



Nordstrom (JWN)

Stock Price: \$44.86

(as of 3/16/21)

William & Mary Stock Pitch Competition 2021

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NORDSTROM

Overview

Nordstrom (an American luxury department store chain that sells shoes, clothes, and accessories) is survivor while competing department retail clothing stores are bankrupt/dying.

Why is Nordstrom thriving?

1. Taking market share from dead and dying competitors
2. Prioritizing customer loyalty (see data on slide 12)
3. Disciplined growth by selecting only quality malls for store expansion
4. Invested management with incentive compatible compensation plans
5. Strong online sales, selling clothing online before Amazon and other competitors

Bankrupt



Neiman Marcus

J.CREW

sears®

Struggling
(>20% stores
closed)



GAP



Dillard's

Thriving



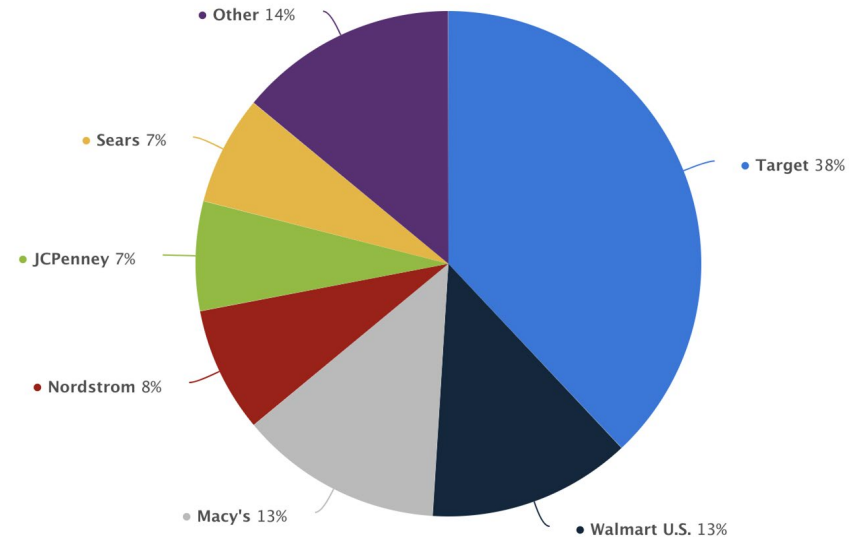
amazon

Recommendation: Buy
Price Target: \$48

Summary: Business Description

- Founded in Seattle, WA in 1901
- Subsidiaries include Nordstrom Rack (outlet store), Trunk Club (subscription styling), and Hautelook (flash sales).
- Nordstrom has a market cap of \$5.72B.
- Current CEO is Erik Nordstrom, running the company since 2020, 4th generation of the family to run the store.
- Nordstrom emphasizes business reinvestment, dividends and share repurchases

Department Stores Market Share



Business Description



Full Price Business:

~ $\frac{2}{3}$ of revenue, with 95% of stores in Class A malls.

100 stores, 70% sales in Top 20 markets

Online = 40% total before covid

\$10B sales, \$1B mobile sales, 20M full price customers

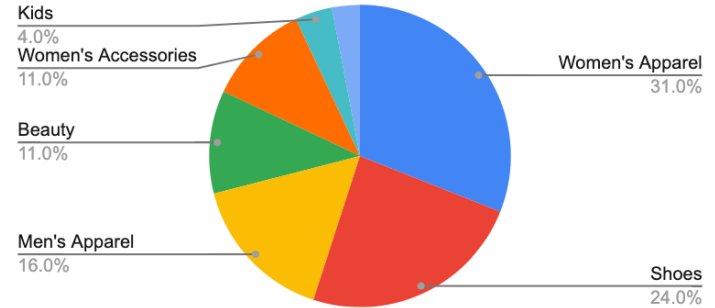
Off Price Business:

~ $\frac{1}{3}$ of revenue

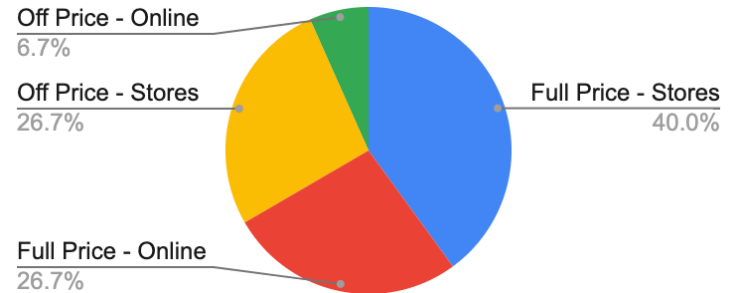
249 stores, 75% sales in Top 20 markets

\$5B sales, online = 20% total before covid

$\frac{1}{3}$ of customers become full price customers



2019 Revenue by Category



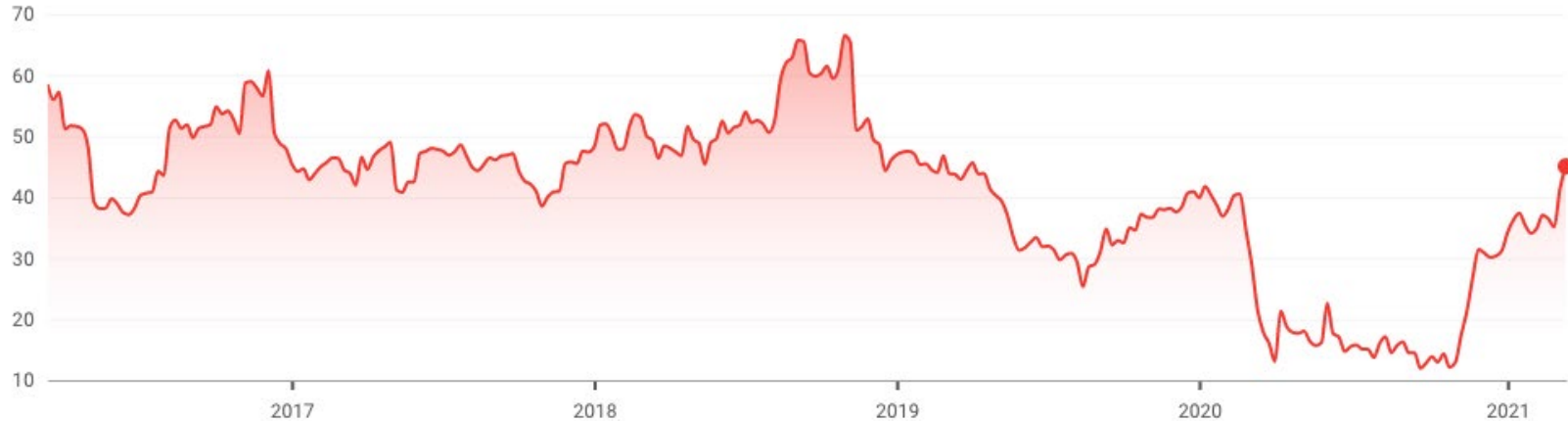
2019 Business Mix

Historical Performance



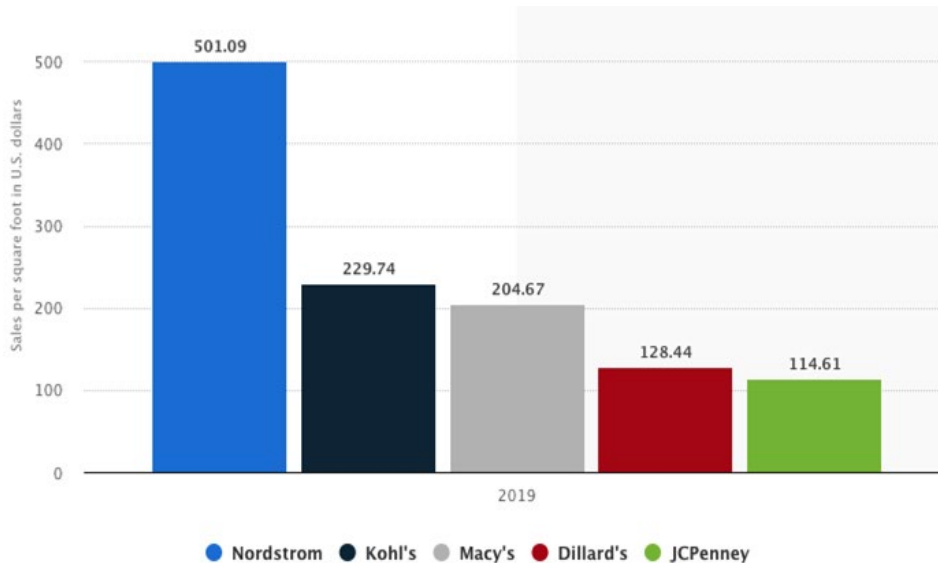
In the last 52 weeks- JWN traded as high as \$46.45 and as low as \$11.72 as of 3/16/21. JWN traded at an all time high of \$82.52 back in March 2015.

The stock has a dividend yield of 3.28%.



Store expansion: Selecting quality malls

Nordstrom is known to operate full price stores specifically in “Class A” malls, which haven’t been as severely affected by pandemic. The company has significantly greater sales value per square foot relative to competitors and fewer store closings.



2019 Sales per square foot

	<u>Current Store Count</u>	<u>Max Store Count (since 2015)</u>	<u>% Change</u>
<u>Nordstrom</u>	348	364	-4.4%
<u>Kohl's</u>	1100	1164	-5.5%
<u>Macy's</u>	576	839	-31.3%
<u>Dillards</u>	285	338	-15.7%
<u>JCPenney*</u>	689	1104	-37.6%
<u>Sears*</u>	36	944	-96.2%
<u>Neiman Marcus*</u>	37	67	-44.8%

*company is bankrupt

Revenue Declines of Department Store Competitors



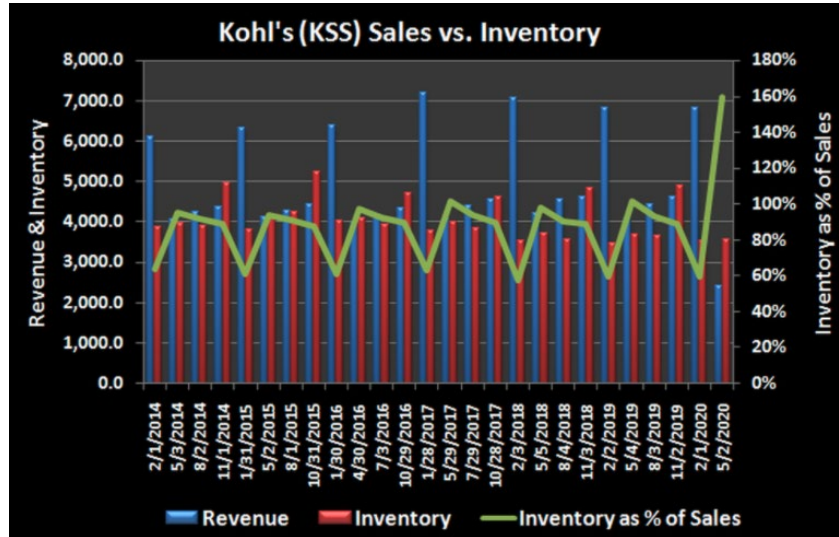
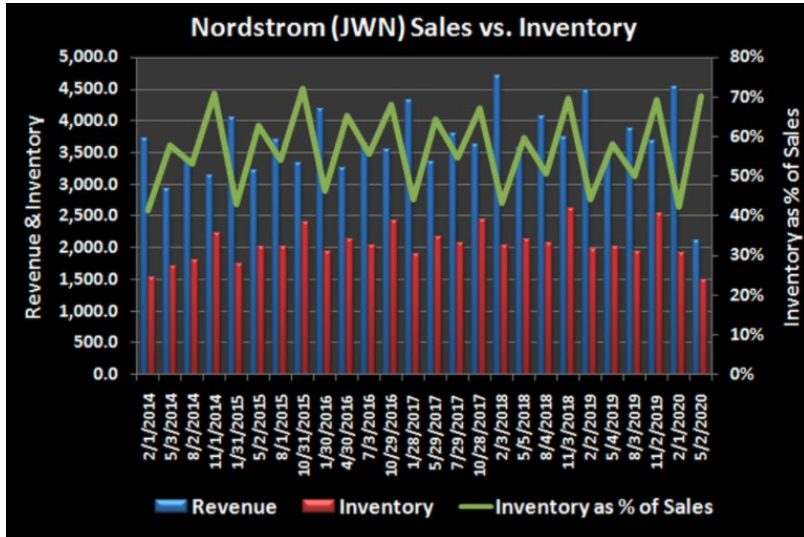
From 2014 -2019 Nordstrom has grown revenue from \$13.51B to \$15.52B. Competitors have seen significant declines or stagnant growth since 2014.

<u>Revenue (Billions)</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	% Change (since 2014)
Nordstrom	\$13.5	\$14.4	\$14.8	\$15.5	\$15.9	\$15.5	14.9%
Kohl's	\$19.9	\$20.2	\$19.7	\$20.1	\$20.2	\$19.9	-0.1%
Macys	\$28.1	\$27.1	\$25.9	\$24.9	\$25.0	\$24.6	-12.6%
Dillard's	\$6.7	\$6.8	\$6.8	\$6.4	\$6.4	\$6.5	-2.8%
JCPenney	\$12.3	\$12.6	\$12.6	\$12.6	\$11.7	\$10.7	-12.6%
Sears	\$31.2	\$25.2	\$22.1	\$14.9	\$8.4	\$6.6	-78.8%
Neiman Marcus	\$4.8	\$5.1	\$4.9	\$4.7	\$4.9	\$4.6	-4.8%

Digital Transformation: Successful Inventory Management

Nordstrom wins through high quality brands and incredible inventory control that competitors can't match.

Nordstrom slashed inventory levels by 26% while Kohl's only did by 3% during 2020. Half of online orders were fulfilled by full price stores while 25% of Nordstrom Rack online orders came from Rack stores.



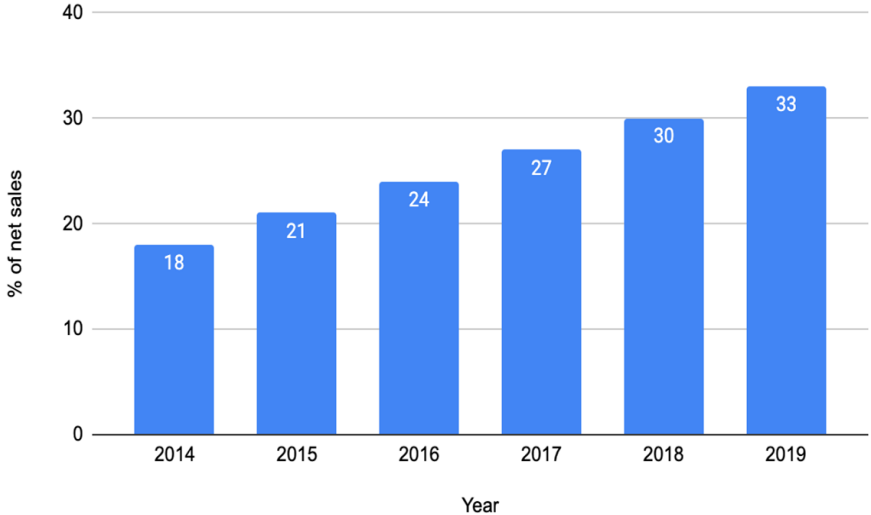
E-Commerce: Selling Retail Clothing Before Amazon



E-commerce currently represents 54% of total sales. Nordstrom has invested in supply chain software and used data driven strategies to be the leader among department stores.

	% of Net Sales					
	2018	2019	20Q1	20Q2	20Q3	20Q4
<u>Nordstrom</u>	30%	33%	35%	61%	54%	54%
<u>Kohl's</u>	21%	24%	45%	41%	32%	42%
<u>Macy's</u>	39%	38%	43%	54%	38%	44%

% Ecommerce Sales



Valuation

Barron's reported (3/12) that a Jefferies analyst initiated a price target of \$48 per share.

- We had picked the company in early Feb.
- The story highlights Nordstrom's ability to function as a speciality department store and an online fashion platform.
- The big department stores were in decline way before the pandemic, and Covid19 online streamlined the losers towards their demise.

Nordstrom Stock Is Up 20% This Year. Here's How It Gains Another 30%.

By [Teresa Rivas](#) March 12, 2021 9:22 am ET

Text size  



Jefferies sees "the makings of transformation" in Nordstrom's model.
Timothy A. Clary/AFP via Getty Images

[Nordstrom](#) shares are higher in early Friday trading, following a bullish report from Jefferies, which argues that the department store is making the right moves for the new retail environment.

Analyst [Stephanie Wissink](#) initiated coverage of Nordstrom (ticker: JWN) with a Buy rating and a \$48 price target. She writes that the company is implementing a hyper-personalized and localized data-driven strategy, and that

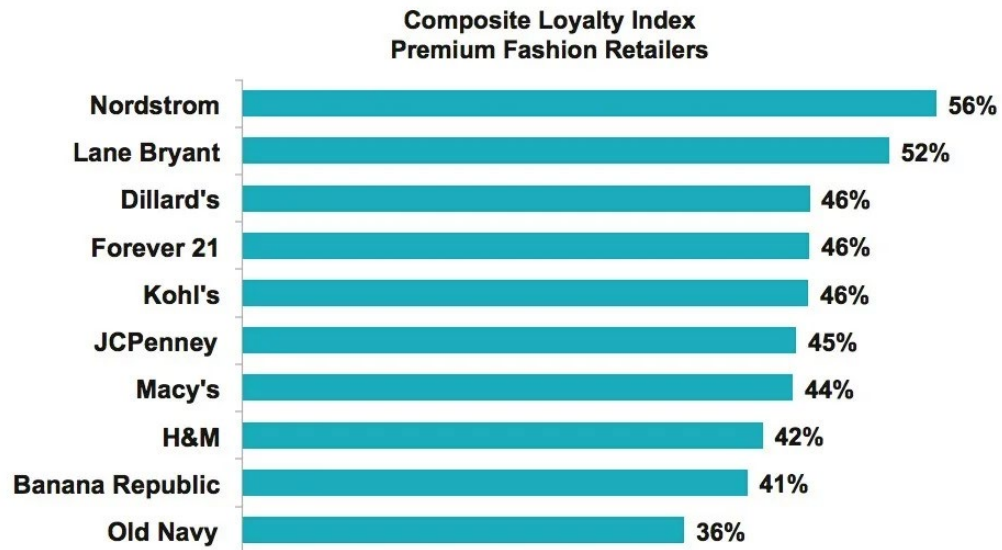
she is "intrigued by the melding of a legacy of curation, forward edge fashion, with unique partnership models."

Wissink sees "the makings of transformation" in Nordstrom's model, especially as its business becomes permanently evenly split between physical stores and e-commerce. She acknowledges that the stock is volatile—as evidenced by a [postearnings selloff](#) earlier this month on higher inventories—so it's difficult to tell how well the company is executing on merchandising, but she thinks that estimates for the company's recovery are achievable, if not beatable.

Conclusion

Nordstrom anticipates the future of retail better than others: It has adapted to a reality that focuses on expanding its off price stores and having a greater online presence.

- According to the American Customer Satisfaction Survey, Nordstrom has ranked at the industry leader for customer satisfaction every year since 1995.
 - As of October 2020, Nordstrom leads internet retailers (with Costco and Etsy) at a score of 80, beating out Amazon



Source: mytotalretail.com, supporting #2 on slide 2

Recommendation: Buy
Price Target: \$48



APPENDIX

Post-Covid Recovery: Opportunities for Growth



Coronavirus has streamlined the demise of retailers with poor balance sheets. Nordstrom has invested in its online infrastructure prior to the pandemic, placing the company in a strong position to last long term.

- 1st retailer in 2021 to share post-pandemic financial outlook
- Outlined growth of 25% and positive operating profits. Long term, Nordstrom sees low single digit percentage from pre pandemic levels in 2019, and operating profits increasing faster than pace of sales.
- Sees a \$3\$4B recovery, utilising stores as fulfillment hubs to reduce shipping costs for its online segment

Risks



1. Consumer buying shifts
2. Retail Apocalypse: department stores sales have been declining for the past decade
3. Limited global presence: locations are only in the US and Canada, economic recessions can be catastrophic
4. Risky Investments: \$500M flagship Manhattan store
5. Competition: Instagram, Stitch Fix, Amazon

Nordstrom (JWN): Executive Summary

Anna Zheng & Zhen Tu

Nordstrom is an American luxury department store chain that sells shoes, clothes, and accessories. While other department retail clothing stores are bankrupt or dying, Nordstrom is thriving and adjusting well to the pandemic. We recommend buying JWN for the long term and a price target of \$48.

Why is Nordstrom thriving?

1. Taking market share from dead and dying competitors
2. Prioritizing customer loyalty
3. Disciplined growth by selecting only quality malls for store expansion
4. Invested management with incentive compatible compensation plans
5. Strong online sales, selling clothing online before Amazon and other competitors

Business Description

Nordstrom was founded in Seattle, WA in 1901 and its subsidiaries include Nordstrom Rack (outlet store), Trunk Club (styling service), and Hautelook (flash sales.)

The company has 100 full price and 249 off price stores. Its full price business represents $\frac{2}{3}$ of revenue, while off price is $\frac{1}{3}$ of revenue. $\frac{1}{3}$ of off price customers eventually become full price customers. Nordstrom's top 3 categories are women's apparel, shoes, and men's apparel, making up 71% of revenue. Nordstrom has a market cap of \$5.72B.

Historical Performance

In the last 52 weeks JWN traded as high as \$46.45 and as low as \$11.72 as of 3/16/21. JWN traded at an all time high of \$82.52 back in March 2015. The stock has a dividend yield of 3.28%.



Management

The current CEO is Erik Nordstrom, who has been in the position since 2020. He is the 4th generation of the family to run the company. In 2019, his base salary was \$756,393, 11% of his total compensation of \$6.87M.

On April 8, 2020, CEO Erik Nordstrom and Chief Brand Officer Peter Nordstrom agreed to take no base salary for at least 6 months.

Competition

Our competition is mainly Kohl's and Macy's. Nordstrom's competitive advantage lies in having a lot of off-price stores, beating Macy's in a higher discount-to-total store ratio. From 2014 -2019 Nordstrom has grown revenue from \$13.51B to \$15.52B., while Kohl's and Macy's have seen declines in revenue by -0.1% and -12.6%, respectively. Nordstrom also wins by managing inventory very well, something its competitors can't match. Nordstrom slashed inventory levels by 26% while Kohl's only did by 3% during 2020.

FINANCIAL PROJECTIONS

Nordstrom is the 1st retailer in 2021 to share a post-pandemic financial outlook. Revenue, including retail sales and credit card revenues, is anticipated to grow more than 25% and EBIT is also predicted to be positive in 2021. Nordstrom has invested in its online infrastructure prior to the pandemic, placing the company in a strong position to last long term. Going forward, Nordstrom expects digital sales to represent approximately 50 percent of total sales. Nordstrom anticipates a \$3-\$4B recovery, using stores as fulfillment hubs to reduce shipping costs for its online segment.