

Nordstrom, Inc. (JWN)

\$33.44 (As of 03/03/20)

Price Target (6-12 Months): **\$35.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 03/02/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: B

Growth: F

Momentum: C

Summary

Shares of Nordstrom have declined and underperformed the industry so far in this year. The company posted dismal fourth-quarter fiscal 2019 results, wherein sales and earnings missed the Zacks Consensus Estimate. Earnings also declined on a year-over-year basis due to increase in SG&A expenses and higher interest expenses. Further, management provided muted view for 2020. Increased spending for store openings, technology and supply chain is an added concern. Nevertheless, the company witnessed improved top-line trends in its full-price and off-price businesses, driven by gains from loyalty program, digital channel and merchandise assortment. The loyalty program contributed about two-thirds of its sales in 2019. Also, it is progressing well with its store expansion efforts. Moreover, the company's customer-based strategy bode well.

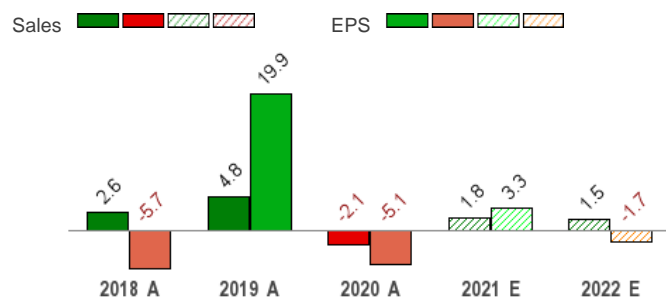
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$46.20 - \$25.01
20 Day Average Volume (sh)	2,708,340
Market Cap	\$5.2 B
YTD Price Change	-18.3%
Beta	0.73
Dividend / Div Yld	\$1.48 / 4.4%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 35% (88 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.1%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	05/19/2020
Earnings ESP	-21.6%
P/E TTM	10.0
P/E F1	9.6
PEG F1	1.6
P/S TTM	0.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022					16,033 E
2021	3,516 E	3,917 E	3,717 E	4,625 E	15,799 E
2020	3,443 A	3,872 A	3,672 A	4,538 A	15,524 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022					\$3.42 E
2021	\$0.27 E	\$0.88 E	\$0.77 E	\$1.53 E	\$3.48 E
2020	\$0.23 A	\$0.90 A	\$0.81 A	\$1.42 A	\$3.37 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/03/2020. The reports text is as of 03/04/2020.

Overview

Founded in 1901 as a retail shoe business, and headquartered in Seattle, Washington, Nordstrom Inc. is a leading fashion specialty retailer in the United States. The company offers an extensive selection of both branded and private-label merchandise, which are positioned in the upscale segment of the industry.

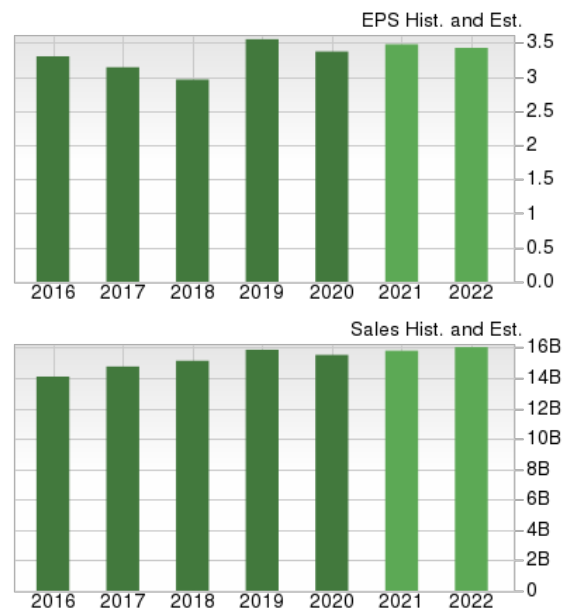
Meanwhile, the company offers high-quality apparel, shoes, cosmetics and related accessories for men, women, young adults and children through a variety of channels. These channels are namely, Nordstrom branded full-line stores; Nordstrom Rack stores; Jeffrey boutiques; clearance stores under the Last Chance name; Trunk Club clubhouses and Nordstrom Local. Also, the company serves customers online through Nordstrom.com; Nordstromrack.com; HauteLook; and TrunkClub.com.

The company aspires to become the best fashion retailer in the digital space by primarily focusing on its customers. Impressively, Nordstrom's digital sales represented approximately 31% of total sales in the first quarter of fiscal 2019.

Furthermore, Nordstrom's customer-based strategy focuses on three strategic factors — leveraging its brand strength, providing excellent services and offering compelling products. Furthermore, the company delivers service, product and experience, which include alterations, dining and styling in order to make shopping personalized and convenient.

The company operates through two segments: Retail and Credit Card. The Retail segment offers a selection of brand names and private-label merchandise. The segment includes Nordstrom branded full-line stores and website, off-price Nordstrom Rack stores and other retail channels including HauteLook and Jeffrey boutiques. The Credit Card segment operates Nordstrom private-label and co-branded VISA credit cards.

As of Feb 1, 2020, Nordstrom operated 380 stores across 40 states. These include 116 full-line stores in the United States, Canada and Puerto Rico, 248 Nordstrom Rack outlets, three Jeffrey boutiques, two clearance stores, six Trunk Club clubhouses as well as five Nordstrom Local service concepts.



Reasons To Buy:

▲ **Increase in Q4 Sales:** Nordstrom's fourth-quarter fiscal 2019 sales increased on a year-over-year basis, despite missing the Zacks Consensus Estimate. Total revenues rose 1.3% to \$4,538 million driven by gains in its full-price and off-price businesses. Growth in the full-price and off-price businesses were driven by benefits from loyalty program, digital channel and merchandise assortment. The company's full-price net sales (including the U.S. full-line stores, Nordstrom.com, the Canadian operation, Trunk Club, Jeffrey and Nordstrom Local) increased 1% in the fiscal fourth quarter. Further, its off-price net sales (including Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores) grew 1.8%. For fiscal 2020, Nordstrom projects net sales to increase in the range of 1.5-2.5%.

Nordstrom is making smooth progress with respect to its customer-based strategy and remains on track to accomplish financial goals. In addition, the company's store-growth strategy bode well.

▲ **Store Expansion and Market Strategy:** Nordstrom has been persistently focusing on the store-expansion strategy as part of its efforts to grow market share. The company remains keen on prioritizing its investments in the top North American markets. The opening of new stores is not only expected to attract customers but also boost the company's top line via synergies across other channels. Moreover, the company has been progressing well with expansion in Canada. Overall, it envisions a \$1-billion sales opportunity from its expansion in Canada by 2020, including six planned full-line stores and 15 Rack stores. Furthermore, management remains keen on domestic store expansion.

In 2019, the company expanded its market strategy to five top markets — New York, Los Angeles, Chicago, Dallas and San Francisco. This resulted in outsized customer engagement and a lift in sales trends of 80 basis points relative to other markets in the fiscal fourth quarter. Further, the company plans to expand its market strategy through several key initiatives, which include expanding to five additional markets. It plans to launch e-commerce in Canada to enable a seamless shopping experience across stores and online. Moreover, it has been receiving strong customer response for its NYC flagship store.

▲ **Long-Term Growth Strategy:** Nordstrom's significant progress on its customer-based strategy places it well to reach the revenue target of \$20 billion by fiscal 2020. This strategy focuses on three strategic factors — leveraging its brand strength, providing excellent services and offering compelling products to its customers. Notably, Nordstrom is focused on advancing in the technology space, by boosting e-commerce and digital networks, and improving its supply-chain channels and marketing efforts. Digital sales advanced 9% in fourth-quarter fiscal 2019. This represents 35% of the company's business, up 200 basis points (bps) year over year. The company benefited from online order pickup, which contributed more than half of digital sales growth in full-price stores.

Nordstrom also continued to expand its loyalty program in the fiscal fourth quarter, as the Nordy Club had about 13 million active customers, contributing about two-thirds of its sales in 2019. With regard to cost savings, the company plans to strike a balance between sales and expense growth. In fiscal fourth quarter, it realized cost saving of \$55 million. In fiscal 2019, the company accomplished \$225 million in cost savings and plans to realize nearly \$200-\$250 million in fiscal 2020. We believe these efforts will help Nordstrom to deliver sustainable growth over the long term.

▲ **Shareholder-Friendly Moves:** Nordstrom's constant shareholder-friendly moves via dividend payouts and share buybacks are quite encouraging. The company bought back 4.1 million shares for \$186 million in fiscal 2019. It has authorization worth of nearly \$707 million remaining to be repurchased under the current program. Additionally, it paid out cash dividends worth \$229 million in the same time frame. Moreover, it declared a quarterly cash dividend of 37 cents per share, payable on Mar 25, 2020 to shareholders of record as on Mar 10. Furthermore, the company expects to increase its free cash flow by 2.5 times compared to fiscal 2019. The company projects share repurchases of \$300-\$400 million in fiscal 2020.

Reasons To Sell:

- ▼ **Dismal Q4 Results, Stock Underperforms:** Shares of Nordstrom have declined 18.3% so far in this year, wider than the industry's decline of 14.1%. The company posted dismal fourth-quarter fiscal 2019 results, wherein sales and earnings missed the Zacks Consensus Estimate. Notably, the company's bottom line missed estimates after surpassing the consensus mark in the last two quarters. Also, earnings declined 4.1% on a year-over-year basis due to increase in SG&A expenses and higher interest expenses.
- ▼ **Muted FY20 Earnings Projection:** Management provided guidance for 2020, which was lower than analyst expectations. The company's guidance does not include the impacts of coronavirus outbreak. Nordstrom projects earnings per share in the range of \$3.25-\$3.50 for fiscal 2020. Key assumptions for the soft earnings view include gross profit deleverage due to higher occupancy costs from the investments in fiscal 2020. Further, the company expects interest expense of about \$120 million, which should weigh on profits.
- ▼ **Higher Expenses Remain Short-Term Hurdles:** Nordstrom's aforementioned growth strategy focused on enhancement of digital experience and increased investments in supply chain bode well for the long term. However, investments related to occupancy, technology, store openings, supply chain and marketing are resulting in higher operating expenses. Selling, general and administrative (SG&A) expenses, as a percentage of sales, grew 70 bps to 30.5%. Excluding integration charges, expenses remained flat in the fourth quarter of fiscal 2020. Going forward, management expects to further make investments in its market strategy, including additional Nordstrom locals and digital capabilities. All these expenses might weigh on the company's margins and overall profits in the near term.
- ▼ **Competitive Pressure:** Nordstrom operates in a highly fragmented specialty retail sector and faces intense competition from other well-established players such as The Gap Inc., Limited Brands Inc., Abercrombie & Fitch Co. and Saks Inc. The company primarily competes on the basis of fashion, quality and service. To retain its existing market share, the company may have to reduce its sales prices, which in turn can affect its margins.

Higher investments in occupancy, technology, store openings, supply chain and marketing are leading to higher expenses. These might hurt Nordstrom's margins and profits in the near term.

Last Earnings Report

Nordstrom Q4 Earnings & Sales Lag Estimates

Nordstrom reported dismal fourth-quarter fiscal 2019 results, wherein sales and earnings missed the Zacks Consensus Estimate. Notably, the company's bottom line missed estimates after surpassing the consensus mark in the last two quarters. Also, earnings declined on a year-over-year basis. Management provided guidance for fiscal 2020.

Q4 Highlights

Nordstrom's earnings of \$1.42 per share missed the Zacks Consensus Estimate of \$1.48 and declined 4.1% on a year-over-year basis. This downside was due to increase in SG&A expenses and higher interest expenses.

Total revenues rose 1.3% to \$4,538 million but missed the Zacks Consensus Estimate of \$4,568 million. The company witnessed improved top-line trends in its full-price and off-price businesses, driven by gains from loyalty program, digital channel and merchandise assortment. The company's net Retail sales grew 1.3% to \$4,439 million, while Credit Card net revenues declined 2% to \$99 million.

Furthermore, Nordstrom's full-price net sales (including the U.S. full-line stores, Nordstrom.com, the Canadian operation, Trunk Club, Jeffrey and Nordstrom Local) increased 1% to \$3,015 million in the fiscal fourth quarter. The company's off-price net sales (including Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores) grew 1.8% to \$1,424 million.

Meanwhile, digital sales advanced 9% in the reported quarter. This represents 35% of the company's business, up 200 basis points (bps) year over year. The company benefited from online order pickup, which contributed more than half of digital sales growth in full-price stores.

Nordstrom also continued to expand its loyalty program in the fiscal fourth quarter, as the Nordy Club had about 13 million active customers, contributing about two-thirds of its sales in 2019.

Operational Update

Nordstrom's gross profit margin contracted 9 bps to 35%. This downside was due to higher costs from expansion of the loyalty program and planned occupancy costs related to the NYC flagship store, partly offset by improved merchandise margins. Ending inventory declined 2.9% from last year, marking four repeated quarters of sales growing faster than inventory.

Selling, general and administrative (SG&A) expenses, as a percentage of sales, grew 70 bps to 30.5%. Excluding integration charges, expenses remained flat due to realized expense savings of about \$55 million from ongoing productivity initiatives.

Further, earnings before interest and taxes (EBIT), as a percentage of net sales contracted 90 bps to 6.7%. Excluding integration charges of \$32 million, EBIT margin declined slightly compared to prior year.

Store Update

As of Feb 1, 2020, Nordstrom operated 380 stores across 40 states. These include 116 full-line stores in the United States, Canada and Puerto Rico, 248 Nordstrom Rack outlets, three Jeffrey boutiques, two clearance stores, six Trunk Club clubhouses as well as five Nordstrom Local service concepts.

Other Financials

Nordstrom ended fiscal 2019 with cash and cash equivalents of \$853 million, long-term debt (net of current liabilities) of \$2,676 million and total shareholders' equity of \$979 million.

Nordstrom generated \$1,236 million of net cash from operating activities and spent \$935 million as capital expenditures in fiscal 2019. At the end of fiscal 2019, it had free cash flow of \$309 million.

Moreover, the company bought back 4.1 million shares for \$186 million in fiscal 2019. It had authorization worth of nearly \$707 million remaining to be repurchased under the current program. Additionally, it paid out cash dividends worth \$229 million in the same time frame. Moreover, it declared a quarterly cash dividend of 37 cents per share. This will be payable on Mar 25, 2020, to its shareholders of record as on Mar 10.

Other Strategies

Nordstrom's market strategy leverages physical and digital assets to offer customers a greater selection of merchandise available next day and more convenient access to services. In 2019, the company enhanced its strategy to five top markets — New York, Los Angeles, Chicago, Dallas and San Francisco. This resulted in outsized customer engagement and a lift in sales trends of 80 basis points relative to other markets in the fiscal fourth quarter.

Further, the company plans to expand its market strategy through several key initiatives, which include expanding to five additional markets. Also, it plans to launch e-commerce in Canada to enable a seamless shopping experience across stores and online. Moreover, it has been receiving strong customer response for its NYC flagship store.

FY20 Guidance

Management provided guidance for fiscal 2020, which does not include the impacts of coronavirus outbreak. Nordstrom projects net sales to increase in the range of 1.5-2.5%. Credit card revenues, net, are expected to grow in mid single digit.

Quarter Ending **01/2020**

Report Date	Mar 03, 2020
Sales Surprise	-0.65%
EPS Surprise	-4.05%
Quarterly EPS	1.42
Annual EPS (TTM)	3.36

Further, the company expects EBIT of \$815-\$855 million, with EBIT margin of 5.3-5.5%. Nordstrom envisions earnings per share of \$3.25-\$3.50 for fiscal 2020.

Recent News

Nordstrom Declares Dividend – Feb 27, 2020

Nordstrom announced a quarterly cash dividend of 37 cents per share, which is payable on Mar 25, 2020, to its shareholders of record as on Mar 10.

Valuation

Nordstrom shares are down 18.3% in the year-to-date period and 26.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 15.7% and 3.4%, respectively in the year-to-date period. Over the past year, the Zacks sub-industry is down 39.7% but the sector is up 6.3%.

The S&P 500 index is down 7.1% in the year-to-date period but up 6.3% in the past year.

The stock is currently trading at 9.6X forward 12-month earnings, which compares to 10.65X for the Zacks sub-industry, 23.77X for the Zacks sector and 17.15X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.44X and as low as 7.46X, with a 5-year median of 15.05X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$35 price target reflects 10.05X forward 12-month earnings.

The table below shows summary valuation data for JWN

Valuation Multiples - JWN					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.6	10.65	23.77	17.15
	5-Year High	21.44	18.38	26.19	19.34
	5-Year Low	7.46	10.23	19.06	15.18
	5-Year Median	15.05	14.22	23.08	17.44
P/S F12M	Current	0.33	0.52	0.99	3.16
	5-Year High	1.07	1.34	1.11	3.43
	5-Year Low	0.25	0.52	0.8	2.54
	5-Year Median	0.52	0.81	0.92	3.01
EV/EBITDA TTM	Current	6.16	7.99	14.45	10.93
	5-Year High	10.23	8.9	15.92	12.88
	5-Year Low	4.78	4.71	10.8	8.49
	5-Year Median	6.48	6.76	12.48	10.79

As of 03/03/2020

Industry Analysis Zacks Industry Rank: Top 35% (88 out of 255)



Top Peers

Macys, Inc. (M)	Outperform
Dillards, Inc. (DDS)	Neutral
J. C. Penney Company, Inc. (JCP)	Neutral
Kohls Corporation (KSS)	Neutral
Ross Stores, Inc. (ROST)	Neutral
The TJX Companies, Inc. (TJX)	Neutral
Vera Bradley, Inc. (VRA)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	JWN Neutral	X Industry	S&P 500	DDS Neutral	JCP Neutral	M Outperform
VGM Score	D	-	-	A	A	A
Market Cap	5.19 B	646.10 M	21.37 B	1.44 B	211.49 M	3.91 B
# of Analysts	9	3	13	5	6	7
Dividend Yield	4.43%	0.00%	2.04%	1.03%	0.00%	11.94%
Value Score	B	-	-	A	A	A
Cash/Price	0.09	0.15	0.05	0.20	1.75	0.17
EV/EBITDA	6.48	7.39	12.65	4.36	7.88	5.14
PEG Ratio	1.54	1.00	1.87	NA	NA	0.68
Price/Book (P/B)	6.10	1.34	2.96	0.89	0.26	0.61
Price/Cash Flow (P/CF)	4.67	5.45	11.68	4.36	0.74	2.07
P/E (F1)	9.21	10.59	16.98	16.40	NA	5.08
Price/Sales (P/S)	0.33	0.41	2.44	0.23	0.02	0.16
Earnings Yield	10.41%	8.91%	5.87%	6.11%	-106.06%	19.68%
Debt/Equity	5.37	0.93	0.70	0.37	5.65	1.03
Cash Flow (\$/share)	7.15	1.44	7.01	13.37	0.90	6.12
Growth Score	F	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	-0.69%	-0.69%	10.85%	-8.57%	NA	-1.84%
Proj. EPS Growth (F1/F0)	3.13%	6.84%	6.36%	-14.72%	12.92%	-14.43%
Curr. Cash Flow Growth	10.55%	8.78%	6.07%	-16.01%	10.38%	-15.88%
Hist. Cash Flow Growth (3-5 yrs)	1.16%	-0.99%	8.52%	-10.66%	28.85%	-6.32%
Current Ratio	0.90	1.44	1.23	1.99	1.41	1.18
Debt/Capital	84.31%	51.30%	42.57%	26.96%	84.96%	50.63%
Net Margin	3.20%	2.55%	11.57%	1.77%	-2.40%	2.30%
Return on Equity	69.79%	10.96%	16.66%	6.15%	-27.83%	14.47%
Sales/Assets	1.59	1.30	0.54	1.73	1.34	1.15
Proj. Sales Growth (F1/F0)	1.76%	1.93%	4.01%	-0.38%	-5.67%	-3.19%
Momentum Score	C	-	-	F	A	D
Daily Price Chg	-2.85%	-1.70%	-2.60%	1.00%	-4.62%	-2.62%
1 Week Price Chg	-14.41%	-10.51%	-12.06%	-9.56%	-3.50%	-18.48%
4 Week Price Chg	-12.69%	-15.94%	-10.01%	-3.78%	-7.54%	-23.19%
12 Week Price Chg	-14.32%	-16.62%	-7.46%	-18.46%	-43.51%	-19.63%
52 Week Price Chg	-26.23%	-25.44%	2.54%	-18.64%	-60.66%	-48.09%
20 Day Average Volume	2,708,340	319,879	2,406,738	412,881	7,329,004	13,504,098
(F1) EPS Est 1 week change	-0.06%	0.00%	0.00%	-0.60%	20.29%	1.36%
(F1) EPS Est 4 week change	0.64%	-0.03%	-0.06%	-8.94%	20.11%	7.79%
(F1) EPS Est 12 week change	2.09%	0.00%	-0.39%	-4.79%	19.18%	8.58%
(Q1) EPS Est Mthly Chg	-20.59%	-3.84%	-0.45%	3.69%	7.89%	-26.86%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	F
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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