

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
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
Net sales increase	2.0 %	7.2 %	2.7 %	3.0 %
Comparable sales increase (decrease) by channel:				
Nordstrom full-line stores - U.S.	(4.9 %)	(4.5 %)	(5.2 %)	(6.3 %)
Nordstrom.com	7.5 %	20.1 %	13.5 %	10.3 %
Full-price	(1.9 %)	0.5 %	(0.5 %)	(2.6 %)
Nordstrom Rack	(5.0 %)	0.9 %	(2.3 %)	0.4 %
Nordstromrack.com/HauteLook	33.6 %	23.2 %	26.3 %	32.9 %
Off-price	0.8 %	3.9 %	2.0 %	4.6 %
Total Company	(0.9 %)	2.4 %	0.1 %	(0.2 %)

Sales per square foot:

Total sales per square foot	\$118	\$119	\$353	\$355
4-wall sales per square foot	86	90	271	283
Full-line sales per square foot - U.S.	72	76	235	247
Nordstrom Rack sales per square foot	118	127	361	376

¹ Nordstrom full-line stores - U.S. includes Nordstrom Local.

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

Total Company net sales increased 2.0% for the third quarter and 2.7% for the nine months ended October 28, 2017, compared with the same periods in 2016, while comparable sales decreased 0.9% for the third quarter and increased 0.1% for the nine months ended October 28, 2017. The estimated lost sales impact from the hurricanes impacting Puerto Rico, Florida and Texas was approximately \$20, or 60 basis points for the third quarter and 20 basis points for the nine months ended October 28, 2017. To date in fiscal 2017, we opened 17 Nordstrom Rack stores, one Canada full-line store and one Nordstrom Local store, relocated two U.S. full-line stores and one Nordstrom Rack store and

closed two U.S. full-line stores.

18 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)

Full-price net sales, which consists of U.S. full-line and Nordstrom.com channels, decreased 2.1% for the third quarter and 0.7% for the nine months ended October 28, 2017, compared with the same periods in 2016, while comparable sales decreased 1.9% for the third quarter and 0.5% for the nine months ended October 28, 2017. Also on a comparable basis for the third quarter and the nine months ended October 28, 2017, full-price experienced a decrease in the total number of items sold, partially offset by an increase in the average selling price per item sold. The top-performing merchandise category was Men's Apparel for the third quarter and Women's Apparel for the nine months ended October 28, 2017. The West was the top-performing U.S. geographic region for the third quarter and the nine months ended October 28, 2017.

Off-price net sales, which consists of Nordstrom Rack and Nordstromrack.com/HauteLook channels, increased 5.5% for the third quarter and 8.0% for the nine months ended October 28, 2017, compared with the same periods in 2016, while comparable sales increased 0.8% and 2.0% for the third quarter and nine months ended October 28, 2017. For the quarter and year-to-date period ended October 28, 2017, Nordstrom Rack experienced a decrease in the average selling price per item sold and in the total number of items sold on a comparable basis. The top-performing Nordstrom Rack merchandise category was Cosmetics for the third quarter and the nine months ended October 28, 2017. The West was the top-performing geographic region for the third quarter and the nine months ended October 28, 2017. Other retail net sales increased for the third quarter and nine months ended October 28, 2017, compared with the same periods in 2016 due to increases in Canada sales, partially offset by lower sales in Trunk Club.

Retail Business Gross Profit

The following table summarizes the Retail Business gross profit ("Retail GP"):

	Quarter Ended		Nine Months Ended	
	October 28,	October 29,	October 28,	October 29,
	2017	2016	2017	2016
Retail gross profit	\$1,230	\$1,210	\$3,623	\$3,537
Retail gross profit as a % of net sales	34.7 %	34.8 %	34.4 %	34.5 %

	October 28,	October 29,
	2017	2016
Ending inventory per square foot	\$80.54	\$80.94
Inventory turnover rate	4.39	4.31

Retail GP decreased 12 basis points for the third quarter and 11 basis points for the nine months ended October 28, 2017, compared with the same periods in 2016, primarily due to higher planned occupancy expenses related to new store growth for Nordstrom Rack and Canada. Continued focus on inventory execution led to improvements in both ending inventory per square foot and the inventory turnover rate as of October 28, 2017.

Retail Business Selling, General and Administrative Expenses

Retail Business selling, general and administrative expenses ("Retail SG&A") are summarized in the following table:

	Quarter Ended		Nine Months Ended	
	October 28,	October 29,	October 28,	October 29,
	2017	2016	2017	2016
Retail selling, general and administrative expenses	\$1,070	\$990	\$3,172	\$3,024
Retail selling, general and administrative expenses as a % of net sales	30.2 %	28.5 %	30.1 %	29.5 %

Retail SG&A increased \$80 and 168 basis points for the third quarter and increased \$148 and 61 basis points for the nine months ended October 28, 2017, primarily due to planned increases in technology and supply chain expenses associated with our growth initiatives.

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)

Credit Segment

The Nordstrom credit and debit card products are designed to strengthen customer relationships and grow retail sales by providing loyalty benefits, valuable services and payment products. We believe our credit business allows us to build deeper relationships with our customers by fully integrating the Nordstrom Rewards program with our retail business and provide better service, which in turn fosters greater customer loyalty. Nordstrom cardholders tend to visit our stores more frequently and spend more than non-cardholders. Nordstrom private label credit and debit cards can be used at all of our U.S. retail channels, while Nordstrom Visa credit cards may also be used for purchases outside of Nordstrom ("outside volume").

Summary

The table below provides a detailed view of the operational results of our Credit segment, consistent with Note 8: Segment Reporting in Item 1:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 28, 2016	October 28, 2017	October 28, 2016
Credit card revenues, net	\$88	\$70	\$239	\$186
Credit expenses	(40)	(38)	(115)	(121)
Earnings before interest and income taxes	\$48	\$32	124	65

Credit and debit card volume¹:

Inside	\$1,205	\$1,239	\$4,202	\$4,215
Outside	1,084	1,023	3,146	3,106
Total volume	\$2,289	\$2,262	\$7,348	\$7,321

¹ Credit and debit card volume represents sales on the total portfolio plus applicable sales taxes.

Credit Card Revenues, net

The following is a summary of our credit card revenues, net:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 28, 2016	October 28, 2017	October 28, 2016
Credit program revenues, net	\$85	\$67	\$229	\$176
Other	3	3	10	10
Total credit card revenues, net	\$88	\$70	\$239	\$186

Pursuant to our program agreement with TD, we receive our portion of the ongoing credit card revenue, net of credit losses, from both sold and newly generated credit card receivables, which is recorded in credit program revenues, net. Asset amortization and deferred revenue recognition associated with the assets and liabilities recorded as part of the transaction are also recognized in credit program revenues, net. Revenue earned under the program agreement is impacted by the credit quality of receivables, both owned and serviced, and factors such as deteriorating economic conditions, declining creditworthiness of cardholders and the execution of account management and collection activities may heighten the risk of credit losses. Other credit card revenues include finance charge revenue, interchange fees and late fees on our accounts receivable retained (including debit and employee receivables). Subsequent to quarter end, on November 1, 2017, we completed the sale of our employee credit card receivables to TD (see Note 1: Basis of Presentation in Item 1).

Credit card revenues, net increased \$18 for the third quarter and \$53 for the nine months ended October 28, 2017, compared with the same periods in 2016, reflecting our strategic partnership with TD to responsibly grow our receivables and associated revenues. There was also a reduction in amortization expense related to the sale of the credit card portfolio.

Credit Expenses

Total credit expenses were relatively flat for the third quarter, compared with the same period in 2016, and decreased \$6 for the nine months ended October 28, 2017, primarily due to lower processing costs driven by operational efficiencies.

20 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)

Total Company Results

Interest Expense, net

Interest expense, net was \$28 for the third quarter, compared with \$30 for the same period in 2016, and \$104 for the nine months ended October 28, 2017, compared with \$90 for the same period in 2016. The increase for the nine months ended October 28, 2017 was primarily due to a net interest expense charge of \$18 related to the \$650 debt refinancing completed in the first quarter of 2017 (see Note 2: Debt and Credit Facilities in Item 1).

Income Tax Expense

Income tax expense is summarized in the following table:

	Quarter Ended		Nine Months Ended		
	October 28, 2017	October 28, 2016	October 28, 2017	October 28, 2016	
Income tax expense	\$66	\$35	\$185	\$138	
Effective tax rate	36.7%	140.3	% 39.2	% 47.4	%

The effective tax rate decreased for the third quarter and nine months ended October 28, 2017, compared with the same periods in 2016, primarily due to the non-deductible goodwill impairment charge of \$197 related to Trunk Club in the third quarter of 2016. Excluding the impact of the Trunk Club impairment, our effective tax rate for both the third quarter and nine months ended October 28, 2017 increased approximately 300 basis points primarily due to changes in tax reserves and an increase in the valuation allowance for foreign net operating losses.

Earnings (Loss) Per Share

Earnings (Loss) per share is as follows:

	Quarter Ended		Nine Months Ended	
	October 28, 2017	October 28, 2016	October 28, 2017	October 28, 2016
Basic	\$0.68	(\$0.06)	\$1.72	\$0.88
Diluted	\$0.67	(\$0.06)	\$1.70	\$0.87

Earnings per diluted share increased for the third quarter and nine months ended October 28, 2017 primarily due to the Trunk Club goodwill impairment charge of \$197 in 2016, which had an impact of approximately \$0.90 per share for both the quarter and nine months ended October 29, 2016. Excluding the impact of the impairment, earnings per diluted share decreased for the quarter and nine months ended October 28, 2017 primarily due to planned increases in technology and supply chain expenses associated with our growth initiatives. Additionally, the estimated reduction in earnings from three hurricanes affecting stores in Puerto Rico, Florida and Texas in the quarter was approximately \$0.04 per share.

2017 Outlook

We updated our annual earnings per diluted share expectations to incorporate our third quarter results and the estimated impacts of the three hurricanes. Nordstrom's expectations for fiscal 2017, which include the impact of the 53rd week, are as follows:

Net sales (percent)	Current Outlook
Comparable sales (percent)	Approximately 4
Retail EBIT	Approximately flat
Credit EBIT	\$755 to \$785
Earnings per diluted share (excluding the impact of any future share repurchases)	Approximately \$165
	\$2.85 to \$2.95

The income tax rate is estimated to be approximately in line with the rate for the nine months ended October 28, 2017. The 53rd week is expected to add approximately \$200 to net sales and approximately \$0.02 to \$0.03 to earnings per diluted share. The 53rd week is not included in comparable sales calculations. The full-year impact from three

hurricanes that occurred in the third quarter is estimated to impact sales by \$26, EBIT by \$17 and EPS by \$0.06 per share. The damage in Puerto Rico was extensive, requiring us to close the store as we continue our repair efforts.

21 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)

Return on Invested Capital ("ROIC") (Non-GAAP financial measure)

We believe ROIC is a useful financial measure for investors in evaluating the efficiency and effectiveness of our use of capital and believe ROIC is an important component of shareholders' return over the long term. In addition, we incorporate ROIC in our executive incentive compensation measures. For the 12 fiscal months ended October 28, 2017, our ROIC increased to 10.7% compared with 7.2% for the 12 fiscal months ended October 29, 2016. Results for the prior period were negatively impacted by approximately 340 basis points due to the Trunk Club non-cash goodwill impairment charge in the third quarter of 2016.

We define ROIC as our net operating profit after tax divided by our average invested capital using the trailing 12-month average. ROIC is not a measure of financial performance under generally accepted accounting principles ("GAAP") and should be considered in addition to, and not as a substitute for, return on assets, net earnings, total assets or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to ROIC is return on assets. The following is a reconciliation of the components of ROIC and return on assets:

	12 Fiscal Months Ended		
	October 28, 2017	October 29, 2016	
Net earnings	\$488	\$333	
Add: income tax expense	376	252	
Add: interest expense	139	121	
Earnings before interest and income tax expense	1,003	706	
Add: rent expense	237	195	
Less: estimated depreciation on capitalized operating leases ¹	(126)	(103)	
Net operating profit	1,114	798	
Less: estimated income tax expense	(486)	(383)	
Net operating profit after tax	\$628	\$415	
Average total assets	\$8,009	\$7,987	
Less: average non-interest-bearing current liabilities ²	(3,211)	(3,105)	
Less: average deferred property incentives and deferred rent liability ²	(646)	(541)	
Add: average estimated asset base of capitalized operating leases ³	1,718	1,452	
Average invested capital	\$5,870	\$5,793	
Return on assets ⁴	6.1	% 4.2	%
ROIC ⁴	10.7	% 7.2	%

¹ Capitalized operating leases is our best estimate of the asset base we would record for our leases that are classified as operating if they had met the criteria for a capital lease or we had purchased the property. Asset base is calculated as described in footnote 3 below.

² Balances associated with our deferred rent liability have been classified as long-term liabilities in the current period.

³ Based upon the trailing 12-month average of the monthly asset base. The asset base for each month is calculated as the trailing 12 months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the asset base we would record for our capitalized operating leases described in footnote 1.

⁴ Results for the 12 fiscal months ended October 29, 2016 include the \$197 impact of the Trunk Club non-cash goodwill impairment charge in the third quarter of 2016, which negatively impacted the prior period return on assets by approximately 250 basis points and ROIC by 340 basis points.

22 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)

LIQUIDITY AND CAPITAL RESOURCES

We strive to maintain a level of liquidity sufficient to allow us to cover our seasonal cash needs and to maintain appropriate levels of short-term borrowings. We believe that our operating cash flows, available credit facilities and potential future borrowings are sufficient to finance our cash requirements for the next 12 months and beyond. Over the long term, we manage our cash and capital structure to maximize shareholder return, maintain our financial position, manage refinancing risk and allow flexibility for strategic initiatives. We regularly assess our debt and leverage levels, capital expenditure requirements, debt service payments, dividend payouts, potential share repurchases and other future investments. We believe that as of October 28, 2017, our existing cash and cash equivalents on-hand of \$672, available credit facilities of \$800 and potential future operating cash flows and borrowings will be sufficient to fund these scheduled future payments and potential long-term initiatives.

Operating Activities

Net cash provided by operating activities decreased \$281 for the nine months ended October 28, 2017, compared with the same period in 2016, primarily due to the timing of a tax refund received in 2016 and tax payments in 2017.

Investing Activities

Net cash used in investing activities decreased \$71 for the nine months ended October 28, 2017, compared with the same period in 2016, primarily due to a planned reduction in capital expenditures associated with fewer Canadian store openings.

Financing Activities

Net cash used in financing activities increased \$61 for the nine months ended October 28, 2017, compared with the same period in 2016, primarily due to increased share repurchase activity, which occurred in the first quarter of 2017.

Short-term and Long-term Borrowing Activity

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. We recorded debt issuance costs incurred as a result of the issuance in other financing activities, net in the Condensed Consolidated Statements of Cash Flows in Item 1. With the proceeds of these new notes, we retired our \$650 senior unsecured notes that were due January 2018. See Note 2: Debt and Credit Facilities in Item 1 for additional information.

Free Cash Flow (Non-GAAP financial measure)

Free Cash Flow is one of our key liquidity measures, and when used in conjunction with GAAP measures, provides investors with a meaningful analysis of our ability to generate cash from our business. For the nine months ended October 28, 2017, we had Free Cash Flow of (\$127) compared with (\$66) for the nine months ended October 29, 2016.

Free Cash Flow is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for, operating cash flows or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to Free Cash Flow is net cash provided by operating activities. The following is a reconciliation of net cash provided by operating activities to Free Cash Flow:

	Nine Months Ended	
	October 28,	October 29,
	2017	2016
Net cash provided by operating activities	\$597	\$878
Less: capital expenditures	(536)	(625)
Less: cash dividends paid	(185)	(192)
Less: change in cash book overdrafts	(3)	(127)
Free Cash Flow	(\$127)	(\$66)

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)

Credit Capacity and Commitments

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 our 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.

Impact of Credit Ratings

Under the terms of our revolver, any borrowings we may enter into will accrue interest for Euro-Dollar Rate Loans at a floating base rate tied to LIBOR, for Canadian Dealer Offer Rate Loans at a floating rate tied to CDOR, and for Base Rate Loans at the highest of: (i) the Euro-Dollar rate plus 100 basis points, (ii) the federal funds rate plus 50 basis points and (iii) the prime rate.

The rate depends upon the type of borrowing incurred, plus in each case an applicable margin. This applicable margin varies depending upon the credit ratings assigned to our long-term unsecured debt. At the time of this report, our long-term unsecured debt ratings, outlook and resulting applicable margin were as follows:

	Credit Ratings	Outlook	Base Interest Rate	Applicable Margin
Moody's	Baa1	Stable		
Standard & Poor's	BBB+	Negative		
Euro-Dollar Rate Loan			LIBOR	1.02 %
Canadian Dealer Offer Rate Loan			CDOR	1.02 %
Base Rate Loan			various	—

Should the ratings assigned to our long-term unsecured debt improve, the applicable margin associated with any such borrowings may decrease, resulting in a lower borrowing cost under this facility. Should the ratings assigned to our long-term unsecured debt worsen, the applicable margin associated with our borrowings may increase, resulting in a higher borrowing cost under this facility.

Debt Covenants

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 (see the following additional discussion of Adjusted Debt to EBITDAR). As of October 28, 2017, we were in compliance with this covenant.

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)

Adjusted Debt to EBITDAR (Non-GAAP financial measure)

Adjusted Debt to EBITDAR is one of our key financial metrics, and we believe that our debt levels are best analyzed using this measure. Our goal is to manage debt levels to maintain an investment-grade credit rating and operate with an efficient capital structure. In evaluating our debt levels, this measure provides a reflection of our credit worthiness that could impact our credit rating and borrowing costs. We also have a debt covenant that requires an adjusted debt to EBITDAR leverage ratio of no more than four times. As of October 28, 2017 and October 29, 2016, our Adjusted Debt to EBITDAR was 2.5.

Adjusted Debt to EBITDAR is not a measure of financial performance under GAAP and should be considered in addition to, and not as a substitute for, debt to net earnings, net earnings, debt or other financial measures prepared in accordance with GAAP. Our method of determining non-GAAP financial measures may differ from other companies' methods and therefore may not be comparable to those used by other companies. The financial measure calculated under GAAP which is most directly comparable to Adjusted Debt to EBITDAR is debt to net earnings. The following is a reconciliation of the components of Adjusted Debt to EBITDAR and debt to net earnings:

	2017 ¹	2016 ¹
Debt	\$2,738	\$2,778
Add: estimated capitalized operating lease liability ²	1,896	1,561
Less: fair value hedge adjustment included in long-term debt	—	(14)
Adjusted Debt	\$4,634	\$4,325
Net earnings	\$488	\$333
Add: income tax expense	376	252
Add: interest expense, net	135	121
Earnings before interest and income taxes	999	706
Add: depreciation and amortization expenses	644	631
Add: rent expense	237	195
Add: non-cash acquisition-related charges ³	10	197
EBITDAR	\$1,890	\$1,729
Debt to Net Earnings ⁴	5.6	8.3
Adjusted Debt to EBITDAR	2.5	2.5

¹ The components of Adjusted Debt are as of October 28, 2017 and October 29, 2016, while the components of EBITDAR are for the 12 months ended October 28, 2017 and October 29, 2016.

² Based upon the estimated lease liability as of the end of the period, calculated as the trailing 12 months of rent expense multiplied by eight. The multiple of eight times rent expense is a commonly used method of estimating the debt we would record for our leases that are classified as operating if they had met the criteria for a capital lease or we had purchased the property.

³ Non-cash acquisition-related charges for the 12 months ended October 29, 2016 include the goodwill impairment charge of \$197 related to Trunk Club.

⁴ Results for the period ended October 29, 2016 include the \$197 impact of the Trunk Club goodwill impairment charge, which approximates 310 basis points.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We discussed our interest rate risk and our foreign currency exchange risk in Part II, “Item 7A. Quantitative and Qualitative Disclosures About Market Risk” in our 2016 Annual Report on Form 10-K filed with the SEC on March 20, 2017. There have been no material changes to these risks since that time.

Item 4. Controls and Procedures.

DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company performed an evaluation under the supervision and with the participation of management, including our principal executive officer and principal financial officer, of the design and effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon that evaluation, our principal executive officer and principal financial officer concluded that, as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective in the timely and accurate recording, processing, summarizing and reporting of material financial and non-financial information within the time periods specified within the SEC’s rules and forms. Our principal executive officer and principal financial officer also concluded that our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) of the Exchange Act) during our most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

We are subject from time to time to various claims and lawsuits arising in the ordinary course of business, including lawsuits alleging violations of state and/or federal wage and hour and other employment laws, privacy and other consumer-based claims. Some of these lawsuits include certified classes of litigants, or purport or may be determined to be class or collective actions and seek substantial damages or injunctive relief, or both, and some may remain unresolved for several years. We believe the recorded reserves in our Condensed Consolidated Financial Statements are adequate in light of the probable and estimable liabilities. As of the date of this report, we do not believe any currently identified claim, proceeding or litigation, either alone or in the aggregate, will have a material impact on our results of operations, financial position or cash flows. Since these matters are subject to inherent uncertainties, our view of them may change in the future.

Item 1A. Risk Factors.

We discussed our risk factors in Part I, “Item 1A. Risk Factors” in our 2016 Annual Report on Form 10-K filed with the SEC on March 20, 2017. The following is an update to our risk factors as previously disclosed:

The exploration of a possible “going private transaction” by the Nordstrom family could impact our relationships with our customers, employees, suppliers and partners, operating results and business.

In June 2017, members of the Nordstrom family formed a group (the “Group”) to explore the possibility of pursuing a “going private transaction” involving the acquisition by the Group of 100% of our outstanding shares of common stock (a “Going Private Transaction”). Our Board of Directors also formed a special committee (the “Special Committee”) comprised of independent directors to act on our behalf in connection with such exploration by the Group and any possible transaction. As of October 2017, the Group has suspended active exploration of a Going Private Transaction for the balance of the year, with the intent to resume such exploration after the conclusion of the holiday season. The Group has not made a proposal to us regarding any such Going Private Transaction and may never make such a proposal. We do not plan to disclose developments or provide updates on the progress or status of any potential Going Private Transaction until the Special Committee deems further disclosure is appropriate or required. Accordingly, speculation regarding any developments related to the review of a Going Private Transaction and perceived uncertainties related to our future could cause our stock price to fluctuate significantly.

The exploration of a potential Going Private Transaction or alternative may expose us and our operations to a number of risks and uncertainties, including the potential failure to retain, attract or strengthen our relationships with key personnel, current and potential customers, suppliers, and partners which may cause them to terminate, or not to renew or enter into, arrangements with us; the potential incurrence of expenses associated with the retention of legal, financial and other advisors regardless of whether any transaction is consummated; distractions and disruptions in our business; and exposure to potential litigation in connection with this process and effecting any transaction, any of which could adversely affect our business, financial condition and results of operations as well as the market price of our common stock.

If we do not effectively design and implement our strategic and business planning processes to attract, retain, train and develop talent and future leaders, our business may suffer.

We rely on the experience of our senior management, who have specific knowledge relating to us and our industry that is difficult to replace, and the talents of our workforce to execute our business strategies and objectives. If unexpected turnover occurs without adequate succession plans, the loss of the services of any of these individuals, or any resulting negative perceptions of our business, could damage our reputation and our business. Additionally, our ability to maintain relationships with and motivate our employees and to effectively attract, develop and retain our future leaders, could be impacted by the uncertainty about the possibility of a Going Private Transaction.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) SHARE REPURCHASES

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

In February 2017, our Board of Directors authorized a program to repurchase up to \$500 of our outstanding common stock through August 31, 2018. During the third quarter of 2017, we did not repurchase any shares of our common stock and do not plan to do so while the Group explores the possibility of a “going private transaction.” We 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 SEC rules.

Item 6. Exhibits.

Exhibits are incorporated herein by reference or are filed or furnished with this report as set forth in the Exhibit Index on page 30 hereof.

28 of 30

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORDSTROM, INC.
(Registrant)

/s/ Anne L. Bramman
Anne L. Bramman
Chief Financial Officer
(Principal Financial
Officer)

Date: November 28, 2017

29 of 30

Table of Contents

NORDSTROM, INC.

Exhibit Index

Exhibit		Method of Filing
<u>31.1</u>	<u>Certification of Co-President required by Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	Filed herewith electronically
<u>31.2</u>	<u>Certification of Chief Financial Officer required by Section 302(a) of the Sarbanes-Oxley Act of 2002</u>	Filed herewith electronically
<u>32.1</u>	<u>Certification of Co-President and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	Furnished herewith electronically
101.INS	XBRL Instance Document	Filed herewith electronically
101.SCH	XBRL Taxonomy Extension Schema Document	Filed herewith electronically
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith electronically
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document	Filed herewith electronically
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith electronically
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith electronically

30 of 30