

NORDSTROM INC
Form 10-K
March 19, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 3, 2018

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
incorporation or organization) (I.R.S. Employer
Identification No.)

1617 Sixth Avenue, Seattle, Washington 98101

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (206) 628-2111

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common stock, without par value New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES NO

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 Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or 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 Act). YES " NO
As of July 28, 2017 the aggregate market value of the Registrant's voting and non-voting stock held by non-affiliates of the Registrant was approximately \$6.4 billion using the closing sales price on that day of \$48.56. On March 12, 2018, 167,790,511 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2018 Annual Meeting of Shareholders scheduled to be held on May 29, 2018 are incorporated into Part III.

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PART I

Item 1. Business.

DESCRIPTION OF BUSINESS

Founded in 1901 as a retail shoe business in Seattle, Nordstrom later incorporated in Washington state in 1946 and went on to become one of the leading fashion retailers based in the U.S. We provide customers with a differentiated and seamless customer experience through our robust ecommerce platform and high-quality store portfolio in top North American markets. As of March 19, 2018, we operate 363 U.S. stores located in 40 states as well as six Nordstrom full-line stores in Canada. The west coast of the U.S. is the area in which we have the largest presence. We have two reportable segments, which include Retail and Credit.

As of March 19, 2018, the Retail segment includes:

- 17 Nordstrom-branded full-line stores in the U.S., including Nordstrom Local
- six Canada full-line stores
- full-price Nordstrom.com website and mobile application
- 235 off-price Nordstrom Rack stores
- off-price Nordstromrack.com/HauteLook website and mobile application
- seven Trunk Club clubhouses and TrunkClub.com website
- two “Last Chance” clearance stores
- two Jeffrey boutiques

Through these multiple retail channels, we strive to deliver the best customer experience possible. We offer an extensive selection of high-quality brand-name and private label merchandise focused on apparel, shoes, cosmetics and accessories.

Our integrated Nordstrom full-line stores and digital store allow us to provide our customers with a seamless shopping experience. In-store purchases are primarily fulfilled from that store’s inventory, but when inventory is unavailable at that store, it may also be shipped to our customers from our fulfillment centers in Cedar Rapids, Iowa and Elizabethtown, Pennsylvania (“East Coast”), or from other Nordstrom full-line stores. Online purchases are primarily shipped to our customers from our Cedar Rapids and East Coast fulfillment centers, but may also be shipped from our Nordstrom full-line stores. We engage with our customers on their terms, blurring the lines between the digital and in-store experience. Our customers can pick up online orders in our Nordstrom full-line stores if inventory is available at one of our locations, or reserve clothes online to try in store in many of our locations. Nordstrom Local is a test retail concept that is focused on services, providing customers convenient access to personal stylists, alterations, online orders and more. We also leverage the expertise of our salespeople to enable customers to receive personalized product recommendations on their mobile phones through our digital Style Board selling tool. These capabilities allow us to better serve customers across various channels and improve sales.

Nordstrom Rack stores purchase merchandise primarily from the same vendors carried in Nordstrom full-line stores and also serve as outlets for clearance merchandise from our Nordstrom stores and other retail channels.

Nordstromrack.com/HauteLook offers a consistent selection of off-price merchandise, as well as limited-time sale events on fashion and lifestyle brands and are integrated with a single customer log-in, shared shopping cart and streamlined checkout process. Nordstromrack.com combines the technology expertise of HauteLook with the merchant expertise of Nordstrom Rack. Online purchases are primarily shipped to our customers from our San Bernardino, California and East Coast fulfillment centers. Furthermore, we can accommodate returns from these sites by mail or at any Nordstrom Rack location.

Through our Credit segment, our customers can access a variety of payment products and services, including a selection of Nordstrom-branded Visa® credit cards in the U.S. and Canada, as well as a Nordstrom-branded private label credit card and a debit card for Nordstrom purchases. When customers use a Nordstrom-branded credit or debit card, they also participate in our loyalty program that provides benefits based on their level of spending. Although the primary purposes of our Credit segment are to foster greater customer loyalty and drive more sales, we also receive credit card revenue through our program agreement with TD Bank, N.A. (“TD”) (see Note 2: Credit Card Receivable

Transaction in Item 8).

We invested early in our omni-channel capabilities, integrating our operations, merchandising and technology across our stores and online, in both our Nordstrom full-price and Nordstrom Rack off-price businesses. Today, we have more than 60 combinations in which merchandise is ordered, fulfilled and delivered. Though this has enabled us to serve customers in multiple ways, we are focused on providing a seamless experience for our customer across stores and online. As a result of the evolution of our operations, our reportable segments have become progressively more integrated such that we will change our reportable segments to one reportable segment to align with how management will view the results of our operations in the first quarter of 2018. For more information about our business and our reportable segments, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 15: Segment Reporting in Item 8.

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FISCAL YEAR

We operate on a 52/53-week fiscal year ending on the Saturday closest to January 31st. References to 2017 relate to the 53-week fiscal year ended February 3, 2018. References to any other years included within this document are based on a 52-week fiscal year.

RETURN POLICY

We have a fair and reasonable approach to returns, handling them on a case-by-case basis with the ultimate objective of making our customers happy. We have no formal return policy on how long we accept returns at our Nordstrom full-line stores or online at Nordstrom.com. Our goal is to take care of our customers, which includes making returns and exchanges easy, whether in stores or online, where we offer free shipping on purchases and returns. Our Nordstrom Rack stores generally accept returns up to 90 days from the date of purchase with the original price tag and sales receipt and accept returns of Nordstromrack.com/HauteLook merchandise. Nordstromrack.com/HauteLook generally accepts returns of apparel, footwear, accessories and HauteLook home products within 90 days from the date of shipment. Beginning in 2018, our off-price channels accept returns 45 days from the date of purchase or shipment.

SEASONALITY

Our business, like that of other retailers, is subject to seasonal fluctuations. Due to our Anniversary Sale in July and the holidays in the fourth quarter, our sales are typically higher in the second and fourth quarters than in the first and third quarters of the fiscal year. Consistent with the timing in 2016, our 2017 Anniversary Sale began in the third week of July and extended one week into the third quarter.

NORDSTROM REWARDS

Our Nordstrom Rewards™ loyalty program, which rewards customers based on their level of spending, is one area that enables us to directly engage and strengthen relationships with customers while driving incremental sales and trips. Upon reaching certain point thresholds, customers receive Nordstrom Notes® (“Notes”), which can be redeemed for goods or services. In May 2016, we expanded the program to any customer interested in participating, when historically this program was offered only to Nordstrom cardholders. Notes can be earned and redeemed at Nordstrom full-line stores, Nordstrom.com, Nordstrom Rack and Nordstromrack.com/HauteLook. Nordstrom cardholders can also earn rewards at Trunk Club. Customers who participate in our Nordstrom Rewards loyalty program through our credit and debit cards receive additional benefits including reimbursements for alterations, Personal Triple Points days, shopping and fashion events and early access to the Anniversary Sale.

COMPETITIVE CONDITIONS

We operate in a highly competitive business environment. We compete with other international, national, regional and local retailers, including internet-based businesses, omni-channel department stores, specialty stores, off-price stores and boutiques, that may carry similar lines of merchandise. Our specific competitors vary from market to market. We believe the keys to competing in our industry are providing great customer service and customer experiences in stores and online. This includes offering compelling price and value, fashion newness, quality of products, selection, convenience, technology, product fulfillment, personalization and appealing, relevant store environments in top locations.

INVENTORY

We plan our merchandise purchases and receipts to coincide with expected sales trends. For instance, our merchandise purchases and receipts increase prior to our Anniversary Sale, which has historically extended over the last two weeks of July. We also purchase and receive a larger amount of merchandise in the fall as we prepare for the holiday shopping season (from late November through December). At Nordstrom Rack, we invest in pack and hold inventory, which involves the strategic purchase of merchandise from some of our full-line stores’ top brands in advance of the upcoming selling seasons, to take advantage of favorable buying opportunities. This inventory is typically held for six months on average and has been an important component of Nordstrom Rack’s inventory strategy.

In order to offer merchandise that our customers want, we purchase from a wide variety of high-quality domestic and foreign suppliers. We also have arrangements with agents and contract manufacturers to produce our private label

merchandise. We expect our suppliers to meet our “Nordstrom Partnership Guidelines,” which address our corporate social responsibility standards for matters such as legal and regulatory compliance, labor, health and safety and the environment. This is available on our website at Nordstrom.com.

EMPLOYEES

During 2017, we employed approximately 72,500 employees on a full- or part-time basis. Due to the seasonal nature of our business, employment increased to approximately 75,000 employees in July 2017 and 76,000 in December 2017. All of our employees are non-union. We believe our relationship with our employees is good.

TRADEMARKS

We have 193 trademarks, each of which is the subject of one or more trademark registrations and/or trademark applications. Our most notable trademarks include Nordstrom, Nordstrom Rack, HauteLook and Trunk Club. Our most notable brand trademarks include Halogen, BP., Nordstrom, Zella, Caslon, Tucker+Tate and 14th & Union. Each of our trademarks is renewable indefinitely, provided that it is still used in commerce at the time of the renewal.

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CAUTIONARY STATEMENT

Certain statements in this Annual Report on Form 10-K 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 2, 2019, 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 to provide a differentiated and seamless experience across all Nordstrom channels,
- timely and effective implementation of our plans to evolve our business model, including development of applications for electronic devices, improvement of customer-facing technology, timely delivery of products purchased digitally, enhancement of inventory management systems, greater and more fluid inventory availability between our digital channels and retail store locations, and greater consistency in marketing and pricing strategies, as well as our ability to manage the costs associated with this evolving business model,
- our ability to evolve our business model as necessary to respond to the business and retail environment, as well as fashion trends and consumer preferences, including changing expectations of service and experience in stores and online,
- our ability to properly balance our investments in existing and new store locations, especially our investments in our Nordstrom Men’s Store NYC and Nordstrom NYC,
- 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 and consumer traffic to the locations,
- efficient and proper allocation of our capital resources,
- effective inventory management processes and systems, fulfillment and supply chain processes and systems,
- disruptions in our supply chain and our ability to control costs,
- 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,
- the effect of the publicly announced exploration by members of the Nordstrom family of a possible “going private transaction” on our relationships with our customers, employees, suppliers and partners, on our operating results and on our 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,
- the effectiveness of planned advertising, marketing and promotional campaigns in the highly competitive and promotional retail industry,
- market fluctuations, increases in operating costs, exit costs and overall liabilities and losses associated with owning and leasing real estate,
- 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,

compliance with debt and operating covenants, availability and cost of credit, changes in our credit rating and changes in interest rates,

the timing, price, manner and amounts of future share repurchases by the Company, if any, or any share issuances by the Company,

Economic and External

the impact of the seasonal nature of our business and cyclical customer spending,

the impact of economic and market conditions and the resultant impact on consumer spending and credit patterns,

the impact of economic, environmental 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 and supply chain 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 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, health care, and tax reforms,

the impact of changes in accounting rules and regulations, changes in our interpretation of the rules or regulations, or changes in underlying assumptions, estimates or judgments.

These and other factors, including those factors described in Item 1A: Risk Factors, 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.

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SEC FILINGS

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (“SEC”). All the materials we file with the SEC are publicly available at the SEC’s Public Reference Room at 100 F Street NE, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

WEBSITE ACCESS

Our website address is Nordstrom.com. Our annual and quarterly reports on Form 10-K and Form 10-Q (including related filings in eXtensible Business Reporting Language (“XBRL”) format), current reports on Form 8-K, proxy statements, our executives’ statements of changes in beneficial ownership of securities on Form 4 and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) are available for free on or through our website as soon as reasonably practicable after we electronically file the report with or furnish it to the SEC. Interested parties may also access a webcast of quarterly earnings conference calls and other financial events through our website.

CORPORATE GOVERNANCE

We have a long-standing commitment to upholding a high level of ethical standards. In addition, as the listing standards of the New York Stock Exchange (“NYSE”) and the rules of the SEC require, we have adopted Codes of Business Conduct and Ethics for our employees, officers and directors (“Codes of Ethics”) and Corporate Governance Guidelines. Our Codes of Ethics, Corporate Governance Guidelines and Committee Charters for the Audit, Compensation, Corporate Governance and Nominating, Finance and Technology Committees are posted on our website. Any amendments to these documents, or waivers of the requirements they contain, will also be available on our website.

For printed versions of these items or any other inquiries, please contact:

Nordstrom Investor Relations
1617 Sixth Avenue, Suite 500
Seattle, Washington 98101
(206) 303-3200
invrelations@nordstrom.com

Item 1A. Risk Factors.

Our business faces many risks. We believe the risks described below outline the items of most concern to us.

RISKS DUE TO STRATEGIC AND OPERATIONAL FACTORS

Our inability to successfully execute our customer strategy or our plans to evolve our business model could negatively impact our business and future profitability and growth.

The retail environment is rapidly evolving with customer shopping preferences continuing to shift to digital channels. Computers and mobile electronic devices allow customers to browse and transact anywhere and anytime. Our customer strategy focuses on providing a differentiated and seamless experience across all Nordstrom channels, whether in store or in the digital environment. We are enhancing our customer shopping experience in our stores and online, including mobile and social channels, by pursuing a heightened focus on digital technology to fuel our growth. Our growth strategies in this area span the development of applications for electronic devices, improvement of customer-facing technology, timely delivery of products purchased digitally, enhancement of inventory management systems, greater and more fluid inventory availability between digital and retail locations, and greater consistency in marketing and pricing strategies. In addition, these strategies will require further expansion and reliance on data science and analytics across all our channels. This business model has a high variable cost structure driven by fulfillment and marketing costs and will continue to require investment in cross-channel operations and supporting technologies.

With the accelerated pace of change in the retail environment, we may not be able to meet our customers' changing expectations of how they shop in stores or through digital channels. If we do not successfully implement and expand our digital initiatives, or do not seamlessly integrate or maintain them properly, we may fall short of our customer's expectations, impacting our brand, reputation, profitability and growth. In addition, if customers shift to digital channels at a different pace than we anticipate, we may need to quickly modify our initiatives and investments, which may adversely impact our profitability and harm our competitive position. We also may not gather accurate and relevant data or effectively utilize that data, which may impact our strategic planning and decision making.

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Our business could suffer if we do not appropriately assess and react to competitive market forces and changes in customer behavior.

We compete with other international, national, regional and local retailers, including internet-based businesses, omni-channel department stores, specialty stores, off-price stores and boutiques, that may carry similar lines of merchandise. Digital channels continue to facilitate comparison shopping, intensifying competition in the retail market. If we fail to adequately anticipate and respond to customer and market dynamics, we may lose market share or our ability to remain competitive, causing our sales and profitability to suffer. If we do not properly allocate our capital between the store and digital environment or between the full-price and off-price channels, or adjust the effectiveness and efficiency of our stores and digital channels, our overall sales and profitability could suffer.

Our customer relationships and sales may be negatively impacted if we do not anticipate and respond to consumer preferences and fashion trends or manage inventory levels appropriately.

Our ability to predict or respond to constantly changing fashion trends, consumer preferences and spending patterns significantly impacts our sales and operating results. If we do not identify and respond to emerging trends in consumer spending and preferences quickly enough, we may harm our ability to retain our existing customers or attract new customers. If we purchase too much inventory, we may be forced to sell our merchandise at lower average margins, which could harm our business. Conversely, if we fail to purchase enough merchandise, we may lose opportunities for additional sales and potentially harm relationships with our customers.

The investment in existing and new store locations, including our Nordstrom Men's Store NYC and Nordstrom NYC, may outpace our expected returns.

The locations of our existing stores and planned store openings are assessed based upon desirability, demographics, and retail environment. This involves certain risks, including properly balancing our capital investments between new stores, relocations, remodels, technology and digital channels, assessing the suitability of locations, especially in new domestic and international markets, and constructing, furnishing and supplying a store in a timely and cost-effective manner. In particular, we plan to open our Nordstrom Men's Store NYC in Spring 2018 and our Nordstrom NYC store in 2019.

Sales at our stores may not meet projections, particularly in light of the changing trends between digital and brick-and-mortar shopping channels, which could adversely affect our return on investment. As we enter into new domestic and international markets, such as Manhattan and Canada, our efforts will require additional management attention and resources and may distract us from executing our core operations.

Even if we take appropriate measures to safeguard our information security and privacy environment from security breaches, our customers and our business could still be exposed to risk.

Nordstrom, our subsidiaries and, in some instances, our third-party vendors collect, store and transmit customers' personal information, consumer preferences and credit card information. In addition, our operations involve the collection, storage and transmission of employee information and our financial and strategic data. Security breaches of this information may be the result of intentional or inadvertent activities by our employees or by third parties with whom we have business relationships that may result in the unauthorized release of customer or employee personal or confidential information.

Any measures we implement to prevent a security or cybersecurity threat may not be completely effective and may have the potential to harm relations with our customers and employees or decrease activity on our websites by making them more difficult to use. In addition, the regulatory environment surrounding information security, cybersecurity and privacy is increasingly demanding, with new and constantly changing requirements.

Security breaches and cyber incidents and their remediation, whether at Nordstrom, our third-party providers or other retailers, could expose us to a risk of loss or misappropriation of this information, litigation, regulatory enforcement action, fines, information technology system failures or network disruptions, potential liability, reputation damage and loss of customers' trust and business, any of which could adversely impact our financial performance. Any such breaches or incidents could subject us to financial losses, investigation, notification and remediation costs, which may not be covered by our insurance policies. If there is additional information that is later discovered related to such

security breach or incident, there could be further loss of shareholders' and customers' trust and business based upon their reactions to this additional information. Additionally, we could be subject to external credit card fraud. To the extent that any incident results in the loss, damage or misappropriation of information, we may be materially adversely affected by claims from our customers, financial institutions, regulators, payment card networks and other third parties.

Our business may be impacted by information technology system failures or network disruptions.

Our ability to transact with customers and operate our business depends on the efficient operation of our computer and communications systems. If we encounter an interruption or deterioration in critical processes or experience the loss of critical data, which may result from natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, security or cybersecurity threats or attacks or third-party or other disruptions, our business could be harmed. Depending on the severity of the failure, our disaster recovery plans may be inadequate or ineffective. These events could also damage our reputation, result in loss of sales and be expensive to remedy.

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Improvements to our merchandise buying and fulfillment processes and systems could adversely affect our business if not successfully executed.

We are making investments to improve our merchandise planning, procurement, allocation and fulfillment capabilities through changes in personnel, processes, location logistics and technology over a period of several years. If we encounter challenges associated with change management, the ability to hire and retain key personnel involved in these efforts, implementation of associated information technology or adoption of new processes, our ability to continue to successfully execute our strategy or evolve our strategy with changes in the retail environment could be adversely affected. As a result, we may not derive the expected benefits to our sales and profitability, or we may incur increased costs relative to our current expectations.

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

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”). The Board of Directors also formed a special committee (the “Special Committee”) comprised of independent directors to act on the Company’s behalf in connection with such exploration by the Group and any possible transaction. In October 2017, the Group informed the Special Committee that the Group has suspended active exploration of a Going Private Transaction for the balance of the year. The Group also informed the Special Committee that it intends to continue its efforts to explore the possibility of making a going private proposal after the conclusion of the holiday season. In March 2018, the Group delivered an indicative proposal to the Special Committee regarding a Going Private Transaction. The Special Committee determined that the price proposed is inadequate. No assurances can be given regarding the terms and details of any such transaction, that any proposal made by the Group, if any, will be accepted by the Special Committee, that definitive documentation relating to a transaction will be executed, or that a transaction will be consummated in accordance with that documentation, if at all. 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. 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 possibility of a Going Private Transaction or any other 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.

Our customer, employee and vendor relationships could be negatively affected if we fail to maintain our corporate culture and reputation.

We have a well-recognized culture and reputation that consumers may associate with a high level of integrity, customer service and quality merchandise, and it is one of the reasons customers shop with us and employees choose us as a place of employment. Any significant damage to our reputation, including factors outside our control or on social media, could diminish customer trust, weaken our vendor relationships, reduce employee morale and productivity and lead to difficulties in recruiting and retaining qualified employees. Additionally, management may not accurately assess the impact of significant legislative changes, including those that relate to privacy, employment matters and health care, impacting our relationship with our customers or our workforce and adversely affecting our sales and operations.

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. We have succession plans in place and our Board of Directors reviews these succession plans. If our succession plans do not adequately cover significant and unanticipated turnover, 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.

Our program agreement with TD could adversely impact our business.

The program agreement with TD was consummated on terms that allow us to maintain customer-facing activities while TD provides Nordstrom-branded payment methods and payment processing services. If we fail to meet certain service levels, TD has the right to assume certain individual servicing functions. If we lose control of such activities and functions, if we do not successfully respond to potential risks and appropriately manage potential costs associated with the program agreement with TD, or if these transactions negatively impact the customer service associated with our cards, resulting in harm to our business reputation and competitive position, our operations, cash flows and returns to shareholders could be adversely affected. If TD became unwilling or unable to provide these services or if there are changes to the risk management policies implemented under our program agreement with TD, our results may be negatively impacted.

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Ownership and leasing real estate exposes us to possible liabilities and losses.

We own or lease the land and/or buildings for all of our stores and are therefore subject to all of the risks associated with owning and leasing real estate. In particular, the value of the assets could decrease, their operating costs could increase, or a store may not be opened as planned due to changes in the real estate market, demographic trends, site competition, dependence on third-party performance or overall economic environment. Additionally, we are potentially subject to liability for environmental conditions, exit costs associated with disposal of a store, commitments to pay base rent for the entire lease term or operate a store for the duration of an operating covenant. Investment and partnerships in new business strategies and acquisitions could disrupt our core business.

We have invested in or are pursuing strategic growth opportunities, which may include acquisitions of, or investments in, other businesses, as well as new technologies or other investments to provide a superior customer shopping experience in our stores and digital channels. Additionally, our business model will continue to rely more on partnerships with third parties for certain strategic initiatives and technologies. If these investments, acquisitions or partnerships do not perform as expected or create operational difficulties, we may record impairment charges. If we do not realize our anticipated return on investments, our profitability and growth could be adversely affected.

If we fail to appropriately manage our capital, we may negatively impact our operations and shareholder return.

We utilize working capital to finance our operations, make capital expenditures and acquisitions, manage our debt levels and return value to our shareholders through dividends and share repurchases. Changes in the credit and capital markets, including market disruptions, limited liquidity and interest rate fluctuations, may increase the cost of financing or restrict access to a potential source of liquidity. A deterioration in our capital structure or the quality and stability of our earnings could result in noncompliance with our debt covenants or a downgrade of our credit rating, constraining the financing available to our Company. If our access to financing is restricted or our borrowing costs increase, our operations and financial condition could be adversely impacted. Further, if we do not properly allocate our capital to maximize returns, our operations, cash flows and returns to shareholders could be adversely affected. The concentration of stock ownership in a small number of our shareholders could limit our shareholders' ability to influence corporate matters.

We have regularly reported in our annual proxy statements the holdings of members of the Nordstrom family, including Bruce A. Nordstrom, our former Co-President and Chairman of the Board, his sister Anne E. Gittinger and members of the Nordstrom family within our Executive Team. According to the Schedule 13D/A filed with the SEC on March 5, 2018, these individuals beneficially owned an aggregate of approximately 31% of our common stock. As a result, either individually or acting together, they may be able to exercise considerable influence over matters requiring shareholder approval. In addition, as reported in our periodic filings, our Board of Directors has from time to time authorized share repurchases. While these share repurchases may be offset in part by share issuances under our equity incentive plans and as consideration for acquisitions, the repurchases may nevertheless have the effect of increasing the overall percentage ownership held by these shareholders. The corporate law of the State of Washington, where the Company is incorporated, provides that approval of a merger or similar significant corporate transaction requires the affirmative vote of two-thirds of a company's outstanding shares. The beneficial ownership of these shareholders may have the effect of discouraging offers to acquire us, delay or otherwise prevent a significant corporate transaction because the consummation of any such transaction would likely require the approval of these shareholders. As a result, the market price of our common stock could be affected.

RISKS DUE TO ECONOMIC AND EXTERNAL MARKET FACTORS

Our revenues and operating results are affected by the seasonal nature of our business and cyclical trends in consumer spending.

Our business, like that of other retailers, is subject to seasonal fluctuations and cyclical trends in consumer spending. Due to our Anniversary Sale in July and the holidays in the fourth quarter, our sales are typically higher in the second and fourth quarters than in the first and third quarters of the fiscal year. Any factor that negatively impacts these selling seasons could have an adverse effect on our results of operations for the entire year. To provide shareholders a better understanding of management's expectations surrounding results, we provide public guidance on our expected

operating and financial results for future periods comprised of forward-looking statements subject to certain risks and uncertainties.

A downturn in economic conditions and other external market factors could have a significant adverse effect on our business and stock price.

During economic downturns, fewer customers may shop for the high-quality items in our stores and on our websites, as these products may be seen as discretionary, and those who do shop may limit the amount of their purchases. This reduced demand may lead to lower sales, higher markdowns and an overly promotional environment or increased marketing and promotional spending.

Additionally, factors such as results differing from guidance, changes in sales and operating income in the peak seasons, changes in our market valuations, performance results for the general retail industry, announcements by us or our industry peers or changes in analysts' recommendations may still impact the price of our common stock and our shareholder returns.

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Our stores located in shopping malls may be adversely affected by any declines in consumer traffic of malls. The majority of our stores are located within shopping malls and benefit from the abilities that we and other anchor tenants have to generate consumer traffic. A substantial decline in mall traffic, the development of new shopping malls, the availability of locations within existing or new shopping malls, the success of individual shopping malls and the success of other anchor tenants may negatively impact our ability to maintain or grow our sales in existing stores, as well as our ability to open new stores, which could have an adverse effect on our financial condition or results of operations.

Our business depends on third parties for the production, supply or delivery of goods, and a disruption could result in lost sales or increased costs.

The continued success of our operations is tied to our timely receipt of quality merchandise from third parties. Our process to identify qualified vendors and access quality products in an efficient manner on acceptable terms and cost can be complex. Violations of law with respect to quality and safety by our importers, manufacturers or distributors could result in delays in shipments and receipt of goods or damage our reputation, resulting in lost sales. These vendors may experience difficulties due to economic or political conditions or the countries in which merchandise is manufactured could become subject to new trade restrictions, including increased customs restrictions, tariffs or quotas. Additionally, changes in tax and trade policies that impact the retail industry, such as increased taxation on imported goods, could have a material adverse effect on our business, results of operations and liquidity.

The results of our Credit operations could be adversely affected by changes in market conditions.

Revenues earned under our program agreement with TD are indirectly subject to economic and market conditions that are beyond our control, including, but not limited to, interest rates, consumer credit availability, demand for credit, consumer debt levels, payment patterns, delinquency rates, employment trends and other factors. Changes in these economic and market conditions could impair our revenues and profitability.

Our business and operations could be materially and adversely affected by supply chain disruptions, port disruptions, severe weather patterns, natural disasters, widespread pandemics and other natural or man-made disruptions.

These disruptions could cause, among other things, a decrease in consumer spending that would negatively impact our sales, staffing shortages in our stores, distribution centers or corporate offices, interruptions in the flow of merchandise to our stores, disruptions in the operations of our merchandise vendors or property developers, increased costs and a negative impact on our reputation and long-term growth plans. We have a significant amount of our total sales, stores and square footage in the west coast of the United States, particularly in California, which increases our exposure to market-disrupting conditions in this region.

RISKS DUE TO LEGAL AND REGULATORY FACTORS

We are subject to certain laws, litigation, regulatory matters and ethical standards, and our failure to comply with or adequately address developments as they arise could adversely affect our reputation and operations.

Our policies, procedures and practices and the technology we implement are designed to comply with federal, state, local and foreign laws, rules and regulations, including those imposed by the SEC, consumer protection and other regulatory agencies, the marketplace, and foreign countries, as well as responsible business, social and environmental practices, all of which may change from time to time. Compliance with laws and regulations and/or significant legislative changes may cause our business to be adversely impacted, or even limit or restrict the activities of our business. In addition, if we fail to comply with applicable laws and regulations or implement responsible business, social, environmental and supply chain practices, we could be subject to damage to our reputation, class action lawsuits, legal and settlement costs, civil and criminal liability, increased cost of regulatory compliance, losing our ability to accept credit and debit card payments from our customers, restatements of our financial statements, disruption of our business and loss of customers. Any required changes to our employment practices could result in the loss of employees, reduced sales, increased employment costs, low employee morale and harm to our business and results of operations. In addition, political and economic factors could lead to unfavorable changes in federal, state and foreign tax laws, which may affect our tax assets or liabilities and adversely affect our results of operations. We are also regularly involved in various litigation matters that arise in the ordinary course of business. Litigation or

regulatory developments could adversely affect our business and financial condition.

Changes to accounting rules and regulations could affect our financial results or financial condition.

Accounting principles and related pronouncements, implementation guidelines and interpretations with regard to a wide variety of accounting matters that are relevant to our business, including, but not limited to, revenue recognition, merchandise inventories, leasing, goodwill, impairment of long-lived assets, stock-based compensation and tax matters are highly complex and involve subjective assumptions, estimates and judgments. Changes in these rules and regulations, changes in our interpretation of the rules or regulations or changes in underlying assumptions, estimates or judgments could adversely affect our financial performance or financial position.

Item 1B. Unresolved Staff Comments.

None.

Nordstrom, Inc. and subsidiaries 11

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Item 2. Properties.

The following table summarizes the number of retail stores we own or lease, and the percentage of total store square footage represented by each listed category as of February 3, 2018:

	Number of stores		% of total store	
	Nordstrom Full-Line Stores ¹	Nordstrom Rack and Other ²	square footage	
Leased stores on leased land	26	242	44	%
Owned stores on leased land	63	—	37	%
Owned stores on owned land	33	1	18	%
Partly owned and partly leased store	1	—	1	%
Total	123	243	100	%

¹ Nordstrom full-line stores include U.S. full line stores, Canada full-line stores and Nordstrom Local.

² Other includes Trunk Club clubhouses, Jeffrey boutiques and Last Chance stores.

The following table summarizes our retail store openings and closures for fiscal 2017 and announced retail store openings and closures for fiscal 2018 by state/province:

Fiscal year	Number of stores		Announced 2018	
	Nordstrom Full-Line Stores ¹	Nordstrom Rack and Other ²	Nordstrom Full-Line Stores ¹	Nordstrom Rack and Other ²
Openings				
U.S.				
Arizona	—	—	—	1
California	1	3	—	1
Florida	—	1	—	—
Illinois	—	2	—	1
Indiana	—	1	—	—
Maryland	—	1	—	—
Minnesota	—	2	—	—
New Jersey	—	—	—	1
New York	—	1	1	—
Oregon	—	1	—	—
Pennsylvania	—	—	—	1
Tennessee	—	1	—	—
Texas	—	2	—	1
Washington	—	2	—	—
Canada				
Alberta	—	—	—	2
Ontario	1	—	—	4
Total Openings	2	17	1	12
Closures				
California	(1) —	—	—
Oregon	—	—	(1) —
Virginia	(1) —	—	—
Total Closures	(2) —	(1) —

¹ Nordstrom full-line stores include U.S. full line stores, Canada full-line stores and Nordstrom Local.

² Other includes Trunk Club clubhouses, Jeffrey boutiques and Last Chance stores.

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The following table lists our retail store count and square footage by state/province as of February 3, 2018:

Retail stores by channel	Nordstrom Full-Line Stores ¹		Nordstrom Rack and Other ²		Total	
	Count	Square Footage (000's)	Count	Square Footage (000's)	Count	Square Footage (000's)
U.S.						
Alabama	—	—	1	35	1	35
Alaska	1	97	1	35	2	132
Arizona	2	384	8	287	10	671
California ³	31	5,192	53	1,967	84	7,159
Colorado	3	559	6	213	9	772
Connecticut	1	189	1	36	2	225
Delaware	1	127	1	32	2	159
Florida	9	1,389	16	545	25	1,934
Georgia	2	383	5	165	7	548
Hawaii	1	195	2	78	3	273
Idaho	—	—	1	37	1	37
Illinois	4	947	16	590	20	1,537
Indiana	1	134	2	60	3	194
Iowa	—	—	1	35	1	35
Kansas	1	219	1	35	2	254
Kentucky	—	—	1	33	1	33
Louisiana	—	—	3	90	3	90
Maine	—	—	1	30	1	30
Maryland	4	765	5	186	9	951
Massachusetts	4	595	8	275	12	870
Michigan	3	552	5	178	8	730
Minnesota	2	380	5	173	7	553
Missouri	2	342	2	69	4	411
Nevada	1	207	3	101	4	308
New Jersey	5	991	7	248	12	1,239
New Mexico	—	—	1	34	1	34
New York	2	460	14	473	16	933
North Carolina	2	300	2	74	4	374
Ohio	3	549	6	224	9	773
Oklahoma	—	—	2	67	2	67
Oregon	4	555	6	218	10	773
Pennsylvania	2	381	6	214	8	595
Puerto Rico	1	143	—	—	1	143
Rhode Island	1	206	1	38	2	244
South Carolina	—	—	4	104	4	104
Tennessee	1	145	2	69	3	214
Texas ³	9	1,562	18	604	27	2,166
Utah	2	277	4	126	6	403
Virginia	4	746	7	268	11	1,014
Washington	7	1,392	9	354	16	1,746
Washington D.C.	—	—	4	115	4	115

Wisconsin