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PRESENTATION

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Sorry. Good afternoon now. We've officially transitioned. My name is Kimberly Greenberger, and I'm the specialty softlines, department store and branded apparel analyst here at Morgan Stanley. We're very pleased to welcome Nordstrom to our conference again this year.

Nordstrom is a leading fashion retailer with over 350 locations in the U.S. and Canada, including about 100 full-line Nordstrom stores, 240 Nordstrom Rack locations and a robust e-commerce business serving consumers in both the U.S. and Canada. E-commerce totals about 40% of sales and will likely approach 50% in the coming years.

Today, we're joined by CEO, Erik Nordstrom; and Chief Financial Officer, Anne Bramman. Erik held a number of positions throughout the company, including buying and regional management before coming -- before becoming Co-President in 2015 and then CEO in 2020. Anne joined Nordstrom in 2017 from Avery Dennison, where she held -- where she had served as CFO since 2015. She had previously held CFO roles at Carnival Cruise Line and Henri Bendel. Welcome to you both.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Thank you.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thank you.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

We're going to spend the majority of today's session in a fireside chat question-and-answer style format, where we'll explore some of the investor questions that we've heard most recently. We've also reserved time to answer your questions. (Operator Instructions) Lastly, before we begin, I need to remind you that for important disclosures, please see the Morgan Stanley Research disclosure website at www.morganstanley.com/researchdisclosures. And I'll turn it over to Heather Hollander at Nordstrom.

Heather Hollander - *Nordstrom, Inc. - Head of Investor Relations*

Thanks, Kimberly. I'll just begin with a brief financial timing reminder before Erik begins with his opening remarks. Today, we will not be commenting on our fourth quarter results. Any discussion of our performance today will be based on our results through the end of the third quarter. And with that, I'll turn it over to Erik.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Thanks, Heather. I'd like to hit on a few points before we open up to Q&A. We just released our Q3 results last week. And the data in there were some real pockets of strength but also several areas of improvement for us. On the strengths, we made progress towards a number of our goals and highlight our strong digital growth, improving trends in our Nordstrom banner business. And we remain on track to deliver both our fiscal 2021 targets as well as the financial commitments that we laid out at our investor event last February.

However, we are not happy with what we delivered and we know we could do much better. Stepping back, it is always our goal to consistently drive profitable growth and increase our market share. Retail has always been competitive and the customer has many, many options. There's no doubt that the pandemic has led to much change with customers and disruption throughout our industry.

For us, we've been around for a long time and what's sustained us is always starting with the customer. It is our job to respond to changes with the customer and continue to find ways to serve them on their terms. And I'd say we just didn't do a good enough job of that last quarter. Now we have a clear view of what's holding us back on our financial results and what we need to do to address it. We've done a full teardown in these big areas that are holding us back, including taking an outside-in view.

These are big subjects for us. They are big opportunities because they all drive significant value. And we have a clear path in addressing them that we'll get into today. We know what we need to do and are committed to delivering. So let me hit on those big areas.

Well, I'm sure we'll get into more detail. But at a high level, there are 3 big areas that we're very focused on in driving improved results here.

First, Nordstrom Rack. Our headwinds that are from Rack business has largely been around inventory levels and flow, consistent flow of newness. We're working to increase our inventory levels, opportunistically leveraging pack and hold inventory. We're looking to and executing on rebalancing our assortment to include more of the coveted premium brands that customers really look to us for as well as strengthening our brand awareness. So that's the first one, Nordstrom Rack.

Secondly, improving our merchandise margin. We're taking decisive actions to optimize pricing and category management as well as increasing our private label penetration.

And third, to drive top line results as well as cost efficiency, we're optimizing our supply chain and inventory flow. So improvements in these areas, these are big long-term strategic subjects. There's a lot of operational rigor in these subjects. And there's benefits in the short term on there.

We see delivering improved results in those 3 areas in Q4 as well as continued improvement through the first half of next year. And as we execute on these priorities, strategically, we will continue to leverage the benefits of our interconnected model, which has served us well, and we continue to get strong proof points of the customer responding to those investments.

Our consistent focus on the customer over all these years has resulted in us having a strong reputation with a very attractive and large base of customers. And we have a unique model that drives this. We have 2 powerful brands in Nordstrom and Nordstrom Rack. And each of those banners has a robust scaled store business but also a digital business. And these are not only big businesses on their own. The real power and what we continue to see is the synergy amongst these businesses.

Simply put, we have more ways of engaging with customers and can provide differentiated services and products, all in a compelling economic model. For example, the average customer that shops across both banners, both in-store and online, spends over 12x more than a customer that uses a single channel. And customers who utilize our value-added services such as alterations and personal styling, things that we're really known for, spend 5 to 7x more than customers who don't use these services. So this level of connectivity and customer engagement is critically important to us as we work to expand our reach and grow our share.

All said, we recognize we need to deliver more, and we have a clear action plan to do so. We are confident in our path forward, excited about the future of our business and look forward to sharing our progress with you. So with that, Kimberly, I'll hand it back to you for Q&A.

QUESTIONS AND ANSWERS

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay. Great. Thank you so much for that introduction, Erik. We really appreciate it. 2021 has been a dynamic year in retail. I wondered if you could just reflect on the 3 quarters we've seen year-to-date so far. Which areas of the business do you feel really good about, that are outperforming? And which areas do you think are either still recovering or where you see additional opportunities heading into 2022?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Well, let's start with our Nordstrom banner business. Our sales returned to 2019 levels last quarter, both with store traffic increasing and our digital growth growing versus 2019. Also, I call out our digital business overall, grew 20% versus 2019. And then as you mentioned, Kimberly, at the introduction, our digital business is large. It's 40% of our business. Last year, it was over 50% of our business. With stores coming back, it's at 40% right now. These are our big businesses that continue to grow.

More specifically, our market strategy, which we've been implementing for a couple of years now, it continues to gain traction. And in market strategy, in short, if you haven't heard us talk about it, it really is connecting our digital and physical assets at the market level and allows us to serve customers better in things like delivering much more selection with faster delivery and pickup times by linking all the inventory that we have in the market.

A big step we've taken in the last year is to link our Rack stores to this market strategy. And a real good example, last quarter, 1/3 of the next-day Nordstrom.com orders, so next-day pickup, were actually picked up at Rack stores. So we have 250 Rack stores. We have 100 Nordstrom stores. This adds a lot of convenience for customers. They choose this pretty readily. And it's also good for our model.

As a highlight in my introductory comments, when we can engage customers across the 2 banners and across channels, spend goes up significantly. Having these Nordstrom.com pick-up at our Rack stores is a real win-win.

Merchandise, category-wise, strengths continue to be in pandemic-related categories. Our home business is up 95% versus 2019. Our active business is up 57% versus '19. Designer continues to be a strong business. And I want to emphasize, when we talk about designer, it is a true designer business. This very scarce product, exclusive product that's not available everywhere. It's a big business for us. Over the last 5 years or so, it's been the fastest-growing category for us. We've seen this year double-digit sales increases in designer over 2019, led by strength in designer shoes, handbags and designer men's apparel.

And there are signs of travel returning. Sunglasses and swimwear both had double-digit increases over 2019. To your other question of what areas are still recovering, I'd start with more occasion-based categories. While we've seen a lot of improvement in things like dresses and men's suiting, dress shirts, dress shoes, makeup, they've all shown sequential improvement during the third quarter and they're closing the gaps in 2019 levels, but still some gaps there.

I would also say we've had -- call out that we've got some inventory shortages in some key categories for us. Specifically, women's apparel and shoes. We've seen strong demand come back there. Our pipelines to get product in has been challenging those areas, in particular. So we're focused very much on better aligning our inventory levels with customer demand as those areas continue to recover. And the last one I'd call out of what's lagging a bit, as I mentioned earlier, is our Nordstrom Rack performance, particularly our Rack store performance.

We've been particularly hurt there with flow of product especially in some key categories. We've simply been under inventory and have had some empty picture space in our stores there. So that flow of product, particularly that premium brand product where 90% of our top Nordstrom brands are also in our Nordstrom Rack stores, that flow of product has really been challenged this year. So we see some levers we can pull there, like using pack and hold inventory, that will really help us better manage a consistent flow of not just merchandise, but the right merchandise that our customers are looking for.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay. Great. Well, a conversation in retail these days is not complete without a discussion of inventory and supply chain. And just building on the comments you just made, Erik, how do you think about navigating the next several quarters of supply chain headwinds and flow and improving inventory flow? Is there an opportunity to change strategies? You talked about pack and hold, for example, at Rack. What are the things that you're doing inside the organization over the next 1, 2, 3, 4 quarters to work through what are, I think, delays in supply chain that really are quite universal?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes, I can start and Anne could probably chime in here with some specifics. Yes, obviously, the world is dealing with supply chain challenges, and we're no exception there. We've had -- everyone's got their unique issues. For us, our sources of goods really are big, important and just big brands. We are a branded business. We believe in brands. Brands in the fashion business plays a huge role in discovery of newness. We're not a price promotional retailer. We don't run a bunch of sales and 1-day sales, 2-day sales, things like that. It's -- our business is driven by a flow of new really coveted product and really known brands and up and coming brands. Brands that aren't -- customers don't see everywhere is super important. So we're susceptible to that flow being interrupted.

We do believe strongly there's things within our control on that. There's obviously things we don't control in the global supply chain. But there are things we can do. I mentioned pack and hold inventory for our off-price business. That's something we used to do when we were opening a lot of Rack stores. We backed off of that as we have not opened so many stores the last couple of years. And that's hurt us. That didn't give us the cushion to provide the flow of goods as it was interrupted externally.

So there's a lot of opportunity out there to get great product at discounts as product is slow coming in. There's some late product that does provide opportunities in the off-price segment. Some of that, we are looking to pack and hold and bring out to our customers when the timing is right.

Supply chain-wise, in the near term, we have diversified our carrier capacity. We've gained better end-to-end visibility. Our inventory moves through our supply chain so we can make real-time decisions on how to flow our product. We have clear opportunities to increase the velocity and throughput through our network, our distribution and fulfillment centers.

And importantly for us is the positioning of inventory. I mentioned market strategy. Market strategy is really taking advantage of the physical assets we have in stores and not just stores for customers to visit, but stores as points of inventory fulfillment, be it a buy online, pickup in store or be it just it's a pure online order, we fulfill it from our stores. It gives bigger selection, but it gets faster shipping as well. So there's still opportunities there for us, not just in linking our market-level product, but in really being AI-driven to allocate the product, place the product where it makes the most sense and we can get big selection to customers, fast delivery and really at an efficient level for us. So, Anne, do you have...

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. I would just say, in general, you talked a lot about the pack and hold piece too. We've already started that investment. We estimate this is going to be about $100 million in one-time investment that we'll sustain through for our Rack business. And we think it's a really -- right now, we're seeing it's a really good bet for us as we smooth some of the disruption, particularly when you think about in this off-price space, it's going to be really helpful for us.

I think the other thing you saw is, traditionally, we've been a really high-turn, I would say, more of a just-in-time model on flowing inventory. And with the disruption we're seeing, that model isn't as effective. And so you've seen us do some things like pull-forward inventory. And in particular, when you look at our sales to inventory spread for the quarter and we've signaled for the end of Q4 are similar, we're going to continue to pull forward a lot of the inventory that sits in transit. So it's flowing for a couple of weeks. It's a bit of a timing.

But it's really to make sure that we thought that the customer -- that what they covet and the demand for the product is getting in front of the customers as quickly as possible. And so we're building some of that cushion in as we're placing orders and working with our key brand partners and with our supply chain partners as well. So those are all things we're doing, I would say, this year and in the next year. We're not anticipating this to subside anytime soon. We're certainly doing the contingency plans around that.

But longer term, and we've talked about this in our investor event, it's really about market strategy and it's about alternative ownership models, really partnering with brands to expand choice counts, to share the upside, to share the experiences with our customers but also share the economics. And for us, it becomes a much leaner inventory position, but also really expands the offering to our customers as well.

So there's a balance in the short term. Certainly, we're moving as quickly and aggressively as we can on the medium to long term and executing against our market strategy and the alternative ownership models. So it's really finding that balance.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay. That's very clear, Anne. Thank you so much for that. And on your most recent earnings call, Anne, you talked about some of the cost inflation and headwinds that so many retailers are experiencing here in the second half of the year. Freight, product cost, wages, shipping, among others. I know you've got some mitigation efforts in process. I'm wondering how you think about mitigating those price increases. And is there an opportunity to raise prices? And does this relate in some way to full-price selling and just the overall management of inventory?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So as we talked about, I think we're not unusual in this environment and all of us are pulling in a number of levers as we manage through this. And as you mentioned, it's not a promotional environment out there. So we are certainly going to see that in Q4. We've given guidance on that. And particularly when you compare it to 2019, which was a very, very promotional holiday environment. And so I think that's the good news is that you're seeing people with tight inventory and that you're seeing a higher sell-through on that inventory that's not discounted.

For us, in particular, we see a number of things. So during 2020, we pulled through -- we changed our cost structure pretty significantly from a fixed expense perspective. And we pulled out $400 million of fixed expenses out in 2020. The commitment we made was that about $300 million or more would stay permanent, and we're on that path for the short and medium term as well.

Now having said that, we certainly have some SG&A pressures with supply chain costs, in particular because our penetration for digital business is much higher than what you see in the industry. But also, we see some of the labor pieces to it. So we're pulling a number of levers. So first of all, we continue to see opportunities on merchandise margin. Pricing, category management, private-label brands, all of those are areas that can help drive improvement in our merchandise margins that help mitigate some of the flow-through pieces.

In supply chain, in particular, we've been diversifying our carriers. We now have more end-to-end visibility of our inventory to be able to flow that and manage it better. We're increasing the velocity through our distribution centers. And then we're also doing things like scaling some of the investments we've been making in the supply chain in the last couple of years. Those are all areas that we can certainly help mitigate.

And then the other is getting scale. As Erik talked about, when people come in and they pick up product, we're placing the product closer to the customer in the market. You have next-day -- or next-day pickup, those are the best economic journeys we have for our customer, and they're our best customer satisfaction journey, too. So those are all things that we can get scale and drive as we continue to grow that part of our business.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay, great. And we are getting a flood of questions coming in from the audience. Let me just see if I can take a couple of them here. Erik, who is the Nordstrom customer today? How has it changed compared to pre-pandemic levels? And is there any sort of mix shift to either lower price or younger customers attracting those younger customers into the store?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. Our customer is a broad customer base. And I think sometimes, we get misunderstood as maybe playing in a narrower niche than we do. Having an off-price business and a full-price business is a broader reach, but both -- just take our Nordstrom banner business. As I mentioned, we have a robust full designer business. But kind of to the question, we have a big young customer business, which is more price-sensitive. So -- and we talk about we carry from Vans to Valentino. And that's important for us in -- I think, first and foremost, I think that's how a modern customer shops. A modern customer shops in a way of buying high and low and mixing different brands for their own look.

So our sweet spot is customers who really care about how they look. We talk about our mission is to make customers look good and feel their best. So that's kind of the main filter more than an age or an income. It's -- I think -- which is -- it has us excited as customer mobility and things start to open up and a little more return to normalcy. That is a big part of our business, more higher-stakes occasions.

And it doesn't -- that doesn't have to mean going to a wedding or wearing a suit to the office. It could be going on to date, going to a restaurant. And -- but it's where it matters more than maybe working from home every single day. So that's a big part of our business.

The younger part of the business is important. It's important for us to acquire new customers. And I call out 2 brands in particular that I think highlight our path there. One has been our partnership with Topshop. We've been the exclusive U.S. retailer for Topshop for a number of years now. It's a big, big important brand and for us, very successful. And then more recently, ASOS bought that brand, which got us working with ASOS. And as we started working with them, we've really -- we're pretty like-minded in, I think, in respect for each other and opportunities we saw.

So just in the last week or so, we launched carrying ASOS brands, a pilot in 2 of our stores that have been online -- had it online, and it's done very, very well. So having some of these unique partnerships and we're the only U.S. retailer that has ASOS, we're actually the only physical store in the world that carries ASOS. And we're very early in that. We see a lot of opportunity there.

Lastly, I just would want to comment on the price point. Price point is absolutely important. But -- and I say price point, it still is a good value at the first price. Again, we're not a retailer that does the high-low game with price promotion, that brings it in at a artificially high price and sells everything at 40% off. The vast, vast majority of what we sell is at the first price because there is a flow of newness. But what that price is does matter, especially as -- if you want to serve younger customers.

That being said, in this environment, we actually look at our year-to-date business, our Rack business and feel we went too far. Our AUR for last quarter was actually down 4% in our Rack business. And we don't think that should be the case. We've -- and a big part of it was driven by a lack of access to our most important source of goods, which are these premium brands that we sell under our Nordstrom banner but we also sell in our Nordstrom Rack banner. There's been more scarcity there. It's been harder to get and that's affected our mix. So we see some opportunity to rebalance that a bit. And we think what we're hearing from customers is our AURs should actually go up a bit.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay. Great. And the next question we have coming through, Anne, is for you. During your last Investor Day, you laid out a medium-term operating margin target of 5% to 6%. Could you talk about the pieces, revenue, gross margin and SG&A that are the building blocks to get to that? And what sort of investments do you have in mind for 2022 and 2023?

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So our targets that we laid out for the medium term were a 6%-plus EBIT margin once we go back to 2019 sales levels because we knew coming into this, the rebasing of the cost structure would really allow us to continue to drive and flow that through. And so our outlook for the balance of the year has us approaching that 6% EBIT run rate on 2019 sales, especially when you look at our guidance for the remainder of the year in Q4. And we -- so for our biggest drivers going forward and we've talked about this a bit, but we do think we're going to continue to manage very aggressively our fixed expenses.

We're seeing -- even though we're seeing some of these macro pressures that we've been talking about on the chat, as we mentioned, we're doing a lot of things to mitigate some of that with merch margins, supply -- with our supply chain capabilities and getting scale out of our integrated model in the markets.

What I would say is from a capital allocation and an investment perspective, we target around 3% to 4% of sales being reinvested back in the business. And over the past several years, you continue to see us investing more and more and more in technology and supply chain. And I would say going forward, the significant majority of our investments will continue to be in supply chain and technology.

We see this, especially as a digital business, at 40% today. We think it's going to be about a 50% business. We orient ourselves to be a digital-first business. We think these are big unlocks to serving our customer and continue to drive that integrated customer experience, but also really being -- continue to innovate and delivering that going forward.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay. Great. And Erik, there's a follow-up question here for you on the Rack business. Let's see. Can you just talk about changes that you're making to the Rack business over time beyond just adjusting your inventory flow to enhance the consistency and performance of that business?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes, it's more than just kind of inventory flow. It's -- we've done a real deep dive into our Rack business, and we see a lot of opportunity. I think we put it in longer term and shorter term. Longer term, we see opportunity to grow that business. We see opportunity to add stores. Off-price is -- it's different than the Nordstrom banner business. There's obviously been a reduction in stores, a reduction in malls around the country.

That hasn't been the case in off-price. You look at the real big players in the off-price business. A big driver of their growth the last number of years has been adding new stores. We've put a focus on growing our Rack.com business. It is unusual in the size of business it is. There's not many people in the online off-price business. We see opportunity to continue to grow that. But we do see opportunity to grow our store business as well.

Now shorter term, before we do that, we need to have a better comp performance. And we do think there are some fairly short-term or operational issues that are getting in our way there. So talk about inventory levels and inventory flow, using things like pack and hold is part of it. The price point, which I touched on briefly, is a big part of that. And that really goes to the mix of our inventory. While off-price is an opportunistic business, we need to be very purposeful about the mix we have there both in our categories, but particularly our price points. And we do see opportunity to have some lower prices in some categories.

But there are some of our categories that we're really known for, that customers really come to us for, that aren't about just the cheapest price. It is about a coveted brand at a great price. So I'd use handbags as an example for that. Brands are very important in handbags. For us, selling a $20 handbag is not what our customers come to us for. They look for these brands that they see in our Nordstrom banner at a great price. And we haven't had the balance of that product that is ideal for us, particularly this last year. So we've got clear plans to improve that.

The other piece I'd call out for the Rack business is awareness, awareness of the brand and really intent to buy. So really top-of-the-funnel levers to pull there that we don't have as many stores as some of the other big off-price players. And we've done a lot of customer surveying on this. The Nordstrom name with Nordstrom Rack helps a lot with awareness, but its intent to buy, people really understanding what the Rack is, we have some opportunity there.

So we did launch a marketing campaign in the last month. If you haven't seen it, you can YouTube it. It's -- there's -- we're really pleased with it. We've gotten -- already done some surveying and seen the needle move on intent to buy. So those are kind of 3 big areas right now.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Okay. Great. It looks like we've got time for one more question. So e-commerce has been a very good news story for Nordstrom over so many years. I wanted to ask perhaps a 2-part question. It looks like e-commerce this year is going to finish at about 40% of sales. That's nicely above 2019 where it was 33%. You talked a little bit about the initiatives to expand partnerships, expand your shared inventory or diversified inventory model where you could expand customer choices on the Nordstrom website. Could you just maybe unpack a little bit of that for us? Is that one of the levers that you see to drive e-commerce and total revenue higher? And how does that incremental revenue flow through the P&L?

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Yes. That's a good question. As you point out, we got in e-commerce pretty early and have invested heavily, and it is a big business, 40% of our business is important. And last year, obviously, that percentage went up with store traffic being down through the pandemic. But it was an important milestone for us to get to over -- the majority of our business to be digital. We do think of ourselves as a digital-first business and that does have impact on business decisions we make.

So yes, you mentioned customer choice. Customer choice drives traffic and particularly online. And we've added a lot of customer choice over the years. At our investor event, we announced that our intent to go from 300,000 customer choices to 1.5 million. And the important thing with that is it isn't just that number of having more. It is -- to do that, we need to expand the business models we have. In other words, being a traditional wholesale to retail business model, it couldn't scale that way. We couldn't have all those choices if we were buying those wholesale choices and storing them ourselves.

So having different models, dropship has been a big part of our business and continues to grow significantly. But there's other models besides that. And I mentioned ASOS. It's a good example of partnering with these coveted brands, brands that are not available everywhere and may take some different models for us. So that's one. I've used Fanatics as another example. Fanatics is -- we started carrying their product line. And it's a good example of that. It's an adjacent category to what we sell.

But it's a good example of again, looking at our business differently, having some different models in that we're going to add 90,000 customer choices from Fanatics. And again, that's a big number, but we can only do that by having some different models on how we ingest their product category and make that available to our customers.

The last point I'd make there is just partnerships with these brands are really important. And I think it's been a strength of ours. I was looking at a list kind of what we've had over the years. So brand partnerships over the last, I don't know, 5 years or so, so Bonobos, Topshop, Good American, SKIMS, Charlotte Tilbury, Rent the Runway, Black Tux, Indochino, Tonal, Allbirds, Everlane, Glossier and now ASOS. We have a clear track record of being the partner of choice for some of these coveted brands. And there are a wide range of price points in there, but I think the common thread is they're not available everywhere. They're not ubiquitous. They drive customer acquisition and they drive retention as well. And that is the path we're going to continue on aggressively. But to do that, we're going to have to be able to execute some different business models, and we will continue to do that.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Anne, I don't know if you wanted to finish on the profitability question and just how the -- that additional incremental revenue flows through the P&L.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Yes. So it's -- there is a wide variety, as you can imagine, of relationships and terms that we have in place and we'll continue to put in place. What I would say is it's -- it really optimizes inventory risk and also labor because it doesn't take as much labor to load and ingest all of this product. It offers a big choice count to our customers. And the way we really look at it is -- and it's why we haven't given specifics around each particular relationship, but it's really looking at the contribution margin. You'd have it flow though because it's going to hit different buckets depending on that relationship.

We know we've got a preset fixed base. We know we need -- we're getting scale out of that fixed base. And so it's really what is that going to draw from a contribution margin and ROIC over the long term because it's less of an investment in the inventory, which is our biggest investment, quite frankly, in any 1 year. So that's how we're really looking at it and judging those relationships is looking at that contribution and return metrics.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

Fantastic, very clear. Anne, Erik, thank you both so much for being with us today. It was an absolute pleasure.

Anne L. Bramman - *Nordstrom, Inc. - CFO*

Thank you, Kimberly.

Erik B. Nordstrom - *Nordstrom, Inc. - CEO & Director*

Thanks, Kimberly.

Kimberly Conroy Greenberger - *Morgan Stanley, Research Division - MD*

And audience, thank you so much for tuning in today. We really appreciate your time. Please stick around. We've got a great rest of the day for you here at the Morgan Stanley conference. And with that, we'll wrap up the session.
