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Nordstrom family may try again to gain control of troubled retailer

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Fifteen months after a failed bid to buy all of their namesake company, the Nordstrom family may try again to gain majority control of the retailer.

The Wall Street Journal reported Wednesday that members of the Nordstrom family, which now holds 31.3% of the Seattle-based company's publicly traded shares, are "in the early stages of discussing a proposal" to increase that stake more than 50%.

It was not clear from the report whether the Nordstrom family would seek to go beyond a majority stake and buy all outstanding shares, which would turn Nordstrom into a private firm shielded from the scrutiny of shareholders, analysts and the media.

Founded in 1901, Nordstrom has been a public company since 1971.

Nordstrom officials declined to comment on the Journal story, which cited unnamed sources said to be familiar with the family's new proposal. "We don't comment on rumors or speculation in the market," a company spokeswoman said Wednesday.

But moving to either gain a majority stake or go private, if successful, arguably would complement Nordstrom's efforts at a turnaround after several quarters of falling sales and a flagging stock price, experts said.

Shares in Nordstrom, which were trading as high as $67.74 in November, have dipped below $29 in recent months after the company reported a series of strategic missteps and a 3.5% year-over-year decline in first quarter sales in May. The company reports its second quarter earnings on August 21.

Coming amid a broader slump among bricks-and-mortar retailers, Nordstrom's struggles have upset investors and some independent members on the company's board. According to the Journal, some board members have pushed to bring in an outside executive to replace the Nordstrom brothers Erik and Pete, who have run the company since the death of their elder brother Blake in January.

Industry experts said that taking the company private could allow the Nordstrom brothers and their management team to focus on a long-term turnaround strategy without having to deal with investor pressure for quick profits to boost share price.

Being a publicly traded company "puts pressure on you always, especially in the United States — everyone thinks earnings-per-share on a short-term basis," said Ron Friedman, leader of consumer products and retail at Marcum, an accounting and advisory firm. That pressure makes it very difficult for companies to "think out long-term — where you're going to be in five to 10 years."

Escaping that short-term market pressure was one reason the Nordstrom family, in June 2017, launched its first effort to take the company private, offering to repurchase the 68.7 percent of company shares not already owned by the family.

On March 5, 2018, a group of Nordstrom family members, including the three Nordstrom brothers, also board members, floated a tentative price of $50 per share as part of their proposal to repurchase outstanding shares.

But that effort ended later in March after several other board members rejected the $50 price and family members either would not, or could not, substantially raise their offer.

Whether the Nordstroms would have better success with a second attempt is difficult to know, experts said.

On the one hand, today's lower share price likely would make the buyout substantially cheaper. At Wednesday's closing price of $33.11, the nonfamily shares are worth just over $5 billion, not counting any buyout premium. That’s substantially less than the roughly $8 billion the Nordstroms would have paid under their $50 offer, according to the Journal.

However, as the Journal noted, some board members “are wary of allowing the family to take advantage of the stock drop to increase its ownership when they blame its management for the decline.”

What’s more, industry experts say the family might find it even harder to get financing for the deal today than a year ago, given the company’s recent performance problems and the mounting challenges facing the retail sector.

Getting financing “is so much harder when people question the future viability of the business itself,” said Richard Kestenbaum, a partner at Triangle Capital, an investment banking firm.

By the same token, Kestenbaum said, that uncertainty might actually serve to bolster the Nordstroms’ case to take the company private — or, at the very least, resist any efforts to bring in an outsider to run the venerable retailer.

Such a move would only make sense if the board could recruit an outside executive with “a proven track record dealing, successfully, with the issues the company faces today,” Kestenbaum said. But “because retail is so uncertain, there is no such person, because no one has figured out what retail should be.”

He added, “the board would be very hard-pressed to say that any particular person has a better chance of figuring out what the future of Nordstrom should be more than the Nordstrom family.”

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