NORDSTROM Q2 2016 EARNINGS **August 11, 2016**

Prepared Remarks - Blake Nordstrom, Co-President, Nordstrom, Inc.

Thank you, and good afternoon. Over the past several quarters, our team has been actively addressing our inventory, expense, and capital as we align to current sales trends. In the second quarter, the team made substantial progress by bringing down inventory in-line with sales. We're also pleased with our customers' response to the Anniversary Sale. This year marked one of the best events we've had in our history with an all-time high in sales volume. The strength of our Anniversary event, along with the team's inventory and expense execution, drove better than expected results for the second quarter.

Our Anniversary performance reflected an improvement from our recent sales trends. We had a strong start to the sale, and the momentum continued throughout the event. Our sell-through rates were at record highs, putting us in a clean inventory position for the second half of the year. Customers responded favorably to newness, with Shoes and Beauty leading our results. As a reminder, historically every several years we have a shift in our Anniversary event, which moves one week of the event into the third quarter. As a result, our comp decrease of 1.2 percent was unfavorably impacted by roughly 250 basis points.

On May 18th, we achieved an important milestone with the expansion of our loyalty program. Nordstrom Rewards serves as a powerful tool to drive incremental sales and trips. Even more importantly, it gives us an opportunity to strengthen relationships with customers. In response to feedback for more flexibility in joining our program, we've expanded it so that all of our customers can earn rewards regardless of how they choose to pay. We're encouraged with the strong response. We now have around 6 million total Rewards customers who shopped with us over the last year, up significantly from 4.7 million last quarter.

As we head into the second half of the year, we are focused on a number of initiatives to improve the customer experience and drive top-line growth.

- In our Nordstrom brand, we're expanding our reach to serve more customers. We're building on the success of our Canada expansion with two full-line store openings in Toronto. On September 16th, we will open a flagship at Eaton Centre, followed by another store at Yorkdale Shopping Centre on October 21st. In the U.S., we will open a second full-line store in Austin, Texas, on September 30th. In our Nordstrom Rack brand, we plan to open 15 stores this fall for a total of 215 by the end of the year.
- Our merchandise strategy remains focused on providing our customers with newness. Our efforts to grow relevant brands that have limited distribution play an important role in creating excitement and attracting new customers. They now make up the majority of our top 20 fastest-growing vendors, and we're continuing to expand the most highly sought-after brands, like Ivy Park, Madewell and Charlotte Tilbury, with new partnerships to come.
- In addition to providing a differentiated product offering, we recognize that our customers desire a personalized and convenient experience. To meet their evolving expectations, we are making digital enhancements to better serve customers no matter how they choose to shop with us. We have several initiatives underway that include new mobile features, improvements to our website, and enhanced selling tools. In the second quarter, we've made ongoing improvements to our

mobile app, including features that enable customers to shop their store of choice and shop for items based on a visual search. This fall we are piloting a mobile feature that gives customers the ability to reserve merchandise online and try on in our stores.

In closing, our ability to deliver strong Anniversary results, while realigning inventory and expense, speaks volumes to the quality of our team. We're proud of the team's high level of execution and remain committed to continuing this progress. Next quarter, we look forward to providing further updates on our efforts, including our expanded loyalty program and performance in Canada. I'll now turn it over to Mike, who will provide additional color on our results and our ongoing efforts to improve our business model.

Prepared Remarks - Mike Koppel, EVP & CFO, Nordstrom, Inc.

Thanks, Blake. Our second quarter results are reflective of the ongoing efforts to realign our resources and priorities to customer expectations. This includes the progress we have made adjusting our inventory and expense, which had a positive impact on our second quarter results. As we evolve our business model, we will continue to aggressively prioritize our resources to ensure that we can serve customers with high quality products and services while achieving profitable growth.

Our earnings per diluted share of $0.67 were ahead of our expectations, driven by our strong execution of the Anniversary Sale, inventory management and expense control. We are also continuing to see benefits from the strategic growth investments we've made to fuel growth in new markets and e-commerce. These investments -- HauteLook, our expansion into Canada, and Trunk Club -- are expected to contribute over $1 billion to our top-line in 2016.

Our full-line stores, Nordstrom.com, and Trunk Club had a combined comp decrease of 2.3 percent. This reflected an unfavorable impact of over 250 basis points from the event shift. The momentum of Nordstrom Rack, consisting of stores and online, continued with a comp increase of 5.3 percent on top of last year's increase of 6.5 percent.

Over the last several quarters, we have been aggressively adjusting our inventory plans as consumer demand has changed. We have a complex portfolio of businesses and combined with the uncertainty of sales trends, our merchant and planning teams were making continuous adjustments. That high level of execution combined with a compelling product offering for the Anniversary Sale drove better than expected results for the second quarter. Our inventories are well-positioned -- current and in-line with our sales trends. As a result, we are on the offense, focused on bringing in the latest and most compelling product offering that resonates with our customers.

In terms of our broader efforts to improve profitability, we recognize that the shift towards e-commerce is having an impact to our financial model. As we accelerated investments to support changes in customer expectations, our expenses -- particularly in technology, supply chain, and marketing -- grew faster than sales. To address this, we are continuing to make operational changes to right-size this trajectory. As we shared last quarter, we identified over $150 million in productivity improvements this year, of which roughly half has been realized to date. We are streamlining corporate headquarters and executed on a number of initiatives that will enhance the customer experience and improve our operating model:

- In technology, we're on a path to modernize our platform and increase the productivity of delivering features that will improve the customer experience. For example, this year we implemented new technology solutions that support our expanded loyalty program and online search engine. These modernized platforms enable us to serve customers in a more personalized and relevant way.
- In supply chain, we've executed on several initiatives to improve operating performance. This included optimizing our supplier network for both inbound and outbound carriers, reducing split shipments through a greater allocation of merchandise to our fulfillment centers, and editing out less profitable items online. A year ago, we opened our East Coast fulfillment center, which has the potential to double our fulfillment capacity as we scale for growth. For customers we serve on the East Coast, we've been able to speed up delivery times by over 30 percent with lower unit shipping costs due to the increased proximity to our customers. In continuing these efforts, we are further integrating Trunk Club's operations into the Nordstrom fulfillment network with completion expected by mid-2017.
- In marketing, we are repositioning our organization to better align with the customer journey and our strategic priorities around customer acquisition and retention. This includes strengthening our capabilities around customer analytics and digital engagement so that we can reach customers in a more efficient and cost-effective manner. Our expanded loyalty program demonstrates our efforts to re-balance our marketing resources towards a greater focus on personalization. This will help us better serve customers and increase their lifetime value.

In addition to the adjustments we've made to inventory and expense, we have re-prioritized our capital investments to better align with changing customer expectations and strengthen our financial position. This resulted in a 10 percent reduction to our 5-year capital plan. Our reduced capex plan of $3.6 billion is appropriately balanced between store and technology investments. We have made a modest reduction to our Rack store expansion plans given the growth of our online business, which has doubled since the launch of Nordstromrack.com a couple years ago.

All of these efforts to improve our productivity will result in a more productive use of financial resources, which is beginning to positively impact our results. During the second quarter, our cash flow from operating activities was $853 million, more than twice what it was last year.

Now, I’d like to address our financial outlook. We have adjusted our earnings per share outlook to $2.60 to $2.75, from our prior outlook of $2.50 to $2.70. As we head into the second half of the year, we believe we are well-positioned to manage our business while also being mindful of uncertainty in retail trends.

In closing, as our business evolves, we remain confident in our ability to serve customers in an exemplary way and achieve sustainable profitable growth. Through our ongoing efforts, we believe Nordstrom will emerge stronger and better positioned for future success. I’ll now turn it over to Trina for Q&A.