

Date:1/26/2013

Analyst Name: Kristen Hecht

## CIF Stock Recommendation Report (Fall 2012)

Company Name and Ticker: Nordstrom (JWN)

### Section (A) Summary

Recommendation Buy: Yes <b>No</b>		Target Price:	Stop-Loss Price:
Sector: CND	Industry: Retail	Market Cap (in Billions): 11.215	# of Shrs. O/S (in Millions): 200.09
Current Price:	52 WK Hi: \$58.44	52 WK Low: \$46.27	EBO Valuation: \$32.96
Morningstar (MS) Fair Value Est.: \$58.00	MS FV Uncertainty: High	MS Consider Buying: \$34.80	MS Consider Selling: \$89.90
EPS (TTM): 3.29	EPS (FY1): 3.49	EPS (FY2): 3.97	MS Star Rating: 3 stars
Next Fiscal Yr. End "Year": 2012 "Month": January	Last Fiscal Qtr. End: Less Than 8 WK: <b>Y</b> N	If Less Than 8 WK, next Earnings Ann. Date: Feb 21 <sup>st</sup> 2013	Analyst Consensus Recommendation: Outperform
Forward P/E: 14.28	Mean LT Growth: 12.97%	PEG: 1.1	Beta: 1.66
% Inst. Ownership: 60.63%	Inst. Ownership- Net Buy: Y <b>N</b>	Short Interest Ratio: 1.4	Short as % of Float: 2%
<b><u>Ratio Analysis</u></b>	<b><u>Company</u></b>	<b><u>Industry</u></b>	<b><u>Sector</u></b>
P/E (TTM)	16.94	27.03	14.52
P/S (TTM)	.95	3.15	1.37
P/B (MRQ)	5.92	4.59	1.4
P/CF (TTM)	10.11	26.82	9.1
Dividend Yield	1.94	1.56	.93
Total Debt/Equity (MRQ)	166.4	10.3	55.95
Net Profit Margin (TTM)	5.87	8.43	7.67
ROA (TTM)	8.28	12.22	8.27
ROE (TTM)	36.35	100.96	14.04

<p><b><u>Investment Thesis</u></b></p> <p>While I believe that Nordstrom is a great company with lots of possibilities for growth in the future, I do not believe that they make a good investment for the CIF. They announce earnings for the year on February 21<sup>st</sup> of this year and there is a high probability they will best estimates based on their strong online growth during the last year, expansion of Nordstrom Rack, and strong service model. However, they are trading close to the 52-week high and are an expensive stable company. The fundamental valuation, the relative valuation, analysts, and the technical analysis are bearish indicators. The physical retail industry is a very competitive industry, and while Nordstrom is well positioned as a company, the industry as a whole is barely growing with competition from online sources in addition to the competition among themselves. I was hoping to recommend a buy for Nordstrom, but nothing I saw when analyzing their company gave off a very bullish signal and there were quite a few red lights that made me wary. I think this is a great company, but in the short run holding their stock will not bring profit to the CIF.</p>	<p><b><u>Summary</u></b></p> <p>Provide brief summary of your analysis in each section that follows</p>
	<p><b><u>Company Profile:</u></b> Nordstrom is a specialty retailer that offers high-end apparel, shoes, and accessories to men, women and children. They operate on a customer-driven service model. They also have the Nordstrom Rack stores which are discount stores, and Nordstrom.com</p>
	<p><b><u>Fundamental Valuation:</u></b> The fundamental valuation assuming a 3-year above average growth rate of \$32.96. The sensitivity analysis shows this number was not too affected by changing numbers.</p>
	<p><b><u>Relative Valuation:</u></b> The relative valuation gave fairly consistent indication that Nordstrom is an expensive stock, as it's implied prices from competitors are lower than what it is trading at and some are lower than it's 52-week low.</p>
	<p><b><u>Revenue and Earnings Estimates:</u></b> Nordstrom beats estimates about half the time, and does not meet them the other half. Their fourth quarter sales are generally the highest due to the holiday season.</p>
	<p><b><u>Analyst Recommendations:</u></b> The analysts recommend an outperform, and there have been a few downgrades in the last year.</p>
	<p><b><u>Institutional Ownership:</u></b> Overall there is a slight decrease in institutional ownership, but the top two owners of Nordstrom stock are insiders, and one reported very recently.</p>
	<p><b><u>Short Interest:</u></b> The short interest has been increasing over the past month, but decreased over the last year which is consistent with other competitors in the same industry.</p>
	<p><b><u>Stock Price Chart:</u></b> The stock is trading around it's 52 week high and the technical analysis over the past 2 years shows that "the death cross" has just occurred which is worrisome.</p>

## **Section (B) Company Profile (two pages maximum)**

### **Company Summary**

Nordstrom is a specialty retailer that offers high-end apparel and accessories for men, women and children. They operate mainly in two segments, retail and credit. They have 117 full-line and 105 off-price Nordstrom Rack stores in 30 states in the United States. They also have an online presence in Nordstrom.com. The credit segment accounts for about 2% of revenues and includes a wholly owned federal savings bank Nordstrom fsb, and offers two credit cards and one debit card to customers (Nordstrom 10-k). The credit segment allows for reward programs to be easily accessible to customers and creates a loyalty program.

Nordstrom plans to open 4 stores in Canada during fiscal year 2013 as part of their growth strategy. This will be the first international venture for Nordstrom. In the last fiscal year they have also acquired HauteLook, an online private sales subsidiary, opened a philanthropic store in New York City called treasure&bond, as well as opened one discount store, Last Chance.

Nordstrom managed to achieve same-store sales growth of 8.1% in 2010 and 7.2% in 2011 (Nordstrom 10-k 2011). This is an important indicator of Nordstrom's success because the retail industry as a whole has had same store sales declining in most companies (Morningstar.com). They also have had an impressive inventory turnover ratio above 5 for the past two fiscal years, and their sales per sq. foot has increased from \$397 in 2010 to \$461 in 2011 (Nordstrom 10-k).

### **Business Model, Competition, Environment and Strategy**

Nordstrom operates in the highly competitive specialty retail business. They face competition from other department stores, such as Macy's who sell similar merchandise and brands as Nordstrom, as well as smaller boutiques and online shopping such as Amazon.com.

Nordstrom operates in the fashion industry and it is very important for them to stay ahead of the trends, otherwise they may lose their edge. They deal with this by having effective inventory policies and quality customer loyalty programs.

Nordstrom differentiates itself from competitors by offering high-quality merchandise to customers in a customer-centric model based around high ideals of service. This is demonstrated by their new "free shipping free return anytime" policy with regards to their online segment and knowledgeable and friendly employees in their retail stores.

A huge factor in the struggling apparel retail industry is the ability to integrate their brick-and-mortar stores with a strong online presence in order to compete with online retailers such as Amazon.com that offers a large assortment of apparel, shoes, and accessories, oftentimes at

discounted prices. Nordstrom has spent tens of millions of dollars in the recent years in order to fully infiltrate the world of e-commerce, and accordingly is one of the top 3 retailers in the e-commerce world according to a recent report on the future of technology in retail released last week by Citi Bank (reuters.com).

The retail sector however did grow less than expected in the Holiday season. Sales grew by only 3%, which is 1.1% less than the predicted 4.1%, according to the National Retail Federation (reuters.com).

### Revenue and Earnings History

This information is available in **Reuters.com**, **"Financials"** tab. Copy/paste the quarterly revenue and earnings per share numbers for the most recent three years. Add the numbers over four fiscal quarters to get annual revenue and earnings. For the current fiscal year, go ahead add up as many quarters as are available. **NOTE:** revenue numbers are **"in millions"**.

#### Revenue

Periods	2011	2012	2013
May	2087.0	2323.0	2629.0
July	2515.0	2810.0	3009.0
October	2182.0	2478.0	2808.0
January	2916.0	3266.0	
Annual	7,900	10,877	8446

Note: Units in Millions of U.S. Dollars

#### Earnings Per Share

Periods	2011	2012	2013
May	0.52158	0.64935	0.70482

July	0.6553	0.79437	0.74748
October	0.53483	0.5907	0.71324
January	1.04083	1.11163	
Annual	2.7525	3.1466	2.1647

**Discuss any pattern in revenue and earnings (e.g., increasing year over year; seasonal; etc.)**

As a retailer, Nordstrom typically has higher revenues and earnings in their fourth quarter due to the holiday season, which has been consistent over the past few years. They also tend to have slightly higher second quarter sales, which could be attributed to the fact that their annual sale “The Nordstrom Anniversary Sale” happens in the second quarter or each year.

Nordstrom has seen annual growth in both revenue and earnings per share, and should continue to see growth in 2013 if their fourth quarters produce reasonable sales, which is likely to happen since that includes the holidays. Each quarter has produced higher revenues and earnings’ per share from year to year with the sole exception of the third quarter earnings per share from 2012 to 2013.

**Include the following here:**

**Inputs (provide below input values used in your analysis)**

EPS forecasts (FY1 & FY2): 3.49 & 3.97

Long-term growth rate: 12.37%

Book value /share (along with book value and number of shares outstanding):

Book value: 1,946

# of shares outstanding: 207.46

Book value / share: 9.42

Dividend payout ratio: 32%

Next fiscal year end: 2012

Current fiscal month: 12 (January is year-end for Nordstrom)  
Target ROE: 19.13%

### **Output**

Above normal growth period chosen: 2015

EBO valuation (Implied price from the spreadsheet): \$32.96

### **Sensitivity Analysis**

EBO valuation would be (you can include more than one scenario in each of the following):

\$35.60 if changing above normal growth period to 2018

\$35.50 if changing growth rate from mean (consensus) to the highest estimate of 17%

\$29.64 if changing growth rate from mean (consensus) to the lowest estimate 6%

\$45.33 if changing discount rate to 10%

\$33.28 if changing target ROE to 25%

The fundamental valuation is a bearish indicator for Nordstrom. I choose the year 2015 as the above average growth period, because Nordstrom is still in a period of expansion, both in same store sales growth and opening new stores, as well as their focus on expanding e-commerce. However retail is still a hard industry to maintain substantial growth in, which is why I picked 2015 as a somewhat middle number. The fundamental value of \$32.96 is substantially under the current price that Nordstrom is trading at of \$55.68 (a discount of 40.8%). Even in the sensitivity analysis, lowering the discount ratio and raising the long term growth rate, the implied price never got close to the trading price, and certainly not above it.

## Section (D) Relative Valuation

JWN

				Mean FY2		Forward P/E	Mean LT Growth Rate	PEG	P/B (MRQ)	ROE 5 yr ave	Value Ratio	P/S TTM	P/CF TTM
Ticker	Name	Mkt Cap	Current Price	Earnings Estimate (next fiscal year)									
1	M	Macy's	\$ 15,569.92	\$ 39.95	\$ 3.78	10.57	11.82%	0.89	2.80	-4.24%	-0.66	0.58	6.49
2	KSS	Kohls	\$ 10,373.45	\$ 45.52	\$ 4.59	9.92	7.53%	1.32	1.71	15.14%	0.11	0.55	5.52
3	SKS	Saks	\$ 1,685.84	\$ 11.85	\$ 0.50	23.70	15.23%	1.56	1.44	-0.27%	-5.33	0.54	8.5
4	AMZN	Amazon.com	\$ 125,034.70	\$ 276.04	\$ 1.70	162.38	37.28%	4.36	16.56	18.95%	0.87	2.18	62.05
	JWN	Nordstrom	\$ 11,111.24	\$ 56.68	\$ 3.97	14.28	12.97%	1.10	5.92	35.75%	0.17	0.95	10.11
Implied Price based on:						P/E		PEG	P/B		Value	P/S	P/CF
1	M	Macy's				\$41.96		\$46.04	\$26.81		-\$226.04	\$34.60	\$36.39
2	KSS	Kohls				\$39.37		\$67.81	\$16.37		\$38.66	\$32.81	\$30.95
3	SKS	Saks				\$94.09		\$80.13	\$13.79		-\$1,825.50	\$32.22	\$47.65
4	AMZN	Amazon.com				\$644.63		\$224.27	\$158.55		\$299.11	\$130.07	\$347.87
	High					\$644.63		\$224.27	\$158.55		\$299.11	\$130.07	\$347.87
	Low					\$39.37		\$46.04	\$13.79		-\$1,825.50	\$32.22	\$30.95
	Median					\$68.02		\$73.97	\$21.59		-\$93.69	\$33.71	\$42.02

Copy/paste your completed relative valuation spreadsheet here

### From the top panel

Discuss whether your stock and its competitors have very different multiples. Point out if any of the five stocks have multiple that is far off from the others. Make an attempt to explain why (you would want to read analyst research report in *Morningstar Direct*; you should also look for comments from other financial sites). **The discussions should address all of the following valuation metrics: forward P/E, PEG, P/B (MRQ), P/S (TTM), and P/CF (TTM).**

The four competitors I chose to compare Nordstrom to were Macys, Saks, Kohls, and Amazon.com. I choose Macy's because they are an incredibly similar department store company that sells similar products and brands to Nordstrom. I choose Saks and Kohls because they are both apparel retailers. Kohls offers cheaper products than Nordstrom and focuses on discounting, while Saks offers much more upscale expensive products and focuses on brand names and image. Amazon.com is a little bit of a stretch to compare Nordstrom too, but I felt it was important to include them because the online apparel business is a huge threat to Nordstrom, and they have begun to compete for the same customers in recent years as e-commerce becomes more prevalent.

The companies all have very similar multiples, except for Amazon.com. For forward P/E four companies are within the 9-24 range, and then Amazon has a P/E ratio of 162.38. The same



trend applies to PEG, P/B, P/S, P/CF, where all the other companies are relatively close and then Amazon is an outlier. This is because Amazon is a high growth company who posted negative quarterly earnings. However the other companies fall within close range to each other on all the multiples listed above. It might be prudent to not place too much value on the implied prices from Amazon, especially since they have a very different business model from Nordstrom.

Compare the implied prices derived from various valuation metrics. Also compare those implied price to the stock's current price, and 52-week high and low.

The implied prices have a very large range. Part of the reason for that was that both Macy's and Saks had negative 5 year ROE's, and also Amazon skewed the results slightly with their extremely high multiples. So the implied prices from the value ratio can be largely ignored. The implied prices from the forward P/E were very high for Nordstrom because they have a high FY2 earnings estimate, only Kohls had higher estimates. The median was \$68.02, which is above the current trading price as well as the 52-week high. The implied price for the PEG were from \$46.04 to \$80.13 (ignoring the implied price from Amazon). The 52-week range for Nordstrom was from \$46.27 to \$58.44. Of all the implied prices from P/B, P/S, and P/CF, only one price (once again ignoring Amazon) is higher than the 52 week low. This indicates that Nordstrom may be more expensive than it's competitors.

### **From the bottom panel**

Discuss the various implied prices of your stock derived from competitors' ("comparables") multiples. How different are the prices derived from the various valuation metrics? Note any valuation metrics that seem to yield outlier prices and explain why (**HINT:** is that because that particular valuation metrics is not very relevant for the industry? Do you best to provide convincing arguments).

The implied prices of every multiple are all very different except P/S and P/B (when we ignore Amazon). This is interesting to me because these were the valuations that I had decided would be most prominent before doing the valuation. Perhaps this indicates that these companies are all actually very similar in terms of the fundamentals of their businesses, which makes sense since they are all specialty retailers that offer apparel to customers.

For each valuation metrics, Compare the current price and 52-week high /low of your stock to the High-low range derived from multiples of its competitors.

The fact that every implied price from Amazon indicates that Nordstrom is far undervalued, actually just indicates that Amazon is struggling, especially recently. Although of course Nordstrom's stock is not expected to be trading at \$644.33, it is a good sign for this mainly physical retailer. Many articles on the web discuss how Amazon and other online retailers are becoming large competitors for retailers like Nordstrom and drawing them away. The fact that Nordstrom is showing positive earnings while Amazon is struggling is good news in general for the retail industry that is already well established and just now beginning to truly push into the e-commerce market.

The 52-week range for Nordstrom is \$46.27 to \$58.44. The high low range for forward P/E is \$39.07 - \$68.02, so this is just slightly outside the 52-week range for both high and low. \$46.04-\$73.97 is the high low for PEG, so one again just outside for both high and low. These implied prices take the future into account and are more favorable toward Nordstrom. The following strict valuation multiples show Nordstrom as being much more expensive. The range for implied prices from P/B is \$13.79 - \$26.81, which doesn't even reach the 52-week low for Nordstrom. The value ratio is so skewed with negative ROE's it isn't worth discussing as an accurate portrayal of Nordstrom. P/S created a very small range of implied prices from \$32.22 - \$34.60, which once again are not as high as the 52 week low. P/CF produces implied prices of \$30.95 - \$47.65, which are slightly more favorable in that the high in this range is higher than Nordstrom's 52 week low, but does not reach where they are currently trading.

Among the valuation metrics analyzed, **which ones do you think are most relevant as a valuation tool for your stock?**

I think that as a well-established specialty retailer in the consumer discretionary sector P/B and P/CF are very important metrics to use as a valuation tool for Nordstrom's stock. This implies Nordstrom is perhaps overvalued, since both of these multiples indicate Nordstrom is expensive compared to its most similar competitors.

## Section (E) Revenue and Earnings Estimates

Copy/Paste the “Historical Surprises” Table from *Reuters.com*, “*Analysts*” tab (include both revenue and earnings; make note that revenues might be in “millions”)

### Historical Surprises

Sales and Profit Figures in US Dollar (USD)

Earnings and Dividend Figures in US Dollar (USD)

Estimates vs Actual	Estimate	Actual	Difference	Surprise %
<b>SALES (in millions)</b>				
Quarter Ending Oct-12	2,786.88	2,808.00	21.12	0.76
Quarter Ending Jul-12	3,010.72	3,009.00	1.72	-0.06
Quarter Ending Apr-12	2,522.20	2,535.00	12.80	0.51
Quarter Ending Jan-12	3,171.45	3,169.00	2.45	-0.08
Quarter Ending Oct-11	2,378.34	2,383.00	4.66	0.20
<b>Earnings (per share)</b>				
Quarter Ending Oct-12	0.72	0.71	0.01	-1.20
Quarter Ending Jul-12	0.75	0.75	0.00	0.39
Quarter Ending Apr-12	0.75	0.70	0.05	-6.74
Quarter Ending Jan-12	1.10	1.11	0.01	1.28
Quarter Ending Oct-11	0.59	0.59	0.00	0.73

Review recent trends in company's reported revenue and earnings, and discuss whether (1) the company has a pattern of "surprising" the market with numbers different from analysts' estimates; (2) Were they positive(actual greater than estimate) or negative (actual less than estimate) surprises? (3) Were surprises more notable for revenue or earnings? (4) Look up the stock chart to see how the stock price reacted to the "surprises. **NOTE:** Reuters does not put the sign on the surprise. **You need to put a "negative" sign when it is a negative surprise.**

Nordstrom does not have a history of presenting extremely large surprises to the market. Recently in sales, Nordstrom has not had any surprises that were more than 1% different between estimates and actual. Concerning earnings they had historical surprises of less than 2% for all except the quarter ending in April 2012, which had a large negative earnings surprise of - 6.78%. The surprises were positive about half the time and negative about half the time in both revenues and earnings. Surprises were larger for earnings than for revenue, but that is fairly typical because earnings are smaller numbers so it is easier to make a small error in estimates that create a larger percentage error. When Nordstrom missed earnings estimates in April 2012 the stock did drop significantly, but other than that, the stock did not change drastically as a response to earnings.

**Copy/paste the "Consensus Estimates Analysis" Table from *Reuters.com*, "Analysts" tab (include both revenue and earnings)**

#### **Consensus Estimates Analysis**

**Sales and Profit Figures in US Dollar (USD)**

**Earnings and Dividend Figures in US Dollar (USD)**

	# of Estimates	Mean	High	Low	1 Year Ago
<b>SALES (in millions)</b>					
<b>Quarter Ending Jan-13</b>	<b>16</b>	<b>3,681.44</b>	<b>3,761.50</b>	<b>3,575.00</b>	<b>3,394.56</b>
<b>Quarter Ending Apr-13</b>	<b>8</b>	<b>2,838.34</b>	<b>2,881.20</b>	<b>2,780.39</b>	<b>2,649.70</b>
<b>Year Ending Jan-13</b>	<b>17</b>	<b>12,115.10</b>	<b>12,207.50</b>	<b>11,955.00</b>	<b>11,422.80</b>

Year Ending Jan-14	17	13,003.50	13,318.90	12,684.20	12,083.30
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#### Earnings (per share)

Quarter Ending Jan-13	22	1.34	1.40	1.27	1.27
Quarter Ending Apr-13	12	0.81	0.84	0.78	0.91
Year Ending Jan-13	25	3.49	3.55	3.42	3.58
Year Ending Jan-14	25	3.97	4.11	3.81	4.04
LT Growth Rate (%)	9	12.37	17.00	6.00	11.68

#### Sales

Difference between high and mean	Difference between low and mean
2.17%	2.89%
1.51%	2.04%
.76%	.99%
2.43%	2.46%

#### Earnings

Difference between high and mean	Difference between low and mean
4.48%	5.22%
3.7%	3.7%
1.72%	2.01%
3.53%	4.03%
37.43%	51.5%

Review the range and the consensus of analysts' estimates. (1) Calculate the % difference of the "high" estimate from the consensus (mean); (2) Calculate the % (negative) difference of the "low" estimate from the consensus; (3) Are the divergent more notable for the current or out-quarter, FY1 or FY2, revenue or earnings? (4) Note the number of analysts providing LT growth rate estimate. Is that roughly the same as the number of analysts providing revenue and earnings estimates?

For revenues as well as earnings, the difference between the high and mean and low and mean was least noticeable for the year ending January 2013, which makes sense since the numbers for three quarters are already in, so those estimates would be closer together. And the highest numbers are for FY2 as well as the nearest quarter. The difference between the low and mean seems to consistently be a little higher than the difference between the high and mean for both revenues and earnings. The numbers are also higher for earnings than they are for revenues, which as I mentioned earlier makes sense due to earnings being smaller numbers to estimates. There are only 9 analysts who give a long-term growth rate estimates, which is much lower than the revenue and earnings estimates. The long-term growth rate also has much higher percentage difference than the revenue and earnings estimates, which leads us to believe this is a much more sensitive number and less accurate than the revenue or estimate earnings may be.

**Copy/paste the "Consensus Estimates Trend" Table from *Reuters.com*, "Analysts" tab (include both revenue and earnings)**

#### **Consensus Estimates Trend**

**Sales and Profit Figures in US Dollar (USD)**

**Earnings and Dividend Figures in US Dollar (USD)**

	<b>Current</b>	<b>1 Week Ago</b>	<b>1 Month Ago</b>	<b>2 Month Ago</b>	<b>1 Year Ago</b>
<b>SALES (in millions)</b>					
<b>Quarter Ending Jan-13</b>	<b>3,681.44</b>	<b>3,681.44</b>	<b>3,681.79</b>	<b>3,703.40</b>	<b>3,394.56</b>
<b>Quarter Ending Apr-13</b>	<b>2,838.34</b>	<b>2,838.34</b>	<b>2,833.82</b>	<b>2,817.80</b>	<b>2,649.70</b>
<b>Year Ending Jan-13</b>	<b>12,115.10</b>	<b>12,115.10</b>	<b>12,095.20</b>	<b>12,115.80</b>	<b>11,422.80</b>

<b>Year Ending Jan-14</b>	<b>13,003.50</b>	<b>13,003.50</b>	<b>13,006.30</b>	<b>13,000.10</b>	<b>12,083.30</b>
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**Earnings (per share)**

<b>Quarter Ending Jan-13</b>	<b>1.34</b>	<b>1.34</b>	<b>1.33</b>	<b>1.34</b>	<b>1.27</b>
<b>Quarter Ending Apr-13</b>	<b>0.81</b>	<b>0.81</b>	<b>0.81</b>	<b>0.81</b>	<b>0.91</b>
<b>Quarter Ending Jan-13</b>	<b>3.49</b>	<b>3.49</b>	<b>3.48</b>	<b>3.50</b>	<b>3.58</b>
<b>Quarter Ending Jan-14</b>	<b>3.97</b>	<b>3.97</b>	<b>3.96</b>	<b>3.98</b>	<b>4.04</b>

Review recent trend of analysts' consensus (mean) estimates on revenue and earnings. (1) Are the consensus estimates trending up, down, or stay the same? (2) Is the trend more notable for the near- or out- quarter, FY1 or FY2, revenue or earnings?

The consensus estimates don't seem to be drastically changing for revenue, none have changed in the last week and all of them are only up slightly from what they were one year ago. Earnings per share however are a different story. All of them are down from what they were on year ago except for the quarter ending January 2013. The changes are not drastic, but it is showing that revenue estimates are up over the last year while earnings are down. However the changes haven't really changed since 2 months ago, so something happened in the 10 months between the 1-year ago mark and 2-month mark.

Copy/paste the “Estimates Revisions Summary” Table from *Reuters.com*, “Analysts” tab (include both revenue and earnings)

**Estimates Revisions Summary**

	Last Week		Last 4 Weeks	
Number Of Revisions:	Up	Down	Up	Down
<b>Revenue</b>				
Quarter Ending Jan-13	0	0	4	5
Quarter Ending Apr-13	0	0	3	2
Year Ending Jan-13	0	0	4	5
Year Ending Jan-14	0	0	4	4
<b>Earnings</b>				
Quarter Ending Jan-13	0	0	8	3
Quarter Ending Apr-13	0	0	1	0
Year Ending Jan-13	0	0	6	3
Year Ending Jan-14	0	0	7	2

Review the number of analysts revising up or down their estimates (both revenue and earnings) **in the last and last four weeks**. (1) Note whether there are more up or down revisions; (2) are the revisions predominantly one directional? (3) Any notable difference last week versus last four weeks, revenue versus earnings?



Absolutely no changes have happened for either revenues or earnings in the last week, but there were changes made, both up and down, in the last four weeks. For revenues the changes in the last 4 weeks were about equally up and down. However for earnings, there were more up revisions than down for FY1, FY2, the in quarter and the out quarter.

Revision Date	Upgrade or Downgrade	Current Recommendation	Previous Recommendation	Firm	Last Revision
The most recent revision date					
The earliest revision date in the last two months					

There have been no upgrade or downgrades in the last two months, primarily because Nordstrom does not announce its annual report until 2/21/2013.

You will need to incorporate what you see here with Morningstar's analyst research report (you can access ***Morningstar Direct at the Financial Markets Lab.***) and other readings/analysis you found from various on-line financial sites. Discuss whether you think the company has a good chance of making or beating analyst consensus estimate, and why. Based on how the stock has been trading lately, do you think market has already anticipated strong or lackluster financial outlook from the company?

I do believe that there is a good chance that Nordstrom will be able to beat analyst's estimates for both the fourth quarter and fiscal year 2013. They have an impressive inventory turnover, as well as a business model that limits markdowns, and keeps margins high. During the holiday season, they did not participate in early Black Friday specials in order to keep with their Nordstrom brand of high quality service. They also have a good foothold in the e-commerce side of retail, luring customers with free shipping and returns. The Nordstrom Rack brand has been expanding even faster than the full-line stores without harming the Nordstrom brand itself. All these factors have played a large role in the most recent fiscal year. I believe that even

with the tough industry for retailers, with online competition and consumer unease, Nordstrom will have performed well last year. They have an undeniable service model, growing discounts stores, a consumer base that isn't discouraged by full price items, and a strong online presence. Last year they had same store sales growth and I believe that trend will continue. However I believe that the market has already anticipated a strong outlook from the company. They are trading close to their 52-week high and the relative valuation shows that they are an expensive stock compared to their competitors. This is a trusted company who had a strong fiscal year 2011 and I believe the market has already priced strong fiscal year 2012 into the current stock price.

## Section (F) Analysts' Recommendations

Copy/paste the “Analyst Recommendations and Revisions” Table from *Reuters.com*, “*Analysts*” tab. NOTE: Make sure you copy the entire table including the “Mean Rating” at the bottom of the table.

### Analyst Recommendations and Revisions

1-5 Linear Scale	Current	1 Month Ago	2 Month Ago	3 Month Ago
(1) BUY	6	8	8	8
(2) OUTPERFORM	5	5	5	5
(3) HOLD	11	10	11	9
(4) UNDERPERFORM	1	1	1	2
(5) SELL	1	1	1	1
No Opinion	0	0	0	0
Mean Rating	2.42	2.28	2.31	2.32

**Review the trend of analyst recommendations over the last three months. Is there a notable change of analyst opinions, turning more bullish or bearish? How many different ratings out of the five possible ones did the company receive currently, one, two, and three months ago? Is there a notable trend of opinion convergence or divergence? Is what you see here consistent to comments in Morningstar analyst's research report as well as various online financial sites you had researched on?**

**NOTE:** On a Five-point scale, Reuters assigns "1" to "Buy", the most bullish recommendation, and "5" to "Sell", the most bearish recommendation. **Some other online sites have opposite scale**, with their "1" being the most bearish and "5" being the most bullish recommendations.

Currently the analysts give Nordstrom rating of 2.42, which is an "outperform rating" and while technically is slightly bullish, is somewhat worrisome to someone looking to invest in Nordstrom. From three months to the last week there were no changes in analysts who recommended a "buy", but from one week ago to the current ratings two less analysts recommend a buy rating, which is a poor signal. Now only 6 analysts recommend a buy rating. The amount of analysts who recommend outperform, 5, hasn't changed in the last three months. 11 analysts recommend a hold rating, which is up from 3 months ago, when only 9 analysts recommended a hold rating. This is the rating that the largest amount of analysts recommended. Only 1 analysts recommend an underperform and sell rating. This has been consistent, except one analyst changed their sell rating 3 months ago. The sentiment hasn't seemed to change significantly in the last three months, but have become more bearish on the stock, with less offering a buy recommendation.

## Section (G) Institutional Ownership

**JWN**

<b>Ownership Activity</b>	<b># of Holders</b>	<b>% Beg. Holders</b>	<b>Shares</b>	<b>% Shares</b>
<b>Shares Outstanding</b>			200,088,882	100.00%
<b># of Holders/Tot Shares Held</b>	596	99.50%	121,313,889	60.63%
<b># New Positions</b>	8	1.34%		
<b># Closed Positions</b>	11	1.84%		
<b># Increased Positions</b>	29	4.84%		
<b># Decreased Positions</b>	48	8.01%		
<b>Beg. Total Inst. Positions</b>	599	100.00%	121,283,940	60.62%
<b># Net Buyers/3 Mo. Net Chg</b>	-19	37.66%	29,949	0.01%

<b>Ownership Information</b>	<b>% Outstanding</b>
<b>Top 10 Institutions % Ownership</b>	25.50%
<b>Mutual Fund % Ownership</b>	0.47%
<b>Float %</b>	97.00%

<b>&gt; 5% Ownership</b>		
<b>Holder Name</b>	<b>% Outstanding</b>	<b>Report Date</b>
Bruce Nordstrom	14.1	12/31/12
Anne Gittinger	7.7	3/9/12

Copy/paste the completed ***“CIF Institutional Ownership” spreadsheet*** here.

**Combine information provided in all three sections to discuss whether (1) institutions, on net basis, have been increasing or decreasing ownership and how significant, (2) the stock has sizable institution interests and support, (3) the extent of the (> 5%) owners, and (4) this could be a bullish or bearish indication of future stock price movement.**

Overall the institutions closed out more positions than they opened and also decreased more positions than they increased. The number of new closed positions was 1.84% of beginning holders, which was higher than the 1.34% of new positions, but only by .5% which is not a significant number. However the number of decreased positions was 8.01%, which is a fairly significant number, especially when compare to the 4.84% of new positions. That is a somewhat substantial difference and could be a bearish indication of future stock price movement. The stock does have sizable institutional support, but not as much as other comparables companies. 60.63% of shareholders are institutional, but that number is much smaller when compared to the 89.5% that Macy’s has. However for Nordstrom I wouldn’t consider this necessarily a huge bearish indication, because many of the Nordstrom family members still have huge stakes in the business, even though it is publicly held. This is demonstrated by the fact that the largest holder of Nordstrom shares isn’t an institution or fund, but by one Nordstrom family member. It is however notable that his report date was 12/31/2012, which was very recent and may actually be a bullish indicator since he is an insider, being the former chairman, and relative to the current president of the company. The second largest holder of stock is Anne Gittinger, who is a granddaughter of John Nordstrom, the founder of Nordstrom. She was officially named a billionaire in November 2012 due to her

Nordstrom stocks (Newsday.com). She also is an employee of Nordstrom, she is the Director of Nordstrom Contributions and mostly focuses on their charitable works. The institutional valuation gives conflicting indicators. There are more decreased positions than increased, and Nordstrom has significantly less institutional shareholders than their biggest rival indicating a bearish sentiment. However the fact that the two largest holders of stock are insiders, and one of them reported this very recently are bullish indicators.

## Section (H) Short Interest (two pages)

From <http://www.nasdaq.com/> (NASDAQ's website)

Copy/paste or enter the data in the following table. You also need to copy/paste the chart to the right.

**Copy/paste or type the information from “short interest” table. You will start from the most recent release date, and go back for a year (some stocks may not have data go back for a year)**

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/15/2013	5,845,154	2,750,412	2.052476
12/31/2012	5,212,534	2,301,614	2.264730
12/14/2012	5,084,118	2,248,512	2.263115
11/30/2012	5,075,079	2,253,347	2.252240
11/15/2012	5,195,282	1,717,885	3.024232
10/31/2012	5,179,710	1,716,035	3.018417
10/15/2012	4,827,827	1,598,503	3.020093
9/28/2012	4,521,190	1,705,654	2.650708
9/14/2012	4,303,704	1,414,129	3.043360
8/31/2012	4,653,800	1,501,949	2.923335
8/15/2012	5,040,702	2,802,163	1.742883
7/31/2012	5,452,793	1,707,514	3.193410
7/13/2012	5,107,387	2,110,754	2.419698
6/29/2012	4,841,580	2,421,582	1.916755
6/15/2012	4,550,378	2,208,504	1.979712
5/31/2012	4,535,228	2,505,874	1.747226
5/15/2012	4,770,585	2,501,894	1.840571
4/30/2012	4,880,358	1,380,565	3.535043
4/13/2012	5,804,408	1,885,282	3.325500
3/30/2012	5,807,188	1,270,887	4.412011
3/15/2012	5,888,048	1,508,808	3.761626
2/29/2012	7,355,443	3,107,939	2.360227
2/15/2012	6,840,287	1,909,782	3.420551
1/31/2012	6,531,970	2,049,510	3.187089
1/13/2012	6,540,977	2,220,732	2.945415



Copy/paste the chart to the right of the “short interest” table, immediately follow the table below



**NOTE:** You are encouraged to look at the short interest information for two of the companies’ closest competitors. This will help gauge whether the sentiment indicated in the short interest statistics is company specific or industry-wide.

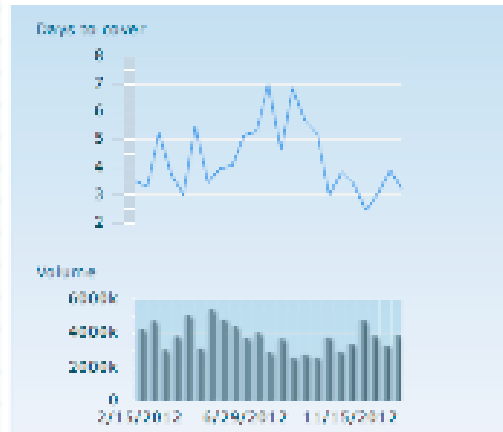
The following information is for Macy’s a close competitor to Nordstrom

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/15/2013	8,363,188	8,543,571	1.278077
12/31/2012	9,730,000	5,258,636	1.850290
12/14/2012	7,742,630	5,360,443	1.444401
11/30/2012	7,923,780	6,857,704	1.155457
11/15/2012	8,585,621	5,492,753	1.559440
10/31/2012	6,736,429	4,222,870	1.593804
10/15/2012	6,947,380	4,585,003	1.521879
9/28/2012	6,729,265	5,433,283	1.238527
9/14/2012	5,447,710	5,121,815	1.063629
8/31/2012	6,288,734	4,287,507	1.473632
8/15/2012	6,975,705	6,146,272	1.134949
7/31/2012	7,878,898	6,587,171	1.196097
7/13/2012	7,159,133	6,281,344	1.139745
6/29/2012	8,791,791	7,285,814	1.206700
6/15/2012	8,284,865	6,035,237	1.372749
5/31/2012	8,004,911	6,562,786	1.219743
5/15/2012	8,197,151	7,895,636	1.038181
4/30/2012	9,697,449	4,855,712	1.997122
4/13/2012	8,958,217	5,038,888	1.777818
3/30/2012	8,688,316	5,089,129	1.707230
3/15/2012	8,368,797	5,935,881	1.409866
2/29/2012	8,343,574	6,951,448	1.344119
2/15/2012	7,827,401	5,737,633	1.364221
1/31/2012	8,297,003	6,792,381	1.221520
1/13/2012	14,036,326	7,982,214	1.762887



The following is information about Kohls

Settlement Date	Short Interest	Avg Daily Share Volume	Days To Cover
1/15/2013	12,378,627	3,874,350	3.196013
12/31/2012	12,650,339	3,245,811	3.897435
12/14/2012	11,631,933	3,828,443	3.038293
11/30/2012	11,576,816	4,719,026	2.453221
11/15/2012	11,426,615	3,336,292	3.424945
10/31/2012	11,182,721	2,914,906	3.836392
10/15/2012	11,360,986	3,779,736	3.005762
9/28/2012	13,330,730	2,562,621	5.201990
9/14/2012	15,557,654	2,736,427	5.685390
8/31/2012	17,571,229	2,584,065	6.852880
8/15/2012	16,887,822	3,658,702	4.615796
7/31/2012	19,956,180	2,846,309	7.011249
7/13/2012	21,252,528	4,008,266	5.302175
6/29/2012	19,184,744	3,726,351	5.148400
6/15/2012	17,914,199	4,394,250	4.076728
5/31/2012	18,950,406	4,802,254	3.946148
5/15/2012	18,511,337	5,387,779	3.435801
4/30/2012	16,918,471	3,085,077	5.483970
4/13/2012	15,103,382	5,051,351	2.989960
3/30/2012	14,266,623	3,803,948	3.750478
3/15/2012	15,707,691	2,979,832	5.271334
2/29/2012	15,438,468	4,686,605	3.294169
2/15/2012	14,911,083	4,221,769	3.531951



Settlement Date	Short Interest	Average Daily Shares Volume	# of Days to cover
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From <http://finance.yahoo.com/>

Complete the following table with information from the *“share statistics” table*.

Avg Vol (3 month)	Avg Vol (10 day)	Shares Outstanding	Float
2,132,150	1,315,440	200.09m	150.55m
Shares Short (Most recent date)	Short Ratio (Most recent date)	Short % of Float (Most recent date)	Shares Short (2 weeks prior)
5.65m	2.2	3.6%	5.21m

**Based on the short interest statistics and its recent trend, how is the market sentiment on the stock? Has the sentiment turned more bullish or bearish over the last year? How about in more recent month and why?**

Over the last year the short interest on Nordstrom and days to cover has decreased, but it has increased in then last month, which is more of an immediate concern, because of the importance of the holiday season and their upcoming earning report on the most recent fiscal year. However this may be a trend in the retail industry. Macy’s is down from a very high level of short interest a year ago, but the short interest is higher than it was a month ago for that company as well. The same is true for Kohl’s, the short interest in down from the levels it was a year ago, but up in the last month. In general Macy’s, which is a very similar company to Nordstrom, had higher short interest over the course of the last year, but lower days to cover. Macy’s has more shares trading than Nordstrom so it would make sense their short interest would be higher as well. In the last year Macy’s highest days to cover was 1.76, and that was a year ago, and the other numbers don’t come close. Nordstrom on the other hand had a high of 4.41 on 3/30/2012 and had days to cover trading close to that number for a while(Nasdaq.com). The days-to-cover numbers represent that perhaps the market is more bearish on Nordstrom than they are about Macys. However the days-to-cover for Kohl’s has been much higher than both Macy’s and Nordstrom, with a high of about 7.01 on July/31/2012 (Nasdaq.com). Also Macy’s short ratio is 1.4 and short % of float is 2% (finance.yahoo.com).

This is lower than Nordstrom's short ratio of 2, and short % of float of 3.6%. I feel that with the retail sector reporting slower holiday sales, the market took a bearish sentiment on the industry as a whole in the last month. However even when comparing Nordstrom to a competitor within the industry they had more bearish numbers than Macy's. This is a bearish sentiment on Nordstrom.

## Section (I) Stock Charts

### A three months price chart

Copy/paste the "3 Mos." stock chart here



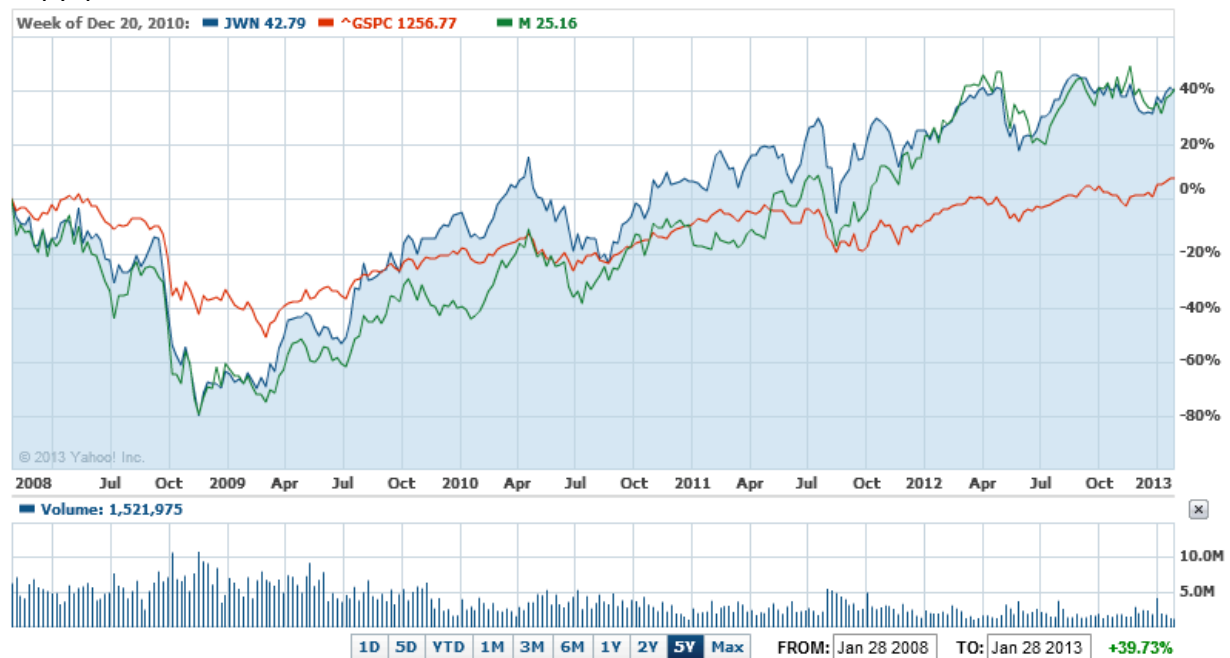
### A one year price chart

Copy/paste the "1 Yr" stock chart here



## A five year price chart

Copy/paste the "5 Yrs." stock chart here



6 months 10 day and 50 day moving average with RSI.

# Nordstrom, Inc. Common Stock



2 year 50 day and 200 day moving average with RSI



**Discuss what you observe from the stock charts. This should include comparing your stock to competitors, sector, and SP500 over the three different time horizons.**

The five-year stock chart looks somewhat as expected for a company in the consumer discretionary industry. During the downturn in 2009 Nordstrom dropped below the S&P 500, but has been outperforming it since 2009. It has stayed fairly consistent to Macy's over the 5-year period, and was outperforming it from April 2009 to October 2012, where the two became extremely close, almost on top of one another in the price chart.

The one-year stock chart looks somewhat similar to the 5-year stock chart. Nordstrom is almost always outperforming the S&P but has been outperformed by the market since December. Nordstrom follows the market fairly closely, as does its main competitor Macy's. However Macy's seems to be outperforming Nordstrom most of the year, with only a few short intervals when Nordstrom was performing better than they were.

The three-month stock chart shows Nordstrom being outperformed by its competitor, the sector and the market as a whole. One reason for this was perhaps the worry about the fiscal cliff, and Nordstrom being in a cyclical industry but that does not explain why it is being outperformed by its sector and Macys. That may be due to worry over holiday sales and Nordstrom did not participate in early Black Friday deals, or almost any deals at all to kick-start the holiday season, so their holiday sales may be less known.

The first technical analysis shows the 10-day moving average 50-day moving average over a 6-month period. This shows a positive outlook for Nordstrom. Just recently Nordstrom achieved "a golden cross" where the 10-day moving average surpassed the 50-day moving average. The relative strength index has been between 80 and 20 the whole time, but is right around 65 now, which is somewhat of a disconcerting sentiment.

The second technical analysis shows the 50-day moving average as well as the 200-day moving average for Nordstrom over 2 years. This graph is more worrying than the 6 month moving average chart. It appears that the 50 day moving average has just crossed below the 200 day moving average, which is known as "the death cross". This indicates that Nordstrom may have lost some of its short term steam and be heading downhill. However this has happened twice over the course of the last two years, and the stock actually responded by trending upwards after such a cross occurs. The relative strength index over the last two years has stayed within the 80 to 20 range and has consistently gone up and down with the stock price but is currently at around 65 and seems to be going up, which isn't a great sign for Nordstrom as the stock price tends to follow the RSI pretty closely.



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