the balance of it.

Charles Grom - Gordon Haskett Capital - Analyst

Okay. Just anything on traffic and ticket composition?

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Traffic was strong across the digital channels, in particular, is what I would have said. The stores channels were both on a comp basis fairly flat. New stores obviously strong. And then the digital was a particular standout in both banners for us.

Charles Grom - Gordon Haskett Capital - Analyst

Okay, great. Thanks. And then my follow-up is just on the gross margin, 36.6%. If it's not your best ever, it's probably one of your best quarters ever. I'm curious the impact across the two banners on that success? How much -- and in particular, how much is being driven by the Rack in particular? And I guess, the sustainability of that 36.6% going forward. It sounds like you're guiding to a little bit of compression relative to that number in the back half. But just any color there would be helpful. Thanks.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Yeah. We don't typically break out the P&Ls for the banners just yet. Maybe we'll get there eventually. So in total, to your point, though, we're pleased with the gross margin expansion over 155 -- or about 155 basis points year over year, strong reg price sales, that's in both banners. That comment is definitely both banners, leveraging the volume continuing.

And then the shrink comment, the improvement off of our historical highs on shrink is both banners as well. So those are our comments for both. To your point, I think it is at least in recent history, a high that we're seeing. So definite good progress there. But as we provided in our guidance, we're cautiously planning for the back half of the year.

Operator

Blake Anderson, Jefferies.

Blake Anderson - Jefferies - Analyst

Hi, thanks for taking our question. I wanted to ask on -- on designer in particular, how is the performance there during the quarter? And then can you comment on the full price sell-through you're seeing in that category? And then how is that inventory position for the back half? I know you mentioned most of the increase was Rack, but just curious how designer was faring in terms as well?

And then just wanted to ask on Nordstrom banner more broadly. I think you guys mentioned a few initiatives such as broadening assortment and price points. I was wondering if you could comment a little bit more on what you did there, that would be great. Thanks so much.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Hi, this is Pete. With the designer, I mean, it feels like it's been kind of a consistent theme here for a while. And certainly you're seeing it with other retailers in that space as well. It's been challenging. There was a lot of growth for a couple of years, and now it's, we've been articulating that it's kind of rightsizing.

So we're looking at '19 numbers, and we're pretty close to what '19 was. It's hard for us to predict if that has leveled out entirely or not. As Cathy just said, I guess we'll see what the next couple of quarters bring. So what, we've just tried to put ourselves in an advantageous place with inventory levels so we're not caught in a tough spot. And our teams worked really hard on that, and we've had a lot of good collaboration with our vendor partners. So not a lot to report other than it's still relatively challenging in that space.

Erik Nordstrom - Nordstrom Inc - Chief Executive Officer, Director

This is Erik. For the Nordstrom banner, a couple things to call out, let me start with stores. It always starts with customer service, and I think our team there has done a lot of the blocking and tackling and taking care of customers and have a great focus there.

Secondly, as Pete mentioned, we've got a lot of events just making our stores interesting places to come to. Events particularly leveraging our Nordy Club, our loyalty program. We've seen some good traction there.

And last I'd call out for stores, the merch mix there, that includes the balance of price points. We have a broad offer, and we need to manage that well to have everything from Vans to Valentino, and our team has done a good job on that. And also really being -- having authority around our best brands to make sure we're in stock with them.

On the digital business, as Cathy mentioned, we had a strong digital business over the quarter. Some of it's -- again, I think just the execution, the enhancements to search and discovery has been helpful.

That balance of price points is particularly important online. And we had a real strong focus on in-stock rates of our fastest-turning items. That was a big part of it. Choice count is always important. That played out a little more in rack.com than nordstrom.com.

And then lastly, as we mentioned, we did launch our Marketplace earlier this year. It's still small, but the feedback -- one of the numbers have been a little ahead of our plan. While not material yet, that's also encouraging. And more qualitatively, we've gotten good feedback from our vendors on that. So we feel like we're on track with our Marketplace.

Operator

Dylan Carden, William Blair.

Dylan Carden - William Blair & Co - Analyst

Really appreciate it. Just curious on Rack, particularly as it relates to guidance, did you feel like you had the inventory in that banner from a price point standpoint, and just access and availability and flow in a place where that could be a continued source of upside, or at the very least comping more in line with the peer set there? Go forward, back half?

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Yeah, this is Pete. We're definitely on the right track there. You've heard us talk about great brands at great prices and what makes our offer different in the off-price space is access to some of these premium brands that we carry in the Nordstrom banner.

And the more we lean into that, the better we do. We've got a lot of confidence around the proof point of that strategy. Our teams are well connected to the opportunity to be able to procure that merchandise. And so at least so far, we've seen no reason to believe we can't keep going even as we add new stores there. There's a good opportunity for us to buy great merchandise out there, and we pursue that every day.

Dylan Carden - *William Blair & Co - Analyst*

And just on the beauty side of things, you're calling that out as sort of a bright spot, which bucks the industry right now. Do you feel like you're doing a better job defending share in that channel? Is that just a comparison? How should we think about why you might be outside some of the broader trends in that space? Thanks.

Pete Nordstrom - *Nordstrom Inc - President, Chief Brand Officer, Director*

Yeah, it's Pete again. That's a great question. I think relative to our offer, the low single-digit growth we've had there, it's been solid, been pretty good. But as you're remarking on there, it's the whole industry has done pretty well. So market share is an important thing that we look at.

And I think it's important that we don't get complacent because we've had pretty good business relative to the rest of our categories. We do pay a lot of attention to what's going on out there relative to market share and we're always really looking for doing better ways to serve customers in that space and thinking about newness and innovation with products.

So yeah, I don't want to send a signal that we've got it all figured out there and acing it. We know we can do better, and it's a competitive market.

Dylan Carden - *William Blair & Co - Analyst*

Thanks. Appreciate it. Nice work.

Operator

Paul Lejuez, Citigroup.

Paul Lejuez - *Citigroup - Analyst*

Hey. Thanks, guys. Curious, I don't know if I missed it, but did you say what the performance was during the Anniversary Sale like numerically outperformed versus the rest of the business during the quarter? And then second, curious if just with the switch to the cost method of accounting, was there any impact on gross margin and/or inventory from that switch in the second quarter? And then if there's anything we should be thinking about in the third quarter related to that switch?

Cathy Smith - *Nordstrom Inc - Chief Financial Officer, Treasurer*

Hi, Paul. I'll take the cost accounting. I think the first part of your question was just the performance of Anniversary Sale, if that's not it then come back at us and Pete can finish up there. On accounting, no, no particular impact I would call out in the quarter. Remembering when we went, we talked about our full year guide at the beginning of the year, we said there's probably about 10 basis points that we are going to see this year.

And that's it's purely a timing impact as we move between periods. From period to period, it's possible that I would say, generally, I wouldn't think of cost accounting, as the move to cost accounting from retail, as a driver of the performance, it really is just a timing conversation at times.

And Pete will finish up if there's anything. I think your question was Anniversary performance?

Paul Lejuez - Citigroup - Analyst

Yeah, exactly. Just like how -- was it up or down versus last year during the Anniversary Sale period.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Yeah. As we mentioned, we were essentially right on plan and with the sell-throughs and the sales and everything. Yes, it's not remarkable necessarily one way or the other. It was solid. It was good.

But yes, some categories performed better than others. I think we talked about in women's apparel in particular was the strength there. And we got a lot of good read on newness and fall stuff. So we feel good about that.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

Yeah. Good sell-through and good regular price sales year over year, too.

Pete Nordstrom - Nordstrom Inc - President, Chief Brand Officer, Director

Yeah.

Paul Lejuez - Citigroup - Analyst

Is it above the rest of the quarter or below, you think you could talk directionally? I know it was on plan but we didn't know your plan.

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

I'm sorry, Paul, can you say that again, we're having a difficult time hearing you.

Paul Lejuez - Citigroup - Analyst

Sorry, just curious if you could say how that period performed versus the rest of the quarter?

Cathy Smith - Nordstrom Inc - Chief Financial Officer, Treasurer

How that period performed, sorry. I understood what you said there, yeah. Yeah. So we didn't call out, obviously, the Anniversary Sale is in July. And so that impacts, and we talked about the impact on the full year versus last year on a year-over-year comparison of the 100 basis points for the full quarter for the total company.

So there is -- you do see some strength, obviously, in July because of Anniversary Sale. But I wouldn't have called out -- if you pull that out, wouldn't have called out, I think, we saw good strength across all months in the quarter.

Paul Lejuez - Citigroup - Analyst

Thanks so much.

James Duies - Nordstrom Inc - Head of Investor Relations

All right. We want to thank you for joining today's call. A replay, along with the slide presentation and prepared remarks, will be available for one year on our website. Thank you for your interest in Nordstrom.

Operator

This concludes today's conference. You may now disconnect your lines at this time. Enjoy the rest of your day.

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