

Company Report – Research Update

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Nordstrom, Inc. (JWN-US)
Multiline Retail

- We reiterate our Buy rating on JWN as its service emphasis and unique product offering combined with ongoing investments in new retail concepts and technology will continue to drive accelerating business performance trends.
- Business Performance continues a positive trend as JWN invests in new retailing initiatives and store openings.
- JWN continues to focus on enhancing its customer shopping experience with the opening of new concepts and by investing in new technologies to enhance its customers' in-store, web and mobile shopping experiences.
- JWN continues to invest in new technologies and make key acquisitions that enhance its e-commerce, digital service capabilities, and supply chain management.
- JWN continues to invest in new technologies and make key acquisitions that enhance its e-commerce, digital service capabilities, and supply chain management.
- JWN's strong financial position will continue to drive greater shareholder value creation through additional dividend increases and share buybacks.

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Company Note
Nordstrom, Inc. (JWN-US)
Multiline Retail

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Research Action:

Reiterate rating

Rating: Buy

Prior Rating: Buy

Price 06/15/2018: \$50.49

52 Week High /

Low: \$54.00

\$37.79

Key Data: (TTM as of Apr-18)

Excess Cash per Share: \$1.08

Annual Dividend: \$1.48

Dividend Yield: 2.93%

Avg. Volume (30 Day): 2.9M

Shares Outstanding: 167.4M

Float: 114.8M

Short Interest: 13.7M

SI % / Float 11.94%

Equity MV: \$8,451.4M

Sales TTM: \$15,685.0M

Beta: 0.82

EBITDAR: \$1,945.7M

NOPAT: \$684.5M

Total Invested Capital: \$6,548.4M

Return on Capital: 11.20%

Cost of Capital: 5.28%

Economic Profit: \$361.8M

Market Value Added: \$7,351.8M

Current Operations Value: \$12,964.5M

Future Growth Value: \$935.8M

- **We reiterate our Buy rating on JWN as its service emphasis and unique product offering combined with ongoing investments in new retail concepts and technology will continue to drive accelerating business performance trends.** JWN continues to evolve into one of the leading omni-channel retailers with both physical stores and online presence supported by increasing investment in an advanced technology fulfillment platform. JWN's strong brand equity and incredible customer service coupled with its high-end designer offerings and exclusive products continue to set it apart from other retailers as it continues to perform well in a very challenging and ever-changing retail environment. We view JWN as the aspirational shopping experience and believe it will gain more market share in an improving economy. Nordstrom continues to invest in new technology and business initiatives that further extend its omni-channel fulfillment capabilities and customer shopping experience, as it recently announced the acquisition of two retail technology companies to improve digital selling capabilities and customer connectivity. We believe JWN can continue to drive higher Return on Capital, increasing Economic Profit, and greater shareholder value creation. We believe that JWN will continue to evolve as the leading luxury omni-channel retailer and believe significant upside in the shares exists from current levels.
- **Business Performance continues a positive trend as JWN invests in new retailing initiatives and store openings.** For the 12 months ending May 5, 2018, Net Sales Revenue increased 5.53% Y/Y from \$14.86 billion to \$15.69 billion. We forecast a further increase of 1% to \$15.84 billion over the NTM. However, we believe the high level of consumer confidence and strong consumer spending could drive sales greater than current expectations. Economic Operating Cash Flow (EBITDAR) declined 1.8% Y/Y from \$1.98 billion to \$1.95 billion over the LTM as JWN invested in new store openings and made a number of key acquisitions to improve employee sales efficiency and to better connect with its customer base. We forecast an increase of 2.7% to almost \$2 billion over the NTM. Net Operating Profit After Tax (NOPAT) declined 9.5% from \$756.2 million to \$684.5 million over the LTM. We forecast a 27.4% increase to \$872 million over the NTM as new initiatives drive increased profitability. Return on Capital (ROC) declined from 12.39% to 11.2% over the LTM. We forecast an increase to 11.51% over the NTM. Economic Profit declined 24.65% from \$480.2 million to \$361.8 million. We forecast an increase of 2.8% to \$372 million over the NTM. We believe that JWN can drive accelerating growth toward its goal of \$20 billion in revenue by 2020.

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- **JWN continues to focus on enhancing its customer shopping experience with the opening of new concepts and by investing in new technologies to enhance its customers' in-store, web and mobile shopping experiences.** While other retailers continue to close stores, JWN is opening new stores and trying new retail concepts. In April, JWN opened a three level, 47,000 square foot, full-service Men's store in New York City. This is JWN first men's-only store and is focused on taking advantage of one of the fast-growing trends in retail which is the sale of men's apparel. The new store offers 24/7 ordering and pickup service along with other amenities including same-day delivery, alterations, express returns, personal shopping, personal stylists, and a full-service restaurant. JWN continues to invest in its multichannel capabilities along with improving its customer service, offering unique and exclusive merchandise, and the ongoing development of its IT infrastructure and fulfillment capabilities. JWN continues to expand its store base to increase market share both in the U.S. and Canada by investing in new stores in key North American markets, including its ongoing expansion into Canada with the opening of six full-service Nordstrom stores and 15 Nordstrom Rack stores.
- **JWN continues to invest in new technologies and make key acquisitions that enhance its e-commerce, digital service capabilities, and supply chain management.** In March 2018 JWN announced the acquisition of two retail technology companies: BevyUp, the innovators of a digital selling tool, and MessageYes, a conversational commerce platform designed to enhance the Nordstrom customer shopping experience. BevyUp's Digital selling platform will be incorporated into a new integrated mobile app for Nordstrom employees that will be rolled out later this year. MessageYes will further enhance the personalized shopping experience. MessageYes adds machine learning capabilities enabling JWN to better understand and predict its customer preferences.

- **JWN continues to invest in new technologies and make key acquisitions that enhance its e-commerce, digital service capabilities, and supply chain management.** In March 2018 JWN announced the acquisition of two retail technology companies: BevyUp, the innovators of a digital selling tool, and MessageYes, a conversational commerce platform designed to enhance the Nordstrom customer shopping experience. BevyUp's Digital selling platform will be incorporated into a new integrated mobile app for Nordstrom employees that will be rolled out later this year. MessageYes will further enhance the personalized shopping experience. MessageYes adds machine learning capabilities enabling JWN to better understand and predict its customer preferences.
- **JWN's strong financial position will continue to drive greater shareholder value creation through additional dividend increases and share buybacks.** JWN generates average annual Economic Operating Cash Flow (EBITDAR) of close to \$2 billion per year. This is more than enough to fund growth initiatives and capital investment as well as dividend increases, and share repurchases. JWN's current dividend yield of 3.3% is significantly above the current S&P 500 dividend yield of 2.2% JWN has increased its dividend an average of 9% over the past five years, and in 2015, paid a one-time special dividend of \$4.85 a share. From 2004 to 2015, JWN has repurchased over \$9 billion worth of stock. In February 2017, JWN announced an authorization to repurchase another \$500 million worth of shares. We believe the current yield along with dividend increases and share repurchases will continue to add to positive shareholder returns.

Investment Thesis

JWN continues to evolve into a leading omni-channel retailer offering both exclusive high-end physical full-service stores with strong emphasis on the customer shopping experience, along with off-price physical stores paired with a market-leading presence in online retail. JWN will continue to drive growth with plans to update its Nordstrom stores in tandem with its expansion plans for its off-price stores, and in conjunction with its online presence and unique online services including HauteLook and Trunk Club.

We believe shopping is very much a social experience and consumers will still want to see, feel and touch what they buy as well as being able to take it home. We continue to believe physical store presence will remain an important part of retail along with the convenience, efficiency and cost savings of shopping online. JWN continues to emerge as one of the leading omni-channel retailers in a very difficult and ever-changing retail environment. We believe Nordstrom's strong brand equity and ongoing investment in new retail innovations will continue to drive higher Return on Capital, increasing Economic Profit, and greater shareholder value creation.

Company Overview

Nordstrom, Inc. (JWN-US) is a leading retailer of high-quality apparel, shoes, and accessories for men women and children that emphasizes a high in-store level of service. Nordstrom offers both branded and private-label merchandise targeting the upper scale segment of the retail market. Nordstrom operates through multiple retail channels including full-service department stores, along with boutiques, catalogs, off-price stores, and websites. Nordstrom's financial services subsidiary offers private label credit and debit cards.

As of May 2018, Nordstrom's operates 373 stores in 40 U.S. states and Canada. Nordstrom's store base includes 122 full-line Nordstrom retail department stores in the U.S., Canada and Puerto Rico. 239 Nordstrom Rack off-price outlets, seven Trunk Club clubhouses, two Jeffrey boutiques, two Nordstrom Last Chance clearance stores, and a Nordstrom Local fashion service concept offering professional tailoring services. Nordstrom also services customers in 96 countries through its Nordstrom.com, nordstromrack.com and private sale site HauteLook. Nordstrom recently partnered with Urban Outfitters' (URBN-US) Anthropologie offering more than 200 items from Anthropologie Home at select full-line Nordstrom stores as well as online.

Nordstrom owns a federal savings bank, Nordstrom FSB which offers private label and two co-branded Nordstrom's Visa cards along with a debit card. The cards include the Nordstrom Rewards loyalty program that rewards shoppers based on their spending levels.

Nordstrom reports revenue in two operating business segments: Retail (98% of revenue) and Credit Services (2% of revenue). Nordstrom's full-line stores generate 50% of net sales revenue. Nordstrom Rack stores generate approximately 25% of net sales revenue. Nordstrom.com generated 15% of net sales revenue. Nordstromrack.com and HauteLook make up the remaining 5% of net sales revenue. Nordstrom generates over 30% of its net sales revenue from women's apparel. Shoes generate approximately 25% of net sales revenue. The balance of its sales includes men's apparel 15% of net sales revenue, women's accessories 10% of net sales revenue, cosmetics 10% of net sales revenue, and kids apparel, and other items make up the balance of 5% of net sales revenue.

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Nordstrom, Inc. (JWN-US)

Multiline Retail

Financial Data

Report Basis	LTM	LTM	LTM	LTM	LTM	LTM	NTM	5 Yr	3 Yr	Current
Reported Period Ending	05/04/2013	05/03/2014	05/02/2015	04/30/2016	04/29/2017	05/05/2018	04/30/2019	Average	Average	Trend
Net Sales Revenue	\$12,268.0	\$12,722.0	\$13,790.0	\$14,472.0	\$14,863.0	\$15,685.0	\$15,839.8	\$14,306.4	\$15,006.7	\$15,762.4
Sales Growth	9.70%	3.70%	8.39%	4.95%	2.70%	5.53%	0.99%	5.05%	4.39%	3.26%
Sales Growth Trend	10.84%	6.10%	6.52%	6.33%	3.60%	4.40%	2.80%	5.39%	4.77%	3.60%
Operating Cash Flow (EBITDAR)	\$1,917.9	\$1,992.6	\$2,030.8	\$1,753.7	\$1,981.7	\$1,945.7	\$1,998.8	\$1,940.9	\$1,893.7	\$1,972.2
EBITDAR Margin	15.63%	15.66%	14.73%	12.12%	13.33%	12.40%	12.62%	13.65%	12.62%	12.51%
EBITDAR Growth	10.77%	3.89%	1.92%	-13.65%	13.00%	-1.82%	2.73%	0.67%	-0.82%	0.45%
Net Operating Profit Before Tax (NOPBT)	\$1,375.9	\$1,404.6	\$1,366.8	\$983.7	\$1,128.7	\$1,021.7	\$1,103.8	\$1,181.1	\$1,044.7	\$1,062.7
NOPBT Margin	11.22%	11.04%	9.91%	6.80%	7.59%	6.51%	6.97%	8.37%	6.97%	6.74%
NOPBT Growth	8.56%	2.08%	-2.69%	-28.03%	14.74%	-9.49%	8.04%	-4.68%	-7.59%	-0.72%
Cash Operating Income Tax	\$454.1	\$463.5	\$451.0	\$324.6	\$372.5	\$337.1	\$231.8	\$389.8	\$344.7	\$284.5
Economic Tax Effective Rate	33.00%	33.00%	33.00%	33.00%	33.00%	33.00%	21.00%	33.00%	33.00%	27.00%
Net Operating Profit After Tax (NOPAT)	\$921.9	\$941.1	\$915.8	\$659.1	\$756.2	\$684.5	\$872.0	\$791.3	\$699.9	\$778.2
NOPAT Margin	7.51%	7.40%	6.64%	4.55%	5.09%	4.36%	5.50%	5.61%	4.67%	4.93%
NOPAT Growth	8.56%	2.08%	-2.69%	-28.03%	14.74%	-9.49%	27.39%	-4.68%	-7.59%	8.95%
Cash & Equivalents	\$1,190.0	\$1,015.0	\$769.0	\$470.0	\$653.0	\$966.0	\$993.1	\$774.6	\$696.3	\$979.5
Total Assets	\$8,135.0	\$8,633.0	\$9,562.0	\$7,699.0	\$7,771.0	\$8,016.0	\$8,240.8	\$8,336.2	\$7,828.7	\$8,128.4
Non - Interest Bearing Liabilities (NIBLs)	\$2,891.0	\$3,185.0	\$3,549.0	\$3,718.0	\$4,033.0	\$3,893.0	\$4,002.2	\$3,675.6	\$3,881.3	\$3,947.6
Net Assets	\$5,244.0	\$5,448.0	\$6,013.0	\$3,981.0	\$3,738.0	\$4,123.0	\$4,238.6	\$4,660.6	\$3,947.3	\$4,180.8
Economic Asset Adjustments	\$1,333.5	\$1,617.0	\$1,904.6	\$2,553.0	\$2,573.3	\$2,425.4	\$2,493.4	\$2,214.6	\$2,517.2	\$2,459.4
Net Operating Assets	\$6,577.5	\$7,065.0	\$7,917.6	\$6,534.0	\$6,311.3	\$6,548.4	\$6,732.0	\$6,875.2	\$6,464.5	\$6,640.2
Debt & Debt Equivalents	\$4,555.5	\$4,855.0	\$5,179.6	\$5,308.0	\$5,261.3	\$5,117.4	\$5,260.9	\$5,144.2	\$5,228.9	\$5,189.1
Equity & Equivalents	\$1,888.0	\$2,036.0	\$2,555.0	\$875.0	\$677.0	\$1,070.0	\$1,100.0	\$1,442.6	\$874.0	\$1,085.0
Total Capital - Financing Sources	\$6,443.5	\$6,891.0	\$7,734.6	\$6,183.0	\$5,938.3	\$6,187.4	\$6,360.9	\$6,586.8	\$6,102.9	\$6,274.1
Capital Adjustments	(\$96.0)	(\$121.0)	(\$129.0)	\$31.0	\$54.0	\$44.0	\$45.2	(\$24.2)	\$43.0	\$44.6
Net Capital Financing Sources	\$6,347.5	\$6,770.0	\$7,605.6	\$6,214.0	\$5,992.3	\$6,231.4	\$6,406.1	\$6,562.6	\$6,145.9	\$6,318.7
Net Working Capital	\$2,518.4	\$2,579.1	\$2,778.5	\$640.6	\$444.2	\$499.3	\$513.3	\$1,388.3	\$528.0	\$506.3
Cost of Net Working Capital	\$118.0	\$130.1	\$135.8	\$71.1	\$24.5	\$24.9	\$25.6	\$77.3	\$40.2	\$25.3
% of Revenue	0.96%	1.02%	0.98%	0.49%	0.17%	0.16%	0.16%	0.56%	0.27%	0.16%
Operational Capital	\$6,571.9	\$7,328.1	\$8,257.1	\$6,951.6	\$6,835.4	\$6,767.6	\$6,957.4	\$7,228.0	\$6,851.5	\$6,862.5
Cost of Operational Capital	\$298.7	\$354.7	\$395.0	\$316.1	\$311.8	\$359.1	\$369.2	\$347.3	\$329.0	\$364.1
% of Revenue	2.43%	2.79%	2.86%	2.18%	2.10%	2.29%	2.33%	2.44%	2.19%	2.31%
Productive Capital	\$6,746.9	\$7,503.1	\$8,704.1	\$7,386.6	\$7,073.4	\$7,016.6	\$7,213.4	\$7,536.8	\$7,158.9	\$7,115.0
Cost of Productive Capital	\$307.1	\$363.7	\$410.7	\$334.4	\$327.0	\$372.0	\$382.4	\$361.6	\$344.5	\$377.2
% of Revenue	2.50%	2.86%	2.98%	2.31%	2.20%	2.37%	2.41%	\$361.6	\$344.5	\$377.2
Total Operating Capital	\$6,000.9	\$6,686.1	\$7,838.1	\$6,787.6	\$6,401.4	\$6,366.6	\$6,545.2	\$6,816.0	\$6,518.5	\$6,455.9
Cost of Total Operating Capital	\$271.9	\$323.8	\$368.1	\$304.0	\$298.3	\$337.1	\$346.5	\$326.2	\$313.1	\$341.8
% of Revenue	2.22%	2.55%	2.67%	2.10%	2.01%	2.15%	2.19%	2.29%	2.09%	2.17%
Non - Operating Capital	\$576.6	\$378.9	\$79.5	(\$253.6)	(\$90.2)	\$181.8	\$186.8	\$59.3	(\$54.0)	\$184.3
Cost of Non - Operating Capital	\$40.2	\$24.4	\$11.6	(\$3.6)	(\$7.8)	\$2.4	\$2.5	\$5.4	(\$3.0)	\$2.5
% of Revenue	0.33%	0.19%	0.08%	-0.03%	-0.05%	0.02%	0.02%	0.04%	-0.02%	0.02%
Total Capital	\$6,577.5	\$7,065.0	\$7,917.6	\$6,534.0	\$6,311.3	\$6,548.4	\$6,732.0	\$6,875.2	\$6,464.5	\$6,640.2
Cost of Total Capital	\$312.1	\$348.2	\$379.7	\$300.4	\$290.5	\$339.5	\$349.0	\$331.6	\$310.1	\$344.2
% of Revenue	2.54%	2.74%	2.75%	2.08%	1.95%	2.16%	2.20%	2.34%	2.06%	2.18%
Cost of Capital (WACC)	4.83%	5.10%	5.07%	4.16%	4.52%	5.28%	5.28%	4.83%	4.65%	5.28%
Capital Structure										
Debt & Debt Equivalents	\$4,555.5	\$4,855.0	\$5,179.6	\$5,308.0	\$5,261.3	\$5,117.4	\$5,260.9	\$5,144.2	\$5,228.9	\$5,189.1
Debt & Debt Equivalents % of Market Value	28.56%	29.21%	26.33%	37.51%	39.51%	38.13%	38.13%	33.33%	38.37%	38.13%
Preferred Equity	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Preferred Equity % of Market Value	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Market Value of Common Equity	\$11,394.4	\$11,764.8	\$14,489.9	\$8,841.4	\$8,053.9	\$8,304.2	\$8,537.1	\$10,290.8	\$8,399.8	\$8,420.7
Common Equity % of Market Value	71.44%	70.79%	73.67%	62.49%	60.49%	61.87%	61.87%	66.67%	61.63%	61.87%
Total Economic Market Value (MV)	\$15,950.0	\$16,619.7	\$19,669.5	\$14,149.4	\$13,315.2	\$13,421.6	\$13,798.0	\$15,435.1	\$13,628.7	\$13,609.8
Total %	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Excess Cash	\$576.6	\$378.9	\$79.5	(\$253.6)	(\$90.2)	\$181.8	\$186.8	\$59.3	(\$54.0)	\$184.3
Economic Enterprise Value	\$15,373.4	\$16,240.8	\$19,590.0	\$14,403.0	\$13,405.3	\$13,239.8	\$13,611.1	\$15,375.8	\$13,682.7	\$13,425.5
Average Capital	\$6,232.4	\$6,558.8	\$7,187.8	\$6,909.8	\$6,103.1	\$6,111.8	\$6,318.7	\$6,574.3	\$6,374.9	\$6,215.3
Capital Δ	\$230.2	\$422.4	\$835.6	(\$1,391.6)	(\$221.8)	\$239.1	\$174.8	(\$23.2)	(\$458.1)	\$206.9

Source: Company Data, Financial statements and Tigress Research

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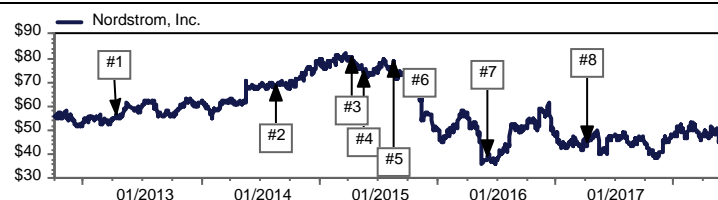
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Nordstrom, Inc. (JWN-US)
Multiline Retail
Ratings History

Nordstrom, Inc. (JWN-US)				
Item #	Date	Research Action	Rating	Price
#8	04/10/2017	Reiterate Rating	Buy	\$45.40
#7	06/03/2016	Reiterate Rating	Buy	\$39.75
#6	11/16/2015	Reiterate Rating	Buy	\$54.73
#5	08/18/2015	Reiterate Rating	Buy	\$78.71
#4	05/20/2015	Reiterate Rating	Buy	\$74.71
#3	04/08/2015	Reiterate Rating	Buy	\$80.50
#2	08/21/2014	Reiterate Rating	Buy	\$68.93
#1	04/12/2013	Initiation of Coverage	Buy	\$56.82


Tigress Research Methodology Overview

We employ proprietary quantitative valuation models combined with dynamic fundamental analysis based on the principles of Economic Profit to formulate timely and insightful investment ratings, analysis, strategies, and recommendations.

We make key adjustments to reported financial data eliminating GAAP-based accounting distortions and measuring all companies on a cash operating basis.

Our proprietary research framework is a multi-factor model that scores and ranks companies based on their risk-adjusted ability to create Economic Profit relative to their current market value focusing on three key components:

Business Performance: Measuring economic profitability, growth and operating efficiency.

Risk: Measuring business sustainability, volatility, strength, and consistency.

Valuation: Linking business performance to market value. Measuring value created relative to capital employed and enterprise multiples of economic profit and cash flow.

We score and rank 24 key measurements of performance, risk, and value into relative market and industry investment recommendations.

For more information on our research methodology, please review the *Tigress Investment Research Guide to Company Valuation and Analysis*.

Glossary of Key Terms and Measures

Excess Cash per Share: Excess Cash per Share is the amount of excess cash divided by basic shares outstanding. Excess Cash consists of all cash and short-term securities less operating cash needed to run the business. Operating Cash is 5% of TTM net sales revenue.

EBITDAR: Earnings Before Interest, Taxes, Depreciation, Amortization, and Restructuring and Rent Costs. This is especially important when comparing companies that use a significant amount of leased assets like restaurants and retailers.

NOPAT: Net Operating Profit after Tax represents a company's after-tax cash operating profit excluding financing costs.

Total Invested Capital: Total Invested Capital the total cash investment that shareholders and debt holders have made during the life of the company.

Return on Capital: Return on Capital equals NOPAT divided by Total Invested Capital. It is a key measure of operating efficiency. ROC quantifies how well a company generates cash flow relative to the capital invested in its business.

Cost of Capital: Is the proportionately weighted cost of each category of capital – common equity, preferred equity and debt.

Economic Profit: Economic Profit is the net operating income after tax less the opportunity cost of the total capital invested. It is the most important driver of shareholder value.

Current Operations Value: Current Operations Value is the portion of market value based on the discounted present value of the current earnings stream assuming it remains constant forever.

Future Growth Value: Future Growth Value is the portion of market value based on un-earned Economic Profit

For more information on the key terms and measures, please review the *Tigress Investment Research Guide to Company Valuation and Analysis*.

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		#	%	#	%	
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Not Rated	No Current Research Rating	NA	NA	65	NA	
		Total	118	100%	72	100%

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