

Nordstrom, Inc. (JWN)

\$40.34 (As of 01/17/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 07/22/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:D

Value: C

Growth: F

Momentum: A

Summary

Shares of Nordstrom have outperformed the industry in the past three months driven by its strategic endeavors. Its omni-channel expansion efforts and customer-based strategy also bode well. Moreover, the company delivered impressive results in third-quarter fiscal 2019, wherein the top and bottom lines beat the Zacks Consensus Estimate. Moreover, its bottom line rose 20.9%, courtesy of effective inventory management and cost-containment efforts. Also, the company witnessed improved top-line trends in its full-price and off-price businesses, thanks to solid gains from loyalty program, digital channel and merchandise assortment. It also raised the lower end of earnings view for fiscal 2019. However, its sales are expected to decline 2%. Increased spending for store openings, technology and supply chain are added concerns.

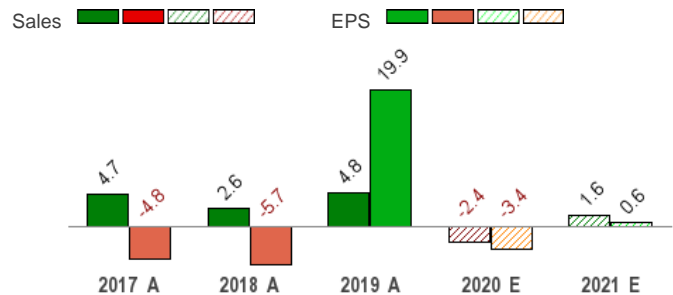
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$48.87 - \$25.01
20 Day Average Volume (sh)	2,374,480
Market Cap	\$6.3 B
YTD Price Change	-1.4%
Beta	0.76
Dividend / Div Yld	\$1.48 / 3.7%
Industry	Retail - Apparel and Shoes
Zacks Industry Rank	Top 33% (83 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	24.6%
Last Sales Surprise	0.9%
EPS F1 Est- 4 week change	0.7%
Expected Report Date	03/04/2020
Earnings ESP	4.2%
P/E TTM	11.8
P/E F1	11.8
PEG F1	2.0
P/S TTM	0.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	3,513 E	3,917 E	3,717 E	4,625 E	15,726 E
2020	3,443 A	3,872 A	3,672 A	4,575 E	15,482 E
2019	3,561 A	4,067 A	3,748 A	4,484 A	15,860 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.37 E	\$0.86 E	\$0.78 E	\$1.48 E	\$3.45 E
2020	\$0.23 A	\$0.90 A	\$0.81 A	\$1.49 E	\$3.43 E
2019	\$0.51 A	\$0.95 A	\$0.67 A	\$1.48 A	\$3.55 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 01/17/2020. The reports text is as of 01/20/2020.

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.

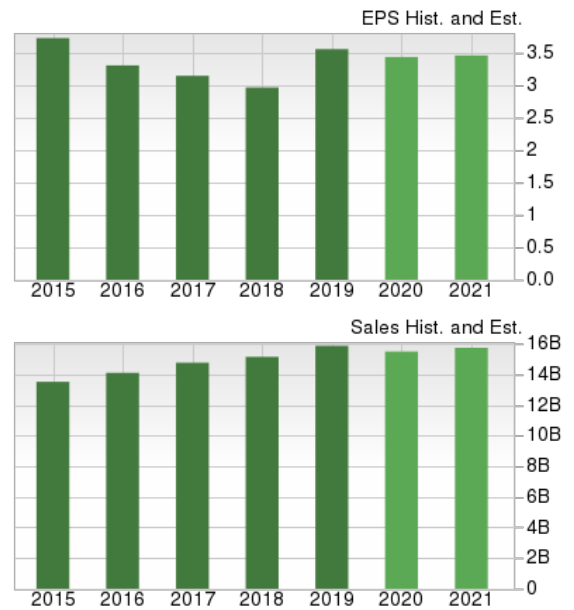
Meanwhile, the company offers high-quality apparel, shoes, cosmetics and related accessories for men, women, young adults and children through a variety of channels. These channels are namely, Nordstrom branded full-line stores; Nordstrom Rack stores; Jeffrey boutiques; clearance stores under the Last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

Moreover, 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 the company's 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 Nov 21, 2019, Nordstrom operated 381 stores across 40 states. These include 116 full-line stores in the United States, Canada and Puerto Rico, 249 Nordstrom Rack outlets, three Jeffrey boutiques, two clearance stores, six Trunk Club clubhouses as well as five Nordstrom Local service concepts.



Reasons To Buy:

▲ **Solid Q3 Results:** Shares of Nordstrom have gained 13% in the past three months, outperforming the industry's 8.2% rally. The company delivered impressive results in third-quarter fiscal 2019, wherein the top and bottom lines outshined the Zacks Consensus Estimate. Notably, earnings marked second consecutive beat, sales reverted to positive after three straight quarters of miss. Moreover, its bottom line rose 20.9%, driven by effective inventory management and robust cost-containment efforts. Also, the company witnessed improved top-line trends in its full-price and off-price businesses, thanks to solid gains from loyalty program, digital channel and merchandise assortment. While improved economics of the Anniversary event boosted merchandise margins across Nordstrom's full-price business, its off-price division delivered improved inventory turns for the eighth straight quarter.

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:** 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, the company 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. Driven by Nordstrom's market strategy in Los Angeles, sales growth outperformed the company's other markets by nearly 100 bps in the fiscal third quarter. Encouragingly, management expanded this strategy to New York, San Francisco, Chicago and Dallas to offer products with same-day pickup or next-day delivery. Furthermore, the company has been receiving strong customer response for its NYC flagship store. Opening of this NYC flagship store has aided the company to achieve an important milestone, and considerably fortify its presence in the world's top retail market.

▲ **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 the company's 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. Notably, digital sales advanced 7% in third-quarter fiscal 2019. This represents 34% of the company's net sales, up 300 basis points (bps) year over year. Nordstrom also continued to expand its loyalty program, as the Nordy Club had about 12 million active customers, representing 13% growth year over year and 65% of quarterly sales. With regard to cost savings, the company plans to strike a balance between sales and expense growth. Apparently, the company accomplished \$170 million in cost savings and remains ahead of its plans to realize nearly \$150-\$200 million in fiscal 2019. 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 payments and share buybacks are quite encouraging. The company bought back 4.1 million shares for \$186 million in the first nine months of fiscal 2019. Following this, nearly \$707 million remained outstanding under its current buyback authorization. Additionally, it paid out cash dividends worth \$172 million in the first nine months of fiscal 2019. Moreover, Nordstrom declared a quarterly cash dividend of 37 cents per share, which is payable on Dec 16, 2019. Furthermore, the company issued \$500-million senior unsecured 10-year notes. Management expects this to be a leverage-neutral transaction as the proceeds will be used to completely retire its May 2020 notes.

Reasons To Sell:

- ▼ **Bleak Outlook:** Although management raised the lower end of earnings per share view to \$3.30-\$3.50 for fiscal 2019, the mid-point of the guided range is still below \$3.55 earned in fiscal 2018. Earlier, the company had anticipated earnings per share in the band of \$3.25-\$3.50. Moreover, Nordstrom projects net sales to decrease nearly 2% in the current fiscal year. Gross margin for fiscal 2019 is expected to be relatively flat, owing to deleverage from occupancy costs for the New York City Flagship. Further, merchandise margin in the fiscal fourth quarter is expected to be flat driven by continued promotional environment.
- ▼ **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 expenses. Excluding the credit-related charge of \$72 million in 2018, expenses deleveraged by roughly 60 bps in the fiscal third quarter on account of pre-opening costs related to the New York City flagship store. 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 Beats Q3 Earnings & Sales, Revises View

Nordstrom reported better-than-expected earnings and sales for third-quarter fiscal 2019. While the company's bottom line marked second consecutive beat, the top line reverted to positive after three straight quarters of miss. Moreover, management raised the lower end of its earlier guided bottom-line view.

Quarterly earnings surpassed management's expectations, thanks to the company's smooth progress on strategic efforts and operational discipline. Also, 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. Year to date, the company accomplished \$170 million in cost savings and remains ahead of its plans to realize nearly \$150-\$200 million in the current fiscal year.

Quarter Ending **10/2019**

Report Date	Nov 21, 2019
Sales Surprise	0.85%
EPS Surprise	24.62%
Quarterly EPS	0.81
Annual EPS (TTM)	3.42

Q3 Highlights

In the quarter under review, Nordstrom's earnings of 81 cents per share outshined the Zacks Consensus Estimate of 65 cents. Moreover, the bottom line rose 20.9% from the year-ago quarter's adjusted earnings of 67 cents per share. Continued strength in the inventory execution coupled with robust cost-containment efforts fueled the bottom-line growth.

However, total quarterly revenues fell 2% to \$3,672 million but surpassed the Zacks Consensus Estimate of \$3,641 million. While the company's net Retail sales dropped 2.2% to \$3,566 million, Credit Card net revenues advanced 6% to \$106 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) decreased 4.1% to \$2,270 million in the fiscal third quarter. The company's off-price net sales (including Nordstrom U.S. Rack stores, Nordstromrack.com/HauteLook and Last Chance clearance stores) grew 1.2% to \$1,296 million.

Notably, improved economics of the Anniversary event boosted merchandise margins across Nordstrom's full-price business. Moreover, its off-price division delivered impressive sales and earnings as well as improved inventory turns for the eighth straight quarter.

Meanwhile, digital sales advanced 7% in the reported quarter. This represents 34% of the of the company's business, up 300 basis points (bps) year over year.

Nordstrom also continued to expand its loyalty program in the fiscal third quarter, as the Nordy Club had about 12 million active customers, representing growth of 13% year over year and 65% of quarterly sales.

Driven by Nordstrom's market strategy in Los Angeles, sales growth outperformed the company's other markets by nearly 100 bps in the fiscal third quarter.

Encouragingly, management expanded this strategy to New York, San Francisco, Chicago and Dallas to offer products with same-day pickup or next-day delivery. Furthermore, the company has been receiving strong customer response for its NYC flagship store.

Operational Update

Nordstrom's gross profit margin expanded 100 bps to 34.3%. This upside was mainly on account of lower markdowns from inventory discipline in the off-price business and increased sell-through of products in the full-price business during the Anniversary event.

Selling, general and administrative (SG&A) expenses, as a percentage of sales, declined 132 bps to 31.8%.

Excluding the credit-related charges of \$72 million in the year-ago period, expenses deleveraged by roughly 60 bps on account of pre-opening costs related to the New York City flagship store.

Further, earnings before interest and taxes (EBIT), as a percentage of net sales expanded 250 bps to 5.4%. Excluding the credit-related charges in the year-ago period, the EBIT margin rose nearly 50 bps.

Store Update

As of Nov 21, 2019, Nordstrom operated 381 stores across 40 states. These include 116 full-line stores in the United States, Canada and Puerto Rico, 249 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 the fiscal third quarter with cash and cash equivalents of \$487 million, long-term debt (net of current liabilities) of \$2,679 million and total shareholders' equity of \$851 million.

Nordstrom generated \$569 million of net cash by operating activities and spent \$741 million as capital expenditures during the first nine months of fiscal 2019.

At the end of the fiscal third quarter, it had negative free cash flow of \$114 million.

Moreover, the company bought back 4.1 million shares for \$186 million in the first nine months of fiscal 2019. Following this, it had authorization worth of nearly \$707 million remaining to be repurchased under the current program.

Additionally, it paid cash dividends worth \$172 million in the same time frame. Moreover, it declared a quarterly cash dividend of 37 cents per share. This will be payable Dec 16, 2019, to its shareholders of record as on Nov 29.

Furthermore, the company issued \$500-million senior unsecured 10-year notes. Management expects this to be a leverage-neutral transaction as the proceeds will be used to completely retire its May 2020 notes.

FY19 Guidance

Following the quarterly performance, management revised guidance for fiscal 2019.

Nordstrom projects net sales to decrease nearly 2%. Credit card revenues, net, are expected to grow in mid single-digit, compared with the earlier growth projection of low to mid-single digits.

Further, the company now expects EBIT of \$815-\$855 million with EBIT margin of 5.4-5.6%. Earlier, management expected EBIT of \$805-\$855 million with EBIT margin of 5.3-5.6%.

Consequently, the company now envisions earnings per share of \$3.30-\$3.50 for fiscal 2019 versus \$3.25-\$3.50 mentioned earlier, and \$3.55 earned last fiscal.

Recent News

Nordstrom Declares Dividend – Nov 21, 2019

Nordstrom announced a quarterly cash dividend of 37 cents per share, which is payable Dec 16, 2019, to shareholders of record as of Nov 29.

Valuation

Nordstrom shares are down 15.1% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry are down 24.4% but the Zacks Retail-Wholesale sector is up 18.2%.

The S&P 500 index is up 23.8% in the past year.

The stock is currently trading at 11.68X forward 12-month earnings, which compares to 11.9X for the Zacks sub-industry, 25.66X for the Zacks sector and 19.2X 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 15.21X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 12.16X 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	11.68	11.9	25.66	19.2
	5-Year High	21.44	18.38	26.23	19.34
	5-Year Low	7.46	10.23	19.07	15.17
	5-Year Median	15.21	14.26	22.95	17.44
P/S F12M	Current	0.4	0.62	1.09	3.57
	5-Year High	1.12	1.31	1.11	3.57
	5-Year Low	0.25	0.55	0.8	2.54
	5-Year Median	0.52	0.82	0.91	3
EV/EBITDA TTM	Current	6.71	8.7	15.47	12.12
	5-Year High	10.23	9.29	15.47	12.86
	5-Year Low	4.78	4.76	10.37	8.48
	5-Year Median	6.49	6.92	12.38	10.67

As of 01/17/2020

Industry Analysis Zacks Industry Rank: Top 33% (83 out of 254)



Top Peers

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

Industry Comparison Industry: Retail - Apparel And Shoes				Industry Peers		
	JWN Neutral	X Industry	S&P 500	DDS Neutral	JCP Neutral	M Neutral
VGM Score	D	-	-	B	C	C
Market Cap	6.26 B	890.98 M	24.65 B	1.77 B	271.71 M	5.43 B
# of Analysts	9	3	13	3	4	6
Dividend Yield	3.67%	0.00%	1.73%	0.84%	0.00%	8.59%
Value Score	C	-	-	A	C	A
Cash/Price	0.08	0.13	0.04	0.05	0.49	0.05
EV/EBITDA	7.23	7.88	14.11	4.69	8.76	4.80
PEG Ratio	1.96	1.48	2.08	NA	NA	0.86
Price/Book (P/B)	7.36	1.75	3.39	1.11	0.31	0.90
Price/Cash Flow (P/CF)	5.64	5.98	13.81	4.80	1.03	2.40
P/E (F1)	11.76	12.91	19.19	17.11	NA	6.46
Price/Sales (P/S)	0.40	0.48	2.69	0.28	0.02	0.22
Earnings Yield	8.50%	6.71%	5.21%	5.84%	-123.53%	15.48%
Debt/Equity	5.37	1.06	0.72	0.37	5.90	1.24
Cash Flow (\$/share)	7.15	1.60	6.94	14.93	0.83	7.31
Growth Score	F	-	-	C	C	F
Hist. EPS Growth (3-5 yrs)	-0.69%	-0.46%	10.56%	-8.49%	NA	-1.58%
Proj. EPS Growth (F1/F0)	-3.38%	1.75%	7.57%	-31.65%	-11.70%	-34.97%
Curr. Cash Flow Growth	10.55%	9.92%	14.73%	4.90%	-59.25%	6.93%
Hist. Cash Flow Growth (3-5 yrs)	1.16%	-0.29%	9.00%	-7.34%	18.26%	-2.50%
Current Ratio	0.90	1.47	1.24	1.64	1.51	1.28
Debt/Capital	84.31%	52.65%	42.99%	27.11%	85.51%	55.31%
Net Margin	3.57%	2.74%	11.14%	2.03%	-1.92%	3.91%
Return on Equity	70.45%	10.96%	17.16%	7.14%	-24.09%	17.44%
Sales/Assets	1.66	1.33	0.55	1.74	1.39	1.18
Proj. Sales Growth (F1/F0)	-2.42%	0.62%	4.16%	-1.33%	-7.51%	-1.94%
Momentum Score	A	-	-	F	B	B
Daily Price Chg	-0.37%	0.00%	0.27%	2.13%	0.84%	0.23%
1 Week Price Chg	4.69%	-0.72%	0.39%	1.27%	-8.18%	7.74%
4 Week Price Chg	-0.98%	-0.98%	2.95%	1.43%	-22.10%	9.27%
12 Week Price Chg	11.19%	4.56%	7.76%	1.55%	-19.90%	14.16%
52 Week Price Chg	-12.07%	-12.83%	22.29%	11.83%	-37.10%	-29.01%
20 Day Average Volume	2,374,480	284,413	1,536,375	199,664	8,342,085	13,540,290
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-1.94%	0.49%
(F1) EPS Est 4 week change	0.65%	0.00%	0.00%	-0.16%	-0.48%	3.69%
(F1) EPS Est 12 week change	2.62%	0.00%	-0.40%	18.93%	14.11%	-5.74%
(Q1) EPS Est Mthly Chg	0.15%	0.00%	0.00%	-0.25%	-26.14%	5.08%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	C
Growth Score	F
Momentum Score	A
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.

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