

Q3 2020 NORDSTROM EARNINGS CALL – PREPARED REMARKS

ERIK NORDSTROM

Good afternoon and thank you for joining us today. Before diving into the details of the quarter, I'd like to highlight our priorities as we continue to navigate through this dynamic environment. Since the founding of our company, our focus has always been on the customer. Fast forward over 100 years, that's never been more important. In this moment of retail disruption, the key to success is moving with speed and flexibility to adapt to the rapid changes in customer expectations. We're thankful for our team's ability to quickly pivot to serve customers in new ways, positioning us well to capture market share and generate value for our shareholders in the years to come. To that end, we will continue to amplify the potential of both Nordstrom and Nordstrom Rack brands with an emphasis on accelerating growth and improving returns.

To achieve these goals, our focus is on fulfilling our customers' needs for both convenience and connection by offering a seamless and personal experience everywhere they shop. As we look across the business, we prioritized three areas where there is significant potential for growth:

First, we're building on the success of our "market strategy," which we now consider our company blueprint in how we operate to better serve customers on their terms, gain market share and increase inventory efficiencies. By linking our digital and physical assets at the market level, we're able to offer customers up to seven times more merchandise selection with two-day delivery or next-day order pickup. We have now reached scale in 10 of our top markets, which account for more than half of our sales, and we'll continue to roll out our strategy across our top markets.

Another component of our market strategy is to provide customers with more convenient access to our services. We know that when customers engage with us through order pickup, alterations, or styling, their overall spend increases by up to five times. In October, we expanded our capabilities so customers can now pick up their Nordstrom.com, Nordstromrack.com and HauteLook orders at nearly 350 Nordstrom and Nordstrom Rack locations in the United States. In addition, we recently opened a fourth Local neighborhood service hub in the Los Angeles market with a fifth location opening later this year.

Second, we're continuing to leverage digital and physical assets to fuel growth of our Nordstrom Rack brand. Making up one-third of our business today, we have further opportunities to meet the needs of a broader customer segment. There are significant synergies between our two brands. The Rack serves as an important pipeline to our Nordstrom full-price business, bringing in 7 million new customers in 2019. Additionally, more than one-third of our Rack customers cross-shop to Nordstrom, which leads to higher overall customer spend.

We're also competitively positioned as the only off-price retailer with a significant digital platform. In the third quarter, online represented 40 percent of Nordstrom Rack sales. Since 2019, we generated nearly 3.5 million downloads of our Nordstrom Rack app, our highest converting channel. Another point of difference is our end-to-end approach to leveraging our strong vendor relationships across our ecosystem to provide customers with the best brands. In fact, more than 80 percent of our top 200 brands in Nordstrom are also carried at the Rack.

There are two main efforts underway to capitalize on the growth potential we see at the Rack: expanding our price points, particularly for lower prices, and better connecting our online and our physical stores, which will significantly increase selection. For more than 10 years, our Nordstrom full-price business has been able to use all sources of inventory across stores and fulfillment centers by having a single view of inventory. In October, we launched these capabilities in Nordstrom Rack, enabling online order pickup, expanded selection, and store fulfillment. We added 30,000 more customer choices online, and nearly one-quarter of online

orders are fulfilled from stores. Additionally, we're already seeing strong customer response with more than 10 percent of online orders being picked up at Rack stores.

Our third driver of growth is to increase the velocity of our digital business. In 2019, digital made up 33 percent of sales and accelerated to 54 percent this year. We view this as a fundamental shift in shopping behavior, and we are well positioned to support our customers across both Nordstrom and Rack with a scalable platform that has been built to support many years of growth. We also know that we must translate the heritage of service that defines us more effectively in this digitally connected world. This means delivering personalization at scale by creating greater linkages between the digital and the physical experience. During the quarter, virtual styling accounted for roughly 30 percent of all styling appointments, and sales from personalized looks created by our salespeople tripled in volume from the second quarter. Going forward, we see opportunities to further leverage these digital capabilities to increase the connection between our salespeople and customers.

At the heart of our value proposition is this principle of "Closer to You," which is how our market strategy comes to life in helping customers feel good and look their best. It describes not just who we are, but also where we are going, and how we will continue to set the standard for product, service, and loyalty in this digital-first world. It is how we will ensure that we offer more than just product and convenience when shopping with us, but also true and meaningful connection, which for us is the differentiator between good service and great service.

Against this backdrop, we're pleased with our results in the third quarter. Our ongoing inventory and expense discipline, combined with the immediate actions taken early in the pandemic, have set us up well heading into Holiday and most importantly positions us for strong performance in 2021 and beyond.

The steps we took in the first half of the year to strengthen our financial flexibility enabled us to deliver positive EBIT in the third quarter of more than \$100 million, earnings per share of \$0.34, and operating cash flow of more than \$150 million, all of which exceeded our expectations. We also improved merchandise margin trends and continue to see benefits from re-basing our cost structure.

We exited the third quarter with a high-quality mix of inventory, positioning us well to serve customers for Holiday and heading into the new year. Our focus remains on providing the best brands that our customers want, combined with the high level of service they expect. We continue to leverage the close relationships we have with our strategic partners, including leading brands like NIKE and Tory Burch, global luxury partners like LVMH and emerging brands like Good American. While we're continuing to amplify categories that are relevant with customers during the pandemic, we believe that over the medium to long-term there will be pent-up customer demand, particularly around occasions like travel or in-person social events. We're well-positioned to meet their needs and capitalize on the opportunity to gain market share.

Our brand promise of getting "closer to you" is the guiding principle of our growth plans going forward. Our direction is clear, and our team is dedicated to executing on our strategy to support profitable growth across our three areas of highest priority: owning our most important markets; fueling the growth of Nordstrom Rack; and increasing the velocity of our digital business. We are confident that we will successfully emerge from this pandemic in an even stronger position to serve our customers and generate value for our shareholders. Our team looks forward to discussing our plans with you in more detail at our virtual investor event planned for February 4th. With that I'll turn it over to Anne to discuss financial performance in more detail.

ANNE BRAMMAN

Thanks, Erik. We're pleased with our third quarter results, which benefitted from the immediate actions we took earlier this year to accelerate our strategic plans, rebase our cost structure, and continue our inventory discipline. We're proud of our team's collective efforts to generate positive earnings and cash flow as we continue our path toward sales recovery. During the quarter, we made meaningful advances in our digital capabilities, putting us in a stronger position to better serve customers and grow profitability. We're also encouraged by the strong customer response from our initiatives to drive both convenience and connection across our Nordstrom and Nordstrom Rack brands.

For the third quarter, we reported positive earnings per share of \$0.34, which included a \$0.12 tax benefit related to the CARES Act. We generated earnings before interest and taxes of more than \$100 million, driven by significant improvement in flow-through from rebasing our cost structure. In addition, as a testament to the scale of our digital platform, we delivered healthy profits as online sales accelerated to 54 percent of our business during the quarter.

We're in a strong financial position, ending the quarter with \$1.5 billion in liquidity, including \$900 million in cash. We delivered operating cash flow of more than \$340 million over the past two quarters and returned to positive free cash flow during the third quarter. The strength of our cash flow generation enabled us to pay down a total of \$600 million on our revolver with \$200 million outstanding at the end of the quarter. We remain committed to our long-term capital allocation principles, which include our focus on continuing reinvestment, reducing leverage, and returning excess cash to shareholders.

Year-to-date, we realized cash savings of \$550 million, net of COVID-19 related charges, across expense, capex and working capital. We expect to continue this momentum, tracking ahead of the high end of our targeted cash savings of \$750 million for the year.

From an expense standpoint, this included \$330 million in savings across our P&L primarily from taking out roughly 20 percent of our overhead base, excluding occupancy costs. Going forward, this rebasing of our cost structure supports improved EBIT flow-through as we continue our sales recovery.

Overall, sales were in-line with our expectations. After normalizing for the Anniversary shift, trends improved by roughly 17 percentage points relative to the second quarter. This reflected strength in our Anniversary execution, sequential improvement in both full-line and Rack store traffic trends throughout the third quarter and continued digital growth.

From a merchandise perspective, we're encouraged by our customer response to newness. Our Anniversary Sale serves as a strong proof point in our ability to amplify relevant categories, brands and trends to meet shifting customer preferences. We achieved record sell-through rates, which contributed to profitability by mitigating markdowns on excess Anniversary product.

In addition, we met our objective of rewarding our most loyal customers, with Nordy Club members contributing approximately 80 percent of sales during Anniversary. We also seamlessly scaled our digital platform during the event to support 60 percent online penetration, and nearly one-third of Nordstrom.com units were fulfilled from full-line stores to enable faster delivery.

Our unique breadth of merchandise assortment across brands, price points, and styles is a competitive advantage. This diverse product mix supports our agility to quickly respond to changing customer demand in this dynamic environment. During the quarter, we continued to see casualization, wellness, and comfort trends resonate with customers. We had outsized growth in active, home and beauty, which made up more than 25 percent of sales. In addition, we saw continued strength in our designer business.

For the third quarter, digital sales of \$1.6 billion represented 54 percent of our business, significantly up from 34 percent a year ago. Excluding the Anniversary shift impact, digital sales grew in the mid-teens range, consistent with trends in the first half of the year. In the 10 markets enabled by market strategy, order pickup sales grew 30 percent and accounted for 70 percent of the total order pickup volume.

Moving to gross profit, our rate was down 150 basis points from last year with roughly two-thirds due to the shift in Anniversary and one-third from deleverage from lower sales volume. Merchandise margins exceeded our expectations due to stronger sell-through and regular price selling trends. Excluding the impact of the Anniversary shift, we ended the quarter with our inventory decrease in-line with sales for the second consecutive quarter.

In SG&A, we saw modest rate deleverage of 30 basis points relative to last year. This reflected a reduction in overhead costs of nearly 20 percent, consistent with the first half of the year.

As we head into the fourth quarter, the quality of our inventory is strong, reflecting the right mix and improved aging relative to last year. We're seeing an increase in receipts and expect to have

the freshest, most relevant product for the holidays across both Nordstrom and Nordstrom Rack. Given the increasing uncertainty in the current environment due to COVID-19, we are prepared for a range of scenarios to ensure that we can sustain and drive our business.

Based on our current expectation that our stores remain open, we expect to deliver continued positive EBIT and operating cash flow for the fourth quarter. Sales are expected to decrease in the low twenties' percentage range, which reflects modest sequential sales improvement after normalizing for the Anniversary shift in the third quarter. In addition, we expect fourth quarter EBIT margin to deleverage more than the third quarter, which factors in a highly promotional and competitive environment in addition to shipping surcharges and premium pay during the holidays.

In closing, we made meaningful progress to drive higher profitability and deliver strong cash flow. The strength of our financial position enables us to give customers a relevant product offering and reinvest in our strategic growth priorities to deliver a best-in-class experience. As we head into the fourth quarter and 2021, we're confident in our ability to execute on our strategy and deliver profitable sales growth.