

NORDSTROM INC
Form 10-Q
November 28, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 28, 2017

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-15059

NORDSTROM, INC.

(Exact name of registrant as specified in its charter)

Washington 91-0515058
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

1617 Sixth Avenue, Seattle, Washington 98101
(Address of principal executive offices) (Zip Code)
206-628-2111

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES " NO }
Common stock outstanding as of November 22, 2017: 166,582,350 shares

1 of 30

Table of Contents

NORDSTROM, INC.
TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited).</u>	
<u>Condensed Consolidated Statements of Earnings</u> <u>Quarter and Nine Months Ended October 28, 2017 and October 29, 2016</u>	3
<u>Condensed Consolidated Statements of Comprehensive Earnings</u> <u>Quarter and Nine Months Ended October 28, 2017 and October 29, 2016</u>	3
<u>Condensed Consolidated Balance Sheets</u> <u>October 28, 2017, January 28, 2017 and October 29, 2016</u>	4
<u>Condensed Consolidated Statements of Shareholders’ Equity</u> <u>Nine Months Ended October 28, 2017 and October 29, 2016</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Nine Months Ended October 28, 2017 and October 29, 2016</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations.</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	26
Item 4. <u>Controls and Procedures.</u>	26
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings.</u>	27
Item 1A. <u>Risk Factors.</u>	27
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	28
Item 6. <u>Exhibits.</u>	28
<u>Signatures</u>	29
<u>Exhibit Index</u>	30

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited).

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Amounts in millions except per share amounts)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales	\$3,541	\$3,472	\$10,537	\$10,255
Credit card revenues, net	88	70	239	186
Total revenues	3,629	3,542	10,776	10,441
Cost of sales and related buying and occupancy costs	(2,315)	(2,261)	(6,921)	(6,720)
Selling, general and administrative expenses	(1,106)	(1,029)	(3,280)	(3,143)
Goodwill impairment	—	(197)	—	(197)
Earnings before interest and income taxes	208	55	575	381
Interest expense, net	(28)	(30)	(104)	(90)
Earnings before income taxes	180	25	471	291
Income tax expense	(66)	(35)	(185)	(138)
Net earnings (loss)	\$114	(\$10)	\$286	\$153
Earnings (Loss) per share:				
Basic	\$0.68	(\$0.06)	\$1.72	\$0.88
Diluted	\$0.67	(\$0.06)	\$1.70	\$0.87
Weighted-average shares outstanding:				
Basic	166.6	173.4	166.7	173.3
Diluted	168.8	173.4	168.8	175.6

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(Amounts in millions)

(Unaudited)

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net earnings (loss)	\$114	(\$10)	\$286	\$153
Foreign currency translation adjustment	(11)	(9)	9	8
Postretirement plan adjustments, net of tax	—	—	2	1
Comprehensive net earnings (loss)	\$103	(\$19)	\$297	\$162

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents

NORDSTROM, INC.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Amounts in millions)
 (Unaudited)

	October 28, 2017	January 28, 2017	October 29, 2016
Assets			
Current assets:			
Cash and cash equivalents	\$672	\$1,007	\$531
Accounts receivable, net	211	199	216
Merchandise inventories	2,434	1,896	2,411
Prepaid expenses and other	162	140	227
Total current assets	3,479	3,242	3,385
Land, property and equipment (net of accumulated depreciation of \$5,952, \$5,596 and \$5,462)	3,940	3,897	3,865
Goodwill	238	238	238
Other assets	529	481	478
Total assets	\$8,186	\$7,858	\$7,966
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable	\$1,815	\$1,340	\$1,653
Accrued salaries, wages and related benefits	433	455	391
Other current liabilities	1,166	1,223	1,186
Current portion of long-term debt	57	11	11
Total current liabilities	3,471	3,029	3,241
Long-term debt, net	2,681	2,763	2,767
Deferred property incentives, net	510	521	532
Other liabilities	670	675	566
Commitments and contingencies (Note 4)			
Shareholders' equity:			
Common stock, no par value: 1,000 shares authorized; 166.6, 170.0 and 173.2 shares issued and outstanding	2,785	2,707	2,651
Accumulated deficit	(1,899)	(1,794)	(1,742)
Accumulated other comprehensive loss	(32)	(43)	(49)
Total shareholders' equity	854	870	860
Total liabilities and shareholders' equity	\$8,186	\$7,858	\$7,966

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents

NORDSTROM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions except per share amounts)

(Unaudited)

	Common Stock		Accumulated	Accumulated	
	Shares	Amount	Deficit	Other	Comprehensive
				Loss	Total
Balance at January 28, 2017	170.0	\$2,707	(\$1,794)	(\$43)	\$870
Net earnings	—	—	286	—	286
Other comprehensive earnings	—	—	—	11	11
Dividends (\$1.11 per share)	—	—	(185)	—	(185)
Issuance of common stock under stock compensation plans	0.7	25	—	—	25
Stock-based compensation	0.5	53	—	—	53
Repurchase of common stock	(4.6)	—	(206)	—	(206)
Balance at October 28, 2017	166.6	\$2,785	(\$1,899)	(\$32)	\$854

	Common Stock		Accumulated	Accumulated	
	Shares	Amount	Deficit	Other	Comprehensive
				Loss	Total
Balance at January 30, 2016	173.5	\$2,539	(\$1,610)	(\$58)	\$871
Net earnings	—	—	153	—	153
Other comprehensive earnings	—	—	—	9	9
Dividends (\$1.11 per share)	—	—	(192)	—	(192)
Issuance of common stock under stock compensation plans	1.4	50	—	—	50
Stock-based compensation	0.2	62	—	—	62
Repurchase of common stock	(1.9)	—	(93)	—	(93)
Balance at October 29, 2016	173.2	\$2,651	(\$1,742)	(\$49)	\$860

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

Table of Contents

NORDSTROM, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Amounts in millions)
 (Unaudited)

	Nine Months Ended	
	October 28, 2017	October 29, 2016
Operating Activities		
Net earnings	\$286	\$153
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization expenses	479	480
Goodwill impairment	—	197
Amortization of deferred property incentives and other, net	(62)	(59)
Deferred income taxes, net	(82)	(14)
Stock-based compensation expense	59	68
Change in operating assets and liabilities:		
Accounts receivable	(11)	(20)
Merchandise inventories	(465)	(393)
Prepaid expenses and other assets	(35)	25
Accounts payable	419	360
Accrued salaries, wages and related benefits	(22)	(26)
Other current liabilities	(53)	33
Deferred property incentives	55	54
Other liabilities	29	20
Net cash provided by operating activities	597	878
Investing Activities		
Capital expenditures	(536)	(625)
Other, net	29	47
Net cash used in investing activities	(507)	(578)
Financing Activities		
Proceeds from long-term borrowings, net of discounts	635	—
Principal payments on long-term borrowings	(658)	(7)
Decrease in cash book overdrafts	(3)	(127)
Cash dividends paid	(185)	(192)
Payments for repurchase of common stock	(211)	(91)
Proceeds from issuances under stock compensation plans	25	51
Tax withholding on share-based awards	(7)	(4)
Other, net	(21)	6
Net cash used in financing activities	(425)	(364)
Net decrease in cash and cash equivalents	(335)	(64)
Cash and cash equivalents at beginning of period	1,007	595
Cash and cash equivalents at end of period	\$672	\$531

Supplemental Cash Flow Information

Cash paid during the period for:

Income taxes, net	\$291	\$99
Interest, net of capitalized interest	106	83

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these financial statements.

6 of 30

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 1: BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements include the balances of Nordstrom, Inc. and its subsidiaries (the “Company”). All intercompany transactions and balances are eliminated in consolidation. The interim Condensed Consolidated Financial Statements have been prepared on a basis consistent in all material respects with the accounting policies described and applied in our 2016 Annual Report on Form 10-K (“Annual Report”), and reflect all adjustments of a normal recurring nature that are, in management’s opinion, necessary for the fair presentation of the results of operations, financial position and cash flows for the periods presented.

The Condensed Consolidated Financial Statements as of and for the periods ended October 28, 2017 and October 29, 2016 are unaudited. The Condensed Consolidated Balance Sheet as of January 28, 2017 has been derived from the audited Consolidated Financial Statements included in our 2016 Annual Report. The interim Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and related footnote disclosures contained in our 2016 Annual Report.

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base our estimates on historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates and assumptions.

Our business, like that of other retailers, is subject to seasonal fluctuations. Our sales are typically higher during our Anniversary Sale and the holidays in the fourth quarter. Consistent with the timing in 2016, our 2017 Anniversary Sale began in July and extended one week into the third quarter. Results for any quarter are not indicative of the results that may be achieved for a full fiscal year.

Accounts Receivable

On July 31, 2017, we entered into an agreement with TD Bank USA, N.A. (“TD”) to sell our employee credit card receivables for an amount equal to the gross value of the outstanding receivables. Additionally, we entered into an amended long-term program agreement under which TD will continue to be the exclusive issuer of all our U.S. Visa and private label credit cards and we will continue to perform account servicing functions. As of October 28, 2017, our employee credit card receivables of \$54, included in accounts receivable, net on the Condensed Consolidated Balance Sheets, is “held for sale” and, as such, is recorded at the lower of cost or fair value (see Note 3: Fair Value Measurements). Subsequent to quarter end, on November 1, 2017, we completed the sale of our employee credit card receivables to TD.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which was subsequently modified in August 2015 by ASU No. 2015-14, Revenue from Contracts with Customers: Deferral of the Effective Date. The core principle of ASU No. 2014-09 is that companies should recognize revenue when the transfer of promised goods or services to customers occurs in an amount that reflects what the company expects to receive. It requires additional disclosures to describe the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers. In 2016, the FASB issued additional ASUs which clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on the revenue recognition criteria and other technical corrections. In our ongoing evaluation of this ASU, we have determined that the new standard will primarily impact us in the following ways: gift card breakage will be estimated based on expected customer redemption periods, rather than when redemption is considered remote; sales attributable to the loyalty program benefits (e.g., points, alterations) will be deferred rather than recording the loyalty program expenses as an increase to cost of sales; remaining unamortized balances of deferred revenue and the investment in contract asset related to the 2015 sale of our receivables to TD will be recorded as a cumulative-effect adjustment directly to retained earnings as of the beginning of the adoption period;

revenue related to our online sales will be recognized at the shipping point rather than upon receipt by the customer; and estimated costs of returns will be recorded as a current asset rather than netted with our sales return reserve. We plan to adopt this ASU in the first quarter of 2018 and we anticipate using the modified retrospective adoption method. We are continuing to evaluate the impacts this ASU and related disclosures will have on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases. This ASU increases transparency and comparability by recognizing a lessee's rights and obligations resulting from leases by recording them on the balance sheet as right-of-use assets and lease liabilities. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification dictates whether lease expense is to be recognized based on an effective interest method or on a straight-line basis over the term of the lease. Additional qualitative and quantitative disclosures will be required to give financial statement users information on the amount, timing and judgments related to a reporting entity's cash flows arising from leases. This ASU is effective for us beginning in the first quarter of 2019. We are currently evaluating the impact of the standard, which will require recognizing and measuring leases at the beginning of the earliest period presented using a modified retrospective approach. We expect adoption of this standard will have a material impact on our Consolidated Financial Statements.

7 of 30

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

In March 2016, the FASB issued ASU No. 2016-09, Compensation — Stock Compensation — Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of the accounting for share-based payments and presentation within the financial statements. We adopted ASU No. 2016-09 with an effective date of January 29, 2017. The impact of the adoption resulted in the following:

Excess tax benefits and deficiencies resulting from stock-based compensation arrangements are now recorded within income tax expense on the Condensed Consolidated Statement of Earnings when the awards vest or are settled, rather than within equity. Additionally, excess tax benefits are now excluded from assumed future proceeds in our calculation of diluted shares for purposes of determining diluted earnings per share. The prospective adoption of this provision did not have a material effect on the Condensed Consolidated Financial Statements for the nine months ended October 28, 2017. We had no previously unrecognized excess tax benefits that would have resulted in a cumulative-effect adjustment to beginning retained earnings.

Forfeitures on share-based awards are recorded as they occur, rather than our historical method of estimating forfeitures at the grant date. In evaluating the impact of this change, the adjustment to adopt on a modified retrospective basis was immaterial, therefore no adjustment has been made to beginning retained earnings.

Excess tax benefits from stock-based compensation arrangements are classified as cash flows from operations, rather than as cash flows from financing activities. We adopted this change retrospectively, which resulted in an increase to net cash provided by operating activities and an increase in cash flows used in financing activities of \$2 for the nine months ended October 29, 2016. Additionally, cash flows related to withholding shares for tax purposes on net-settled awards are classified as financing activities, rather than operating activities. This classification change was also adopted retrospectively, resulting in an increase of \$4 to net cash provided by operating activities with an offsetting increase to net cash used in financing activities on the Condensed Consolidated Statement of Cash Flows for the nine months ended October 29, 2016.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles — Goodwill and Other: Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairment by eliminating step two from the goodwill impairment test. Under this new guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The ASU is effective prospectively for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently evaluating the impact this guidance would have on our Consolidated Financial Statements.

8 of 30

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 2: DEBT AND CREDIT FACILITIES

Debt

A summary of our long-term debt, including capital leases, is as follows:

	October 28, 2017	January 28, 2017	October 29, 2016
Secured			
Mortgage payable, 7.68%, due April 2020	\$20	\$24	\$26
Other	1	3	3
Total secured debt	21	27	29
Unsecured			
Net of unamortized discount:			
Senior notes, 6.25%, due January 2018	—	650	650
Senior notes, 4.75%, due May 2020	499	499	499
Senior notes, 4.00%, due October 2021	500	500	500
Senior notes, 4.00%, due March 2027	349	—	—
Senior debentures, 6.95%, due March 2028	300	300	300
Senior notes, 7.00%, due January 2038	146	146	146
Senior notes, 5.00%, due January 2044	891	602	602
Other	32	50	52
Total unsecured debt	2,717	2,747	2,749
Total long-term debt	2,738	2,774	2,778
Less: current portion	(57)	(11)	(11)
Total due beyond one year	\$2,681	\$2,763	\$2,767

During the first quarter of 2017, we issued \$350 aggregate principal amount of 4.00% senior unsecured notes due March 2027 and \$300 aggregate principal amount of 5.00% senior unsecured notes due January 2044. With the proceeds of these new notes, we retired our \$650 senior unsecured notes that were due January 2018. We incurred \$18 of net interest expense related to the refinancing, which included the write-off of unamortized balances associated with the debt discount, issue costs and fair value hedge adjustment resulting from the sale of our interest rate swap agreements in 2012. It also included a one-time payment of \$24 to 2018 Senior Note holders under a make-whole provision, which represents the net present value of expected coupon payments had the notes been outstanding through the original maturity date.

Credit Facilities

As of October 28, 2017, we had total short-term borrowing capacity of \$800 under our senior unsecured revolving credit facility (“revolver”) that expires in April 2020. Under the terms of our revolver, we pay a variable rate of interest and a commitment fee based on our debt rating. The revolver is available for working capital, capital expenditures and general corporate purposes. We have the option to increase the revolving commitment by up to \$200, to a total of \$1,000, provided that we obtain written consent from the lenders. From time to time we utilize our commercial paper program to fund working capital needs, which has the effect of reducing available liquidity under the revolver until repaid.

As of October 28, 2017, we had no issuances outstanding under our commercial paper program and no borrowings outstanding under our revolver.

The revolver requires that we maintain an adjusted debt to earnings before interest, income taxes, depreciation, amortization and rent ("EBITDAR") leverage ratio of no more than four times. As of October 28, 2017, we were in compliance with this covenant.

9 of 30

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 3: FAIR VALUE MEASUREMENTS

We disclose our financial assets and liabilities that are measured at fair value in our Condensed Consolidated Balance Sheets by level within the fair value hierarchy as defined by applicable accounting standards:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Other observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that cannot be corroborated by market data that reflect the reporting entity's own assumptions

Financial Instruments Not Measured at Fair Value

Financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable (excluding employee credit card receivables "held for sale"), accounts payable and certificates of deposit, which approximate fair value due to their short-term nature, and long-term debt.

We estimate the fair value of our long-term debt using quoted market prices of the same or similar issues and, as such, this is considered a Level 2 fair value measurement. The following table summarizes the carrying value and fair value estimate of our long-term debt, including current maturities:

	October 28, 2017	January 28, 2017	October 29, 2016
Carrying value of long-term debt	\$2,738	\$2,774	\$2,778
Fair value of long-term debt	2,840	2,949	3,064

Financial Instruments Measured at Fair Value on a Nonrecurring Basis

Our employee credit card receivables are classified as "held for sale" ("receivables held for sale") and are recorded at the lower of cost or fair value (see Note 1: Basis of Presentation). We estimate the fair value of our receivables held for sale based on a discounted cash flow model using estimates and assumptions regarding future credit card portfolio performance. This fair value estimate is primarily based on Level 3 inputs in the fair value hierarchy. Based upon this assessment, the carrying value of the receivables held for sale approximated fair value at October 28, 2017.

Non-financial Assets Measured at Fair Value on a Nonrecurring Basis

We also measure certain non-financial assets at fair value on a nonrecurring basis, primarily goodwill, investment in contract asset and long-lived tangible and intangible assets, in connection with periodic evaluations for potential impairment. We estimate the fair value of these assets using primarily unobservable inputs and, as such, these are considered Level 3 fair value measurements.

During the third quarter of 2016, the long-term operating plan for Trunk Club was updated to reflect current expectations for future growth and profitability which were lower than previous expectations. Due to lowered expectations, we tested Trunk Club goodwill for impairment in the third quarter, one quarter prior to the annual evaluation. Step 1 test results indicated that the estimated fair value of the reporting unit was less than the carrying value.

In our Step 2 analysis, we used a combination of the expected present value of future cash flows (income approach) and comparable public companies (market approach) to determine the fair value of the reporting unit. These approaches use primarily unobservable inputs, including discount, sales growth and profit margin rates, which are considered Level 3 fair value measurements. The fair value analysis took into account recent and expected operating performance as well as the overall decline in the retail industry. Within our Retail Segment, we recognized a goodwill impairment charge of \$197, reducing Trunk Club goodwill to \$64 as of October 29, 2016 from \$261 as of January 30, 2016.

There were no material impairment charges for these assets for the nine months ended October 28, 2017.

NOTE 4: COMMITMENTS AND CONTINGENCIES

Plans for our Manhattan full-line store, which we currently expect to open in 2019, ultimately include owning a condominium interest in a mixed-use tower and leasing certain nearby properties. As of October 28, 2017, we had approximately \$249 of fee interest in land, which is expected to convert to a condominium interest once the store is constructed. We have committed to make future installment payments based on the developer meeting pre-established construction and development milestones. In the event that this project is not completed, the opening may be delayed and we may be subject to future losses or capital commitments in order to complete construction or to monetize our investment in the land.

10 of 30

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 5: SHAREHOLDERS' EQUITY

In February 2017, our Board of Directors authorized a program to repurchase up to \$500 of our outstanding common stock through August 31, 2018. Our October 1, 2015 Board authorized share repurchase program expired in March 2017, which had \$409 of unused capacity upon program expiration.

During the nine months ended October 28, 2017, we repurchased 4.6 shares of our common stock for an aggregate purchase price of \$206 and had \$414 remaining in share repurchase capacity as of October 28, 2017. The actual timing, price, manner and amounts of future share repurchases, if any, will be subject to market and economic conditions and applicable Securities and Exchange Commission ("SEC") rules.

In November 2017, subsequent to quarter end, we declared a quarterly dividend of \$0.37 per share, which will be paid on December 12, 2017.

NOTE 6: STOCK-BASED COMPENSATION

On May 16, 2017, our shareholders approved an amendment to the 2010 Equity Incentive Plan. The amendment increases common stock available for issuance by 6.2. As of October 28, 2017, the aggregate number of shares to be issued under the Plan may not exceed 36.6, plus any shares currently outstanding under the 2004 Plan that are forfeited or expire during the term of the 2010 plan.

The following table summarizes our stock-based compensation expense:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Restricted stock units	\$13	\$10	\$40	\$25
Stock options	5	9	13	28
Acquisition-related stock compensation	—	2	1	10
Other	1	—	5	5
Total stock-based compensation expense, before income tax benefit	19	21	59	68
Income tax benefit	(7)	(7)	(22)	(22)
Total stock-based compensation expense, net of income tax benefit	\$12	\$14	\$37	\$46

In 2014, restricted stock units became a growing component of our stock-based compensation mix. During 2017, this trend has continued as our annual grant allocation shifted towards more restricted stock units and less options to better align with our compensation program's guiding principles. The following table summarizes our grants:

	Nine Months Ended			
	October 28, 2017		October 29, 2016	
	Granted	Weighted-average grant-date fair value per unit	Granted	Weighted-average grant-date fair value per unit
Restricted stock units	1.9	\$42	1.9	\$44
Stock options	0.3	\$16	2.9	\$15
Performance share units	0.1	\$40	0.1	\$44

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 7: EARNINGS (LOSS) PER SHARE

The computation of earnings (loss) per share is as follows:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 28, 2016	October 28, 2017	October 28, 2016
Net earnings (loss)	\$114	(\$10)	\$286	\$153
Basic shares	166.6	173.4	166.7	173.3
Dilutive effect of common stock equivalents ¹	2.2	—	2.1	2.3
Diluted shares	168.8	173.4	168.8	175.6
Earnings (Loss) per basic share	\$0.68	(\$0.06)	\$1.72	\$0.88
Earnings (Loss) per diluted share	\$0.67	(\$0.06)	\$1.70	\$0.87
Anti-dilutive common stock equivalents	10.0	6.5	10.8	9.0

¹ Due to the anti-dilutive effect resulting from the reported net loss for the quarter ended October 29, 2016, the impact of potentially dilutive securities on the weighted-average shares outstanding has been omitted from the quarterly calculation of loss per diluted share. The impact of these potentially dilutive securities has been included in the calculation of weighted-average shares for the nine months ended October 29, 2016.

12 of 30

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

NOTE 8: SEGMENT REPORTING

The following table sets forth information for our reportable segments:

	Retail	Corporate/Other	Retail Business	Credit	Total
Quarter Ended October 28, 2017					
Net sales	\$3,351	\$190	\$3,541	\$—	\$3,541
Credit card revenues, net	—	—	—	88	88
Earnings (loss) before interest and income taxes	168	(8	) 160	48	208
Interest expense, net	—	(28	) (28	) —	(28
Earnings (loss) before income taxes	168	(36	) 132	48	180
Quarter Ended October 29, 2016					
Net sales	\$3,317	\$155	\$3,472	\$—	\$3,472
Credit card revenues, net	—	—	—	70	70
Earnings before interest and income taxes	18	5	23	32	55
Interest expense, net	—	(30	) (30	) —	(30
Earnings (loss) before income taxes	18	(25	) (7	) 32	25
Nine Months Ended October 28, 2017					
Net sales	\$10,698	(\$161	) \$10,537	\$—	\$10,537
Credit card revenues, net	—	—	—	239	239
Earnings (loss) before interest and income taxes	767	(316	) 451	124	575
Interest expense, net	—	(104	) (104	) —	(104
Earnings (loss) before income taxes	767	(420	) 347	124	471
Nine Months Ended October 29, 2016					
Net sales	\$10,446	(\$191	) \$10,255	\$—	\$10,255
Credit card revenues, net	—	—	—	186	186
Earnings (loss) before interest and income taxes	590	(274	) 316	65	381
Interest expense, net	—	(90	) (90	) —	(90
Earnings (loss) before income taxes	590	(364	) 226	65	291

Retail Business represents a subtotal of the Retail segment and Corporate/Other and is not a reportable segment.

Table of Contents

NORDSTROM, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollar and share amounts in millions except per share, per option and per unit amounts)

(Unaudited)

The following table summarizes net sales within our reportable segments:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Nordstrom full-line stores - U.S. ¹	\$1,488	\$1,568	\$4,858	\$5,128
Nordstrom.com	534	497	1,901	1,675
Full-price	2,022	2,065	6,759	6,803
Nordstrom Rack	966	958	2,910	2,777
Nordstromrack.com/HauteLook	212	159	609	482
Off-price	1,178	1,117	3,519	3,259
Other retail ²	151	135	420	384
Retail segment	3,351	3,317	10,698	10,446
Corporate/Other	190	155	(161)	(191)
Total net sales	\$3,541	\$3,472	\$10,537	\$10,255

¹ Nordstrom full-line stores - U.S. includes Nordstrom Local.² Other retail includes Nordstrom Canada full-line stores, Trunk Club and Jeffrey boutiques.

14 of 30

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Dollar and share amounts in millions except per share and per square foot amounts)

CAUTIONARY STATEMENT

Certain statements in this Quarterly Report on Form 10-Q contain or may suggest "forward-looking" information (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties including, but not limited to, our anticipated financial outlook for the fiscal year ending February 3, 2018, our anticipated annual total and comparable sales rates, our anticipated new store openings in existing, new and international markets, our anticipated Return on Invested Capital and trends in our operations. Such statements are based upon the current beliefs and expectations of our management and are subject to significant risks and uncertainties. Our actual future results may differ materially from historical results or current expectations depending upon factors including, but not limited to:

Strategic and Operational

- successful execution of our customer strategy, including expansion into new domestic and international markets, acquisitions, investments in our stores and online, as well as investments in technology, our ability to realize the anticipated benefits from growth initiatives and our ability to provide a seamless experience across all channels,
- our ability to respond to the business and retail environment, fashion trends and consumer preferences, including changing expectations of service and experience in stores and online, and evolve our business model,
- timely and effective execution of our ecommerce initiatives and ability to manage the costs and organizational changes associated with this evolving business model,
- successful execution of our information technology strategy,
- our ability to effectively utilize data in strategic planning and decision making,
- timely completion of construction associated with newly planned stores, relocations and remodels, all of which may be impacted by the financial health of third parties,
- efficient and proper allocation of our capital resources,
- the impact of any systems or network failures, cybersecurity and/or security breaches, including any security breach of our systems or those of a third party provider that results in the theft, transfer or unauthorized disclosure of customer, employee or Company information or compliance with information security and privacy laws and regulations in the event of such an incident,
- effective inventory management processes and systems, fulfillment processes and systems, disruptions in our supply chain and our ability to control costs,
- the effect of the announcement by the members of the Nordstrom family relating to the exploration of a possible "going private transaction" on our relationships with our customers, employees, suppliers and partners, operating results and business generally,
- our ability to safeguard our reputation and maintain our vendor relationships,
- our ability to maintain relationships with and motivate our employees and to effectively attract, develop and retain our future leaders, which could be impacted by the uncertainty about the possibility of a "going private transaction,"
- our ability to realize the expected benefits, respond to potential risks and appropriately manage costs associated with our program agreement with TD Bank USA, N.A. ("TD"),
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive and promotional retail industry,
- potential goodwill impairment charges, future impairment charges and fluctuations in the fair values of reporting units or of assets in the event projected financial results are not achieved within expected time frames,
- the timing, price, manner and amounts of future share repurchases by the Company, if any, or any share issuances by the Company, including issuances associated with option exercises or other matters,

Economic and External

- the impact of economic and market conditions and the resultant impact on consumer spending patterns,
- the impact of economic or political conditions in the U.S. and countries where our third party vendors operate,
- weather conditions, natural disasters, health hazards, national security or other market disruptions, or the prospects of these events and the resulting impact on consumer spending patterns or information technology systems and

communications,

Legal and Regulatory

our compliance with applicable domestic and international laws, regulations and ethical standards, including those related to banking, employment and tax and the outcome of claims and litigation and resolution of such matters, the impact of the current regulatory environment and financial system and health care reforms, and compliance with debt covenants, availability and cost of credit, changes in our credit rating, changes in interest rates, debt repayment patterns and personal bankruptcies.

These and other factors, including those factors described in Part I, "Item 1A. Risk Factors" in our 2016 Annual Report on Form 10-K and Part II, "Item 1A. Risk Factors" in this Quarterly Report on Form 10-Q could affect our financial results and cause actual results to differ materially from any forward-looking information we may provide. We undertake no obligation to update or revise any forward-looking statements to reflect subsequent events, new information or future circumstances, except as may be required by law.

15 of 30

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

OVERVIEW

Our third quarter net earnings were \$114, or \$0.67 per diluted share. The estimated reduction in earnings from three hurricanes affecting our business in Puerto Rico, Florida, and Texas in the quarter was approximately \$0.04 per diluted share.

Our net sales increased 2.0%, and comparable sales decreased 0.9% during the quarter. The estimated lost sales impact from the hurricanes was approximately \$20, or 60 basis points. When adjusted for this impact, our overall sales performance was generally in-line with our expectations. This reflected consistent trends in our full-price business while we experienced softer sales in our off-price business. Our merchandise margins continued to be relatively stable, reflecting our ongoing progress in supporting a healthy regular-price selling business. For the third quarter and the balance of the year, our inventory plans are aligned with our current sales trends.

Core to our strategy, we are focused on providing a differentiated selection of the best products, coupled with a high level of service and experience. We are continually testing and learning from new concepts to deliver experiences that improve speed, convenience, and personalization for our customers:

Our most recent example is Nordstrom Local, a test retail concept in West Hollywood, California focused on services. This location allows customers more convenient access to personal stylists, alterations and online order pickups and returns.

We recently expanded Reserve Online and Try-In Store to more than 50 stores across the country. This service is a convenient way for customers to shop and it frees up their time. If they use that time to do additional shopping in our stores, it may result in a lift in their spend. Another way we are connecting the digital and in-store experience is through Style Boards. This digital selling tool leverages the expertise of our salespeople and enables customers to receive personalized product recommendations on their mobile phones.

Collaborating with popular fashion influencer Something Navy, we launched an exclusive capsule collection with our in-house Treasure & Bond brand. This launch was our largest ever, generating \$2 in demand on the first day. We continue to grow limited distribution products and our private label brands continue to outperform the company average.

Looking ahead to the remainder of the year, we are focused on making Nordstrom a convenient place for customers to do their holiday shopping.

We have invested in key categories and brands that resonate most with our customers. To support peak volumes we expect during the holidays, we are expanding our online selection.

To make shopping faster and easier, we offer:

Buy Online Pick up In-Store with an option for curbside service in our full-line stores. In major markets, including Seattle, Chicago, Dallas and San Diego, 24-hour curbside pickup will be available for the holidays.

Reserve Online and Try In-Store in more than 50 of our full-line stores

Same-day delivery services in several markets

The combination of our physical and digital assets represents a competitive advantage. Our omni-channel business model provides for favorable economics related to driving customer spend, reducing the cost of serving customers, and elevating the Nordstrom and Nordstrom Rack brands. We are well-positioned to execute on our customer strategy and remain focused on delivering a differentiated customer experience.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

RESULTS OF OPERATIONS

Our reportable segments are Retail and Credit. We analyze our results of operations through earnings before interest and income taxes for our Retail Business and Credit, while interest expense, income taxes and earnings per share are discussed on a total Company basis.

Retail Business

Our Retail Business includes our Nordstrom U.S. and Canada full-line stores (including Nordstrom Local), Nordstrom.com, Nordstrom Rack stores, Nordstromrack.com/HauteLook, Trunk Club, Jeffrey boutiques and Last Chance clearance stores. For purposes of discussion and analysis of our results of operations of our Retail Business, we combine our Retail segment results with revenues and expenses in the "Corporate/Other" column of Note 8: Segment Reporting in Item 1 (collectively, the "Retail Business").

Certain metrics we use to evaluate the Retail Business may not be calculated in a consistent manner among industry peers. Provided below are definitions of metrics we present within our analysis of the Retail Business:

☛ **Comparable Sales** – includes sales from stores that have been open at least one full year at the beginning of the year

☛ **Total Company comparable sales** includes sales from our online channels

☛ **Gross Profit** – net sales less cost of sales and related buying and occupancy costs

☛ **Inventory Turnover Rate** – trailing 12-months cost of sales and related buying and occupancy costs (for all segments) divided by the trailing 4-quarter average inventory

☛ **Total Sales Per Square Foot** – net sales divided by weighted-average square footage

☛ **4-wall Sales Per Square Foot** – sales for Nordstrom U.S. and Canada full-line stores, Nordstrom Rack stores, Trunk Club clubhouses, Jeffrey boutiques and Last Chance clearance stores divided by their weighted-average square footage

Summary

The following table summarizes the results of our Retail Business:

	Quarter Ended					
	October 28, 2017			October 29, 2016		
	Amount	% of net sales ¹		Amount	% of net sales ¹	
Net sales	\$3,541	100.0	%	\$3,472	100.0	%
Cost of sales and related buying and occupancy costs	(2,311)	(65.3	%)	(2,262)	(65.2	%)
Gross profit	1,230	34.7	%	1,210	34.8	%
Selling, general and administrative expenses	(1,070)	(30.2	%)	(990)	(28.5	%)
Goodwill impairment	—	—		(197)	(5.7	%)
Earnings before interest and income taxes	\$160	4.5	%	\$23	0.6	%
	Nine Months Ended					
	October 28, 2017			October 29, 2016		
	Amount	% of net sales ¹		Amount	% of net sales ¹	
Net sales	\$10,537	100.0	%	\$10,255	100.0	%
Cost of sales and related buying and occupancy costs	(6,914)	(65.6	%)	(6,718)	(65.5	%)
Gross profit	3,623	34.4	%	3,537	34.5	%
Selling, general and administrative expenses	(3,172)	(30.1	%)	(3,024)	(29.5	%)
Goodwill impairment	—	—		(197)	(1.9	%)
Earnings before interest and income taxes	\$451	4.3	%	\$316	3.1	%

¹ Subtotals and totals may not foot due to rounding.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
(Continued) (Dollar and share amounts in millions except per share and per square foot amounts)

Retail Business Net Sales

In our ongoing effort to enhance the customer experience, we are focused on providing customers with a seamless experience across our channels. While our customers may engage with us through multiple channels, we know they value the overall Nordstrom brand experience and view us simply as Nordstrom, which is ultimately how we view our business. The following is a summary of our net sales by channel for our Retail Business:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 29, 2016	October 28, 2017	October 29, 2016
Net sales by channel:				
Nordstrom full-line stores - U.S. ¹	\$1,488	\$1,568	\$4,858	\$5,128
Nordstrom.com	534	497	1,901	1,675
Full-price	2,022	2,065	6,759	6,803
Nordstrom Rack	966	958	2,910	2,777
Nordstromrack.com/HauteLook	212	159	609	482
Off-price	1,178	1,117	3,519	3,259
		&		