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# Nordstrom Profit Slips, Rack Shines

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Nordstrom

*Photo By Courtesy Photo*

Nordstrom has big plans for the Rack off-price chain.

The retailer Thursday reported an 11 percent decline in net earnings to \$156 million, or 75 cents a diluted share, on a 7.5 percent increase in sales to \$3.01 billion for the second quarter ended July 28.

This compares with earnings of \$175 million, or 80 cents a share, on sales of \$2.8 billion in the fiscal 2011 period. Second-quarter same-store sales rose 4.5 percent over last year's period. Net sales in the second quarter were \$2.92 billion, an increase of 7.4 percent compared with net sales of \$2.72 billion during the same period in 2011.

One major growth area is Nordstrom Rack, which saw net sales increase 18.9 percent and same-store sales grow 7.7 percent during the quarter. Nordstrom plans to increase the number of Rack openings in 2013 to 24. In the last four years, it's more than doubled the number of Rack locations to 110. By the end of 2016, it will more than double the size of the chain again, bringing it to over 230 units. Its plan for 2012 is to open 15 new units.

"Prior to the economic downturn we were working on growing [the Rack], and had put more focus on full-line stores and kind of had some restraints on Rack," Blake Nordstrom, president of Nordstrom Inc., said during a conference call with analysts. "There was such an outpouring of demand from customers ... that we picked up this [Rack] growth."

Rack's growth has positively impacted "our ability to work with our vendor partners...across all channels," he said. "As we've gotten larger, it's benefitted us to be able to, at times when there's closeouts, take all the

merchandise.” The Rack carries 49 out of the 50 top vendors in full-line stores.

Opening stores in Canada is also in sight. “We’re actively working with developers there,” said a spokesman. “We could do a better job of serving [our customers] by having stores in Canada.”

Sales in the direct channel increased 40 percent in the second quarter, significantly outpacing the company’s overall performance.

Nordstrom’s Anniversary Sale started one week later in July relative to last year. The shift drove an unfavorable comparison in the second quarter, but will have a favorable effect in the third, the company said.

Pete Nordstrom, executive vice president and president of merchandising, said the women’s business has improved. “We continue to evolve the merchandise offering to be more modern and relevant. That appears to be the appealing recipe for most of our customers.”

He added that Nordstrom’s partnership to open Topshop and Topman departments in 14 locations will likely expand to all full-line units. “Topshop is highly credible and super well-regarded among young people. It’s going to act as a catalyst for us to make our offer more modern and relevant,” he said.

Nordstrom updated its outlook for 2012, increasing earnings per share expectations for the year to \$3.40 to \$3.50 and raising its full-year same-store sales estimate to 6 to 7 percent. Selling, general and administrative expenses, as a percentage of net sales, increased 61 basis points compared with last year’s second quarter.

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