Q4 2019 NORDSTROM EARNINGS CALL – PREPARED REMARKS

ERIK NORDSTROM

Good afternoon everyone and thank you for joining us today. We ended 2019 in a position of strength and have momentum heading into 2020. During the second half of the year, we met or exceeded the operating and financial goals we had previously shared with you. We also made significant strides in delivering on our strategy, and we're encouraged by our customer response.

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We're proud of our team's many accomplishments:

- First, we meaningfully improved customer satisfaction scores in many areas of our business, including loyalty, Full-Price, Off-Price, and during our two key events – Anniversary and Holiday.
- Second, we accelerated the rollout of our market strategy to five of our top markets – New York, Los Angeles, San Francisco, Chicago and Dallas – resulting in outsized customer engagement and a lift in sales trends of 80 basis points in the fourth quarter compared to other markets.
- Third, we successfully executed plans to drive our top-line as evidenced by a 400 basis-point improvement in the second half of the year relative to the first half.
- And finally, our operating discipline is delivering strong results. During the year, we realized $225 million in savings, exceeding our plans by 10

percent; maintained a favorable inventory position; and delivered operating cash flow in excess of $1 billion for the eleventh consecutive year.

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Our competitive advantage is our ability to serve customers seamlessly across multiple touchpoints. This includes our two brands – Nordstrom and Nordstrom Rack – in stores and online. We have a high-quality store portfolio with 95 percent of our 116 full-line stores located in "A" malls and most of our 248 Racks in off-mall centers. Our established and growing digital business now makes up one-third of sales. Roughly 30 percent of our customers are shopping across more than one of these touchpoints. And as a result of this engagement, we know these customers spend four to 11 times more on average.

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We also see increased spending through engagement with our services. For example, customers who use alterations or styling services spend three to five times more on average. This level of engagement supports our strategy to integrate Trunk Club within the Nordstrom styling ecosystem, which we'll discuss shortly. Customers also appreciate the convenience of order pickup, doubling their spend over time. This service leverages inventory in the market, making it our most profitable transaction. In the fourth quarter, order pickup sales grew more than 100 percent and contributed to more than half of Full-Price digital growth. In the five markets where we rolled out our market strategy, order pickup sales grew 160 percent.

Through our focus on offering customers a curated assortment of the best product, we're continuing to innovate with existing and new partners. Recent examples include Rent the Runway, Glossier, SKIMS and our re-commerce concept, See You Tomorrow.

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Moving to fourth quarter results, we delivered on our top-line expectations through the execution of our holiday strategy. We increased the assortment of giftable items, particularly in lower price points, which had outsized sales growth and higher sell-throughs in both Full-price and Off-price. We provided customers with new offers and experiences – including gift card, loyalty, and shipping incentives – and we're pleased with their response. Going forward, we have opportunities to refine our operational execution to gain efficiencies and scale.

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The strength of our Off-price execution also contributed positively to results. The team's focus on inventory efficiencies enabled a constant flow of new product. Customers responded well, leading to a meaningful improvement in underlying sales trends. The Off-Price business increased profitability for the year and inventory turns for nine straight quarters.

In October, we significantly expanded our presence in the New York market with the opening of our flagship. We view this overall market as a $700 million incremental sales opportunity over time, and we're already seeing an acceleration in trends. Our aspiration of having a world-class store is a cornerstone of our market strategy. We're encouraged by the positive feedback from our customers and brand partners. Customers have responded well to our service and experience offerings, including express services at our flagship and at our Nordstrom Locals and Racks. The flexibility of our store design also enables us to apply learnings to refine our merchandise offering. With our store open for four months, we're early in our journey with further opportunities to leverage this valuable asset.

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With momentum from our market strategy, the strength of our digital and physical assets allows us to better serve customers while increasing efficiencies. Our goal is to gain market share while driving customer engagement and inventory turns. To achieve this, we're leveraging our assets of people, product, and place to serve customers on their terms. This means expanding merchandise selection that is available next-day – without increasing inventory levels – while extending convenient access to our services. 2020 is about scaling our market strategy in 10 of our top markets, which represent more than half of our sales. We have several key initiatives planned for this year:

- First, we're rolling out our strategy in five additional markets – Philadelphia, Washington D.C., Boston, Seattle, and Toronto – utilizing our existing technology platform to give customers up to 7 times more merchandise selection available next-day.

- Second, we're increasing convenience with additional Nordstrom Local neighborhood service hubs in LA and New York and offering Full-Price express services – order pickup, returns, and alterations – at more than 50 Rack stores.
- Third, we're launching a dedicated e-commerce site for customers in Canada to create a seamless shopping experience across stores and online, such as order pickup and returns.
- Fourth, we plan to ramp our supply chain network in the second half of the year to ultimately improve delivery speed on the West Coast, which represents 40 percent of our customer base.
- Finally, styling is a key differentiator for Nordstrom. To further leverage this capability, we are fully integrating our Trunk Club service to enable a superior experience for customers, drive more business, and gain efficiencies. We are now bringing together Nordstrom and Trunk Club capabilities across merchandise, technology, loyalty, personalization, people and physical locations. Our plans include relocating clubhouse styling to nearby Nordstrom stores to reach more customers while continuing to offer our core trunk-based services. This decision resulted in a non-cash charge in the fourth quarter, which Anne will discuss. We are excited by this opportunity to bring together our styling programs and look forward to rolling out this cohesive styling experience to customers this fall.

Before we wrap up, I'd like to comment briefly on coronavirus. We're monitoring this fluid situation closely, with the well-being of our customers and employees as the top priority. We have a team focused on monitoring, planning for and responding to any potential impacts the virus may cause to our business. We're assessing potential implications for both traffic and supply chain. Our private label business makes up around 10 percent of sales, with less than 30 percent sourced from China. We are communicating with our vendors and brand partners as it relates to merchandise deliveries. We're looking at this on a case-by-case basis and planning accordingly.

And finally, today, we announced the transition of the co-President titles to a sole chief executive officer. I will serve as CEO and Pete will serve as president of Nordstrom Inc. and chief brand officer. This is not about a hierarchy – these titles help clarify our respective roles, as we strive to maximize our impact both as individual leaders and as a team. Pete and I are grateful for the dedication and commitment of our teams. We made tremendous progress this past year to execute our market strategy, accelerate our sales trends, and maintain our inventory and expense discipline. As we continue this momentum into 2020, we remain focused on driving profitable growth while connecting with customers and serving them on their terms. I'll now turn it over to Anne to discuss our financial results and outlook.

ANNE BRAMMAN

Thanks, Erik. Our fourth quarter results demonstrated further top-line momentum and continued operating discipline. We successfully executed plans to accelerate our sales trends, expand merchandise margins, increase inventory turns, and reduce our cost structure. Fourth quarter EPS of $1.23 included a $0.15 impact primarily related to Trunk Club non-cash integration charges, in addition to $0.04 of debt refinancing costs. Excluding these charges, Q4 earnings were in-line with our expectations. Our ongoing efforts to improve customer service while delivering on our top and bottom-line drove strong second half results. We improved sales trends by 400 basis points and grew EBIT by more than 3 percent, when excluding the charges.

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Our fourth quarter sales were in-line with expectations, driven by four areas: loyalty, digital marketing, merchandise assortment, and the opening of our New York flagship. Sales increased 1.3 percent, reflecting strong holiday performance with growth in Full-Price of 1 percent and Off-Price of 1.8 percent. Our top-line momentum reflected our ability to constantly adjust levers– across marketing, loyalty, and fulfillment. While the customer response to our holiday offers was even greater than anticipated, we have further opportunities to refine our execution and drive additional efficiencies. We'll apply these learnings to improve our flow-through for the next holiday season.

We continued to see broad-based improvement across our Full-Price and Off-Price merchandise divisions, driven by giftable items and higher in-stock levels. We fully addressed our execution related to the rollout of our enhanced loyalty program last fall, resulting in a rebound in customer satisfaction scores and redemption rates. We now have 13 million customers in The Nordy Club, who contributed two-thirds of our sales in 2019.

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Our gross profit rate decreased by under 10 basis points, which exceeded our plans for modest deleverage. We expanded merchandise margins, which nearly offset higher costs from growth in our loyalty program and occupancy from our New York flagship. Despite a highly promotional environment, we had lower markdowns relative to last year as a result of maintaining a healthy inventory position. We ended 2019 with inventory down 3 percent, marking four consecutive quarters of sales growing faster than inventory.

Turning to SG&A, we incurred charges of $32 million in Q4, primarily related to non-cash write-downs of intangibles and clubhouses. Excluding these charges, our SG&A rate was flat to last year. We realized $55 million in expense savings in Q4, for a total of $225 million for the year. Through our expense discipline, we will continue to make permanent reductions to our base cost structure, enabling us to reinvest in the customer experience and increase flow-through.

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To recap 2019, we improved the customer experience, accelerated sales trends, and continued the strength of our inventory and expense discipline. We built momentum in the second half of the year, expanding EBIT margins by roughly 20 basis points when excluding the integration charges.

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With the opening of our New York flagship, 2019 marked the end of our generational investment cycle. Overall, these investments delivered $2.1 billion in sales and achieved our bottom-line expectations for the year. In 2020, we expect ongoing EBIT improvement as we continue to scale. As part of our market strategy, we're further leveraging these investments to improve the customer experience and gain efficiencies. As Erik mentioned, this includes combining Trunk Club into a holistic Nordstrom styling offer and launching a dedicated e-commerce site in Canada. As we further integrate these investments into our business, we will assess our overall performance using a market perspective and measure success by our ability to gain market share, improve customer satisfaction, and increase customer engagement.

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Turning to our outlook, I'd like to address how we're positioned relative to our targets shared during our investor day in 2018. While our top-line results in 2019 set us behind on our sales and EBIT margin targets, we remain on track to deliver increases in free cash flow and return on invested capital. We are successfully executing our key strategies and took aggressive actions during the year to drive sales, accelerate our expense savings plans, and expand merchandise margins. We plan to provide a further update on our strategy and long-term targets at our investor event in New York City this fall.

Our 2020 EPS outlook range of $3.25 to $3.50 is based on sales growth of 1.5 to 2.5 percent.

- We're planning growth in Full-Price and Off-Price, which is equally driven by the scaling of our market strategy, inclusive of our New York flagship, and continued top-line momentum.
- For EBIT, we expect a range of $815 to $855 million, which implies EBIT margin of 5.4 percent at the mid-point. When excluding last year's integration charges, this assumes a flat EBIT margin. We're planning gross savings of $200 to $250 million from productivity initiatives, with a vast majority benefitting SG&A. These savings help offset higher depreciation from our New York flagship and supply chain investments, as well as the lapping of prior year's performance-related adjustments.

- For gross profit, we expect modest deleverage due to higher occupancy costs from these investments. Our savings plan includes merchandise margin expansion from leveraging inventory in addition to increased efficiencies from our loyalty program.
- Moving to SG&A, we expect modest leverage, when excluding last year's integration charges. Most of our savings plan represents continued reduction in our base cost structure – including end-to-end productivity improvements in overhead, procurement, and generational investments – in addition to greater fulfillment and marketing efficiencies.
- Net interest expense is estimated to be approximately $120 million. This represents an increase of around $20 million from the prior year due to lower capitalized interest from the completion of our New York flagship.

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- In terms of cadence, we expect first and second half EBIT margins at the mid-point of our guidance to be flat to last year, when excluding integration charges in 2019. This reflects annualizing the New York flagship, lapping softer sales trends and performance-related adjustments in the first half, and ramping our West Coast supply chain network in the second half.

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We continue to have a strong financial position, generating operating cash flow of more than $1 billion for the eleventh consecutive year. We have a balanced and disciplined capital allocation approach to reinvest in the business and return capital to shareholders, while maintaining an investment grade credit rating.

- 2020 is a pivotal point in free cash flow inflection from exiting our generational investment cycle. We expect free cash flow to increase by approximately 2.5 times from 2019, with capex moderating from 6 percent of sales to 4 percent of sales. We will continue to invest in digital capabilities to improve both the customer experience and operational efficiencies, with more than half of our plan allocated to technology and supply chain.

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- We ended 2019 with an adjusted debt to EBITDAR ratio of 2.8, consistent with our expectations when excluding a 10-basis point impact related to the integration charges. Targeting debt leverage of 1.5 to 2.5 times, we expect to be around the top end of our range by the end of 2020.
- In terms of direct returns to shareholders, we continue to target a dividend payout of 30 to 40 percent. Our EPS guidance assumes future share repurchases of $300 to $400 million in 2020.
- And finally, we expect an increase in return on invested capital from improved profitability.

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Our 2020 guidance does not include the potential impact of coronavirus. As we continue to monitor this dynamic and rapidly evolving situation, we remain flexible and agile in adjusting our inventory, expense, and capital allocation plans accordingly. We have a strong financial model, which is supported by our healthy balance sheet and cash position.

In closing, we are very encouraged by the progress we made in 2019. We demonstrated our ability to accelerate our sales trends though our focus on the customer. Our ongoing inventory and expense discipline meaningfully contributed to our bottom-line results. As we continue our momentum into 2020, our team's proven ability to execute—combined with our business model to serve customers how, when, and where they want to be served—positions us for long-term success. I'll now turn it over to Trina for Q&A.