

FLASH REPORT

NORDSTROM (JWN) 4Q16 Results: Solid EPS, Guides Down for FY17

Figure 1. Nordstrom 4Q16 Key Metrics

	4Q16	4Q15	YoY Change
Total Revenues (USD Bil.)	\$4.32	\$4.19	2.9%
Gross Margin	37.0%	35.6%	139 bps
SG&A/Sales	27.2%	27.9%	(74) bps
Operating Margin	9.8%	7.7%	210 bps
Adjusted EPS (USD)	\$1.37	\$1.00	37.5%

Source: Company reports/Fung Global Retail & Technology

- Nordstrom reported 4Q16 adjusted EPS of \$1.37, versus \$1.00 in the year-ago quarter and beating the consensus estimate of \$1.15. The figure includes a \$0.10 nonoperational gain. Revenues were \$4.32 billion, up 2.9% year over year and slightly below the consensus estimate.
- Net sales (excluding credit card revenues) increased by 2.4% and comps decreased by 0.9%. Net sales for the Nordstrom brand (combined with Trunk Club) decreased by 1.1% and comps decreased by 2.7%.
- FY17 guidance was for a 3%–4% revenue increase, flat comps and EPS of \$2.75–\$3.00, below the \$3.07 consensus estimate.

4Q16 Results

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Adjusted EPS was \$1.37, versus \$1.00 in the year-ago quarter and beating the consensus estimate of \$1.15. GAAP EPS was \$1.15, which includes the tax effect of the Trunk Club goodwill impairment. Both figures include a \$0.10 per share nonoperational gain.

Performance by Segment

- For the **Nordstrom brand**, which includes sales from US and Canada full-line stores and Nordstrom.com, net sales (combined with Trunk Club) decreased by 1.1%, and comps decreased by 2.7%. Top-performing categories were women's apparel and beauty. The women's apparel departments focused on younger customers continued to outperform. The East was the top-performing geographic region.
- For the **Nordstrom Rack brand**, which consists of Nordstrom Rack stores and Nordstromrack.com/HauteLook.com, net sales increased by 10.7% and comps increased by 4.3%. As with the Nordstrom brand, the East was the top-performing geographic region in the quarter.

FY16 Results

Full-year 2016 total revenues were \$14.76 billion, up 2.2% from the prior year. Net sales of \$14.5 billion were up 2.9% compared with the prior year. Total comps for the fiscal year decreased by 0.4%.



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Excluding the Trunk Club impairment charge, adjusted EPS was \$3.14, above guidance of \$2.85–\$2.95. GAAP EPS was \$2.02, compared with \$3.15 the prior year.

Management cited several accomplishments in the fiscal year, including:

- Continued expansion into Canada, for a total of five full-line stores, including two Toronto stores that opened in fall 2016 and contributed \$300 million in total sales.
- Nordstrom.com hitting more than \$2.5 billion in sales, representing approximately 25% of full-price sales.
- Nordstrom Rack sales growing by 11%, to \$4.5 billion, driven by 21 new store openings and 32% online growth. Nordstromrack.com/HauteLook.com revenue reached \$700 million, representing more than 15% percent of off-price sales.
- The number of active Nordstrom Rewards customers increased by 56%, to 7.8 million, and Nordstrom Rewards customer purchases represented 44% of sales.

Outlook

For FY17, the company expects the following:

- A 3%–4% increase in net sales (the consensus estimate of \$14.79 billion calls for 4.4% growth).
- Flat comps.
- EPS of \$2.75–\$3.00, below the \$3.07 consensus estimate.

Nordstrom plans to open one new full-line store and 15 new Nordstrom Rack stores, and to relocate two full-line stores and one Nordstrom Rack store in FY17.



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Deborah Weinswig, CPA

Managing Director
Fung Global Retail & Technology
New York: 917.655.6790
Hong Kong: 852.6119.1779
China: 86.186.1420.3016
deborahweinswig@fung1937.com

John Harmon, CFA
Senior Analyst

Hong Kong:

8th Floor, LiFung Tower
888 Cheung Sha Wan Road, Kowloon
Hong Kong
Tel: 852 2300 4406

London:

242–246 Marylebone Road
London, NW1 6JQ
United Kingdom
Tel: 44 (0)20 7616 8988

New York:

1359 Broadway, 9th Floor
New York, NY 10018
Tel: 646 839 7017

FungGlobalRetailTech.com