

FY 2023 Q1 Earnings Release Conference Call Transcript
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PRESENTATION

[Operator]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2023 first quarter conference call. For those who want to reference today's press release you'll find it at investors.nike.com. Leading today's call is Paul Trussell, VP of Investor Relations and Strategic Finance. Before I turn the call over to Mr. Trussell, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC including the annual report filed on Form 10-K.

Some forward-looking statements may concern expectations of future revenue growth or gross margin. In addition, participants may discuss non-GAAP financial measures, including references to constant-dollar revenue. References to constant-dollar revenue are intended to provide context as to the performance of the business eliminating foreign exchange fluctuations. Participants may also make references to other non-public financial and statistical information and non-GAAP financial measures. To the extent non-public financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliations will be made available at NIKE's website, investors.nike.com.

Now I would like to turn the call over to Paul Trussell.

[Paul Trussell]

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2023 first quarter results.

As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about an hour ago, or at our website: investors.nike.com.

Joining us on today's call will be NIKE, Inc. President and CEO John Donahoe, and our Chief Financial Officer, Matt Friend.

Following their prepared remarks, we will take your questions. We would like to allow as many of you to ask questions as possible in our allotted time. So, we would appreciate you limiting your initial question to one. Thanks for your cooperation on this.

I'll now turn the call over to NIKE, Inc. President and CEO John Donahoe.

[John Donahoe]

Thank you, Paul, and hello to everyone on today's call.

Before we get started, I want to give a special shout-out to the greatest of all time, Serena Williams, following her final tournament at the U.S. Open. Serena doesn't like to use the word "retired," so I won't either, but on behalf of the entire NIKE family and sport fans around the world, we're going to miss seeing her play. We're thrilled to see what she does next as she continues to serve as an inspiration in everything she does. Serena, on behalf of everyone at NIKE, thank you.

Turning to our Q1 performance, our teams continue to prove their ability to operate through volatility while also staying focused on the long-term. For the quarter, our revenue growth was 4% on a reported basis and 10% on a currency-neutral basis, led by double-digit growth in our North America, EMEA, and APLA geographies.

I'm proud of our results this quarter as our brand momentum, culture of innovation, and proven operational playbook delivered yet another quarter of strong revenue growth. Our brand strength continues to give us confidence in sustaining our top line momentum.

These results reflect our deep connection to consumers around the world as we keep them in the center of all that we do. Our Consumer Direct Acceleration strategy enables us to create value around consumer creation, consumer demand, and an entire marketplace fueled by the lifelong relationships we maintain. This significant momentum that we're seeing is fueled by structural tailwinds that continue to create energy for us.

NIKE's growth is strengthened quarter by quarter by the expanded definition of sport, by the societal movement toward comfort and health and wellness, and by the fundamental shift in consumer behavior toward digital. These advantages, along with our scale, the strength of our portfolio of brands, and the right strategy renew our confidence in a more populated competitive landscape. As the world's largest sports apparel and footwear Company, we are happy to set the pace in serving the consumer.

At NIKE, our focus remains not only to grow market share, but also to invest to grow the entire market. Our ability to expand the world of sport and our ability to create the future of sport itself is why I wouldn't trade NIKE's position with anyone.

Now, as we look at this quarter's strong results, we can see our brand momentum and global portfolio come to life. This is true across the three areas I'd like to walk through today: our brand that deeply connects with consumers, fueled by authenticity and sport; our culture of innovation that drives a continuous pipeline of new product; and our competitive advantage across the marketplace as one of the few brands that can connect with and serve consumers at scale.

Let's start with NIKE's strong brand and our connection to sport, which differentiates us all over the globe. Consumers continue to rate us their number one cool and number one favorite brand as we connect directly and deeply with consumers worldwide. No matter the

macroeconomic dynamics, no matter the competitive landscape, the NIKE brand, and indeed all three of our brands including Jordan and Converse, have created meaningful relationships with consumers across age, gender, ethnicity, and more.

This brand momentum is fueled time and time again by our athletes and teams. No other brand in the world can match our roster as we help them perform at their very best. Just look at women's football this quarter. Two fabulous international tournaments ended with NIKE Federation on top, with England winning the Euro Champs and Brazil's winner of the Copa América. What's particularly exciting is that these two wildly popular teams will compete in the inaugural Women's Finalissima, the first of a kind women's match between the European and South American champions. This historic match is slated for February 2023, and we can't wait.

Speaking of can't wait, we're very excited for the Men's World Cup later this year, and the Women's World Cup next summer. This will truly be one of the greatest 18 months in football history and NIKE will be there in full force.

Now, our brand strength and consumer connection will continue to be driven by storytelling through sport in a way that only NIKE can. In tennis, I mentioned Serena's farewell to the sport at the U.S. Open, but the new generation made some noise there too. Carlos Alcaraz won the men's side at 19 years old to become the youngest men's number one ever. Along with Frances Tiafoe and Jannik Sinner, the future of men's tennis was on full display, with NIKE proud to represent this next generation of exciting players.

Also in the quarter, the Las Vegas Aces won the WNBA title, led by Coach of the Year Becky Hammon, Kelsey Plum, and League MVP A'ja Wilson, and American football is now back, with the Swoosh won by all 32 NFL teams and NIKE and Jordan representing 21 schools in college football's top 25.

Finally, in the Berlin Marathon last week, Eliud Kipchoge smashed his own world record, running the marathon in an incredible two hours, one minute, and nine seconds while wearing the Alphafly Next% 2. Simply put, we have a roster of athletes, teams, leagues,

and federations that represents the very best in sport, creating inspiration for consumers worldwide.

Let's move to innovation. As we've said before, NIKE's relentless pipeline of innovative product continues to create separation between us and our competition. Today, we have incredible momentum in key products and franchises across the spectrum of lifestyle and performance. What excites us even more is the energy and anticipation we're feeling for the innovative product that's next in the pipeline. We're now starting to see the product that reflects our shift two years ago to our new consumer construct of Men's, Women's, and Kids, and the impact it's had is remarkable.

We're also excited about how we'll be connecting this product to the consumer. Today, we're working toward being more seasonally relevant across the full assortment, so the energy we're creating from an innovation standpoint, when combined with how we plan to story-tell and connect it to the marketplace, gives us immense confidence as we look ahead.

Earlier, I mentioned this landmark 18 months for global football we've got coming up. We created a football boot to match the moment. During the Women's Euro Champs this past summer, we debuted the Air Zoom Mercurial, which for the first time adds a Zoom airbag to what was already our fastest football boot. This gives the footballer an even greater sense of snappy propulsive energy return.

The new Mercurial and energy around it is NIKE at its best, as products, storytelling, the marketplace, and elite athletes come together to connect this innovation to consumers. With our best boot ready for the biggest stages of the world's most popular game, not to mention a full lineup of Federation Kits, we're thrilled about translating this energy into commercial opportunity.

Our culture of innovation is fueled not just by what we make, but also how we make it. We're always looking to increase the pace and precision of product creation. New VR design software and simulation tools allow our designers and engineers to collaborate in real-time like never before. This transformative path to continuous new innovation is highlighted by

the new Air Max Scorpion. The Scorpion, which is an eye-catching shoe that offers our most Air ever in terms of pounds per square inch, followed a development timeline of just 18 months. In fact, our digital transformation investments directly led to Scorpion's breakthrough innovation within our iconic Air franchise.

How did that happen? Well, thanks to computational design pioneered by NIKE for industrial design uses, Scorpion introduces a radical new system for airbags, moving from simple forms into complex, new geometries for a unique underfoot sensation that has to be felt to be believed. Moving forward, we plan to accelerate the use of our industry-leading digital creation tools to bring new excitement to our biggest franchises.

Now, during last quarter's call, I mentioned a new platform that we believe has the potential to change the apparel industry. As some of you have seen with its launch last week, I'm talking about NIKE Forward, our biggest apparel innovation since Dri-FIT 30 years ago. NIKE Forward revolutionizes apparel creation to make premium, sustainably minded product that offers brand new comfortable sensation.

The truth is, NIKE Forward feels different because it is different. Forward's being introduced in hoodies and crewnecks for men and women that feature raw cut pockets, minimal seams, and a modern silhouette. This innovative product is warm and yet lightweight, with a future-forward look that consumers have responded to since its unveiling last week.

As the consumer focus on comfort continues to gain momentum, we see vast opportunity ahead for scaling Forward in our entire performance-driven sportswear apparel business. From performance to sportswear to sustainability, NIKE has always married the art and science of product creation as we use innovation and design to connect with and inspire consumers all over the globe.

My third and final point today is our competitive advantage across the marketplace. We're continuing to accelerate against our One NIKE Marketplace approach, in which we directly connect with the consumer, no matter where they shop, and with each channel playing an integrated role in the consumer's overall journey.

Now, our approach starts with NIKE Digital, as that's where most consumers begin their shopping journeys. Then it's augmented by our strategic wholesale partners who share our vision to provide a consistent premium and seamless consumer experience. Last but not least are our monobrand stores, which continue to play the key role of supplementing where there are gaps in the marketplace, such as women's or Jordan.

Now this quarter, we delivered NIKE Digital's highest net revenue quarter ever. We see consumers continuing to vote for NIKE Digital as the NIKE commerce app had its highest traffic in history during Q1. We keep elevating our ability to serve these consumers. For example, new membership tools we put in place last year in Fiscal '22 that went live in Q1 create one-to-one connections at scale by delivering personalized consumer journeys and experiences, which in turn drive first purchases and increased loyalty.

The SNKRS app continues to fuel energy to our growing audience of high-value members. We're bringing this community an almost daily flow of compelling content and product launches. In Q1 for example, SNKRS saw its most member entries ever for the Travis Scott AJ1 that dropped in July. With a record 3.8 million-member entries for just a single shoe, SNKRS continues to impress as it offers the perfect intersection of content, community, and commerce.

Second, our partners are and will remain a vitally important part of our marketplace strategy. Partners enable us to serve consumers with expanded access, choice, and convenience, and above all, letting us know and serve these consumers across the full marketplace. Today, we're seeing growth through our partners and improved retail sales. For example, back-to-school was strong as supply continues to improve, and traffic and sell-through continued to accelerate.

As we continue to focus on giving consumers personalized experiences regardless of channel, the key remains connected membership. This model gives shopper the benefits of NIKE membership in partner stores, accelerating in-store conversion, engagement, and improving customer lifetime value.

Now, as you know, connected membership again last year, with DICK'S Sporting Goods, before two of our key partners in Greater China joined in, Topsport and Pou Sheng. Today, we're very excited to announce that we're now extending connected membership to EMEA with Zalando and JD Sports, as increased opportunities for connected data and inventory make us even quicker and more precise in jointly serving the consumer.

In fact, just two days ago, we hosted our first in-person NIKE Partner Summit in over two years, in which we brought to Beaverton a group of 24 of our top retail partners, representing 76 countries. The Summit was a great opportunity for us to accelerate into the future together with a unified vision and belief in partnership and collaboration. It was clear that our partners were excited to get the sneak peek at our upcoming product, as well as getting a deeper dive in our strategy.

NIKE will continue investing to deliver the very best brand in the industry to elevate our collective gain, with the right product experiences and unmatched storytelling through content and insights to help us win with the consumer. These strategic partnerships are truly win-win, with plenty of opportunities still ahead.

Finally in our marketplace strategy, we continue to build a compelling retail footprint with our own brick-and-mortar fleet. As Direct becomes an even bigger part of our business, we're investing in becoming a better retailer as we pursue our goal of becoming world-class in this space. In a dynamic retail environment, our global traffic is up, thanks in part to the unique NIKE experiences we offer across our assortment of retail concepts.

For instance, in July, we opened our first NIKE Rise store in EMEA, NIKE West London, following the success of NIKE Rise in China and Korea. All three NIKE Rise stores use real-time shopping insights and a community focus to deliver tailored in-store experiences for consumers. NIKE West London uses local sports like football and running, along with data on the city and its athletes to create something that cannot be replicated anywhere else.

In the end, our strong brand momentum speaks to our continued belief that these are times when strong brands get stronger. We're supercharging how we serve consumers, with innovation, direct connection, and experiences that create lifelong relationships with our brands. There's never been a better time to be in the sport and wellness business, and I'm confident in our ability to not just stay at the front of the pack, but also to extend and expand our lead.

With that, I'll turn the call over to Matt.

[Matt Friend]

Thanks, John, and hello to everyone on the call.

Our first quarter in Fiscal '23 demonstrated again the deep consumer connection and strong demand for NIKE, Jordan, and Converse. In a dynamic operating environment, we delivered top line results ahead of plan, more than offsetting foreign exchange headwinds. With industry-leading digital growth, positive retail traffic in our stores and online, and more product available for consumers across the marketplace, the power of NIKE's portfolio continues to fuel business momentum.

At our core, NIKE is a growth Company built on a passion for serving athletes. Fifty years later, this passion inspires consumers worldwide through our commitment to product innovation and our belief that sport can change the world. Today, NIKE's potential for growth has no limits as we create our future through a steadfast focus on serving the consumer.

At the same time, we are closely monitoring an operating environment that continues to be disruptive. Before discussing our first quarter financial results, let me provide a deeper view into the latest shifts we are seeing and the actions we are taking to manage our business for the long-term.

Over the past three years, we have leveraged our operational playbook to manage through supply chain disruption and COVID-related store closures. I could not be more proud of how

our team continues to adapt to changing circumstances, with a relentless focus on getting the right product to the right place at the right time.

This quarter, it became clear to us that conditions in North America are shifting once again. Earlier ordering by retailers, driven by strong consumer demand and less predictable delivery timelines, had led to elevated inventory levels broadly across consumer goods. Then transit times began to rapidly improve, with signals that further improvement may be coming.

At the same time, consumers are facing greater economic uncertainty, and promotional activity across the marketplace is accelerating, especially in apparel. As a result, we face a new degree of complexity. Demand for NIKE, Jordan, and Converse continues to be uniquely strong with positive consumer response and high full-price realization on fresh seasonal assortments and key product franchises. In September, month-to-date retail sales are up double-digits versus the prior year, following a strong back-to-school season.

However, our North America inventory grew 65% versus the prior year, with in-transit inventory growing approximately 85%. This reflects the combination of late delivery for the past two seasons, plus early holiday orders that are now set to arrive earlier than planned, and a prior year that was impacted by factory closures in Vietnam and Indonesia.

As a result, we are taking decisive action to clear excess inventory, focusing on specific pockets of seasonally late product, predominantly in apparel. While we expect this to have a transitory impact on gross margins this fiscal year, we believe that this cost will be far outweighed by the benefit of clearing marketplace capacity to align seasonally relevant product, storytelling, and retail experiences for the consumer.

Time and again, this is how NIKE responds to adversity: we adapt, we compete, and we accelerate forward. With strong brand momentum, improving deliveries, and a robust innovation pipeline, we're acting now to set the stage for future seasons of sustainable profitable growth.

Looking ahead, we are especially excited about the breadth and depth of our product pipeline. This includes innovation platforms that break new ground in performance and sustainability: women's apparel completely redesigned for fit, sensation, and support; a renewed focus on serving everyday runners with the world's best running innovation across price points; a total refresh of our signature basketball line across brands; new sportswear collaborations with the leaders of youth culture; and the next chapters of our most iconic product franchises.

NIKE's authenticity as the champion for athletes and sport has always been one of our greatest strengths. Over the next 18 months, we'll drive consumer energy through new product and storytelling; in essence, doing what NIKE does best.

NIKE's competitive advantages are also growing as the Consumer Direct Acceleration transforms our operating model, driving deeper and more direct connections through digital. NIKE membership serves as a catalyst for digital growth, driving greater engagement and higher lifetime value in our highest-margin channel.

This quarter, repeat buying members grew by over 30%, with increased buying frequency and demand across total NIKE members. In fact, many of our most important membership benchmarks, reflecting how well we convert, engage, and retain buying members, are at near all-time highs. These trends give us confidence that we have a strong and loyal member foundation to drive digital growth ahead.

Since Fiscal '19, our digital business has nearly tripled to exceed \$10 billion in revenue, representing 24% of total NIKE brand revenue in Fiscal '22. Over this period, NIKE direct gross margins expanded, through the combination of rapid digital growth and improvements in channel margin profitability, ultimately fueling NIKE's overall gross margin expansion, despite being partially offset by transitory headwinds experienced through the pandemic.

While we continue to manage through short-term dynamics, these structural tailwinds give us confidence that we are making progress towards our long-term financial goals.

Now let me turn to our NIKE, Inc. first quarter financial results. In Q1, NIKE, Inc. revenue grew 4% and 10% on a currency-neutral basis. This was led by 14% growth in NIKE Direct and 8% growth in Wholesale. NIKE Digital grew 23%, with double-digit growth across EMEA, North America, and APLA, fueled by increasing traffic, higher conversion, and growth in average order value.

First quarter reported gross margin declined 220 basis points to 44.3%. This was primarily due to elevated freight and logistics costs, plus higher markdowns across the marketplace in North America and unfavorable changes in net foreign currency exchange rates.

SG&A grew 10% in Q1, primarily due to wage-related expenses, strategic technology investments, increased NIKE Direct costs, and increased demand creation expenses.

Our effective tax rate for the quarter was 19.7% compared to 11% for the same period last year, primarily due to decreased benefits from stock-based compensation.

First quarter diluted earnings per share was \$0.93. Finally, inventories were \$9.7 billion, up 44% compared to the prior year, driven by volatility in transit times in North America, strategic decisions to buy inventory for future seasons earlier, and lower inventory levels due to last year's factory closures in Vietnam and Indonesia.

Now let's review the operating segments. In North America, Q1 revenue grew 13% and EBIT declined 4%. NIKE Direct grew 13% versus the prior year, outpacing the broader market with double-digit in-store and digital traffic growth. NIKE Digital grew 19%, fueled by member demand and the NIKE app. Wholesale revenue grew low double-digits, with strong growth from strategic partners such as DICK'S and JD Finish Line, as well as our authenticated partners.

NIKE continues to lead as the number one cool and number one favorite brand in North America. We're driving momentum across key consumer and sport dimensions, including positive consumer response to the Pegasus 39, Invincible 2, and Infinity 3 in performance running; high sell-through and full-price realization across key footwear franchises, such as

Air Force 1, Dunk, and the Air Max 270; and broad-based growth across Men's, Women's, Kids, and Jordan on improved inventory supply.

As I previously discussed, we started to increase promotional activity in the first quarter and expect the broader marketplace to be promotional, at least through the end of the calendar year. We expect that total inventory in North America peaked in Q1, and we anticipate seeing sequential improvement over the year as we rebalance supply and continue serving strong consumer demand.

As we prioritize a healthy pull market, we are confident that our brand strength and decisive actions positions us well to compete and to capture market share.

In EMEA, we saw record results. Q1 revenue grew 17% on a currency-neutral basis. EBIT grew 11% on a reported basis, with broad-based growth and strong gross margin expansion driving the most profitable quarter in EMEA history, despite significant foreign exchange headwinds. NIKE Direct grew 20% on a currency-neutral basis, and NIKE Digital grew 46%.

Running delivered solid growth, with strong consumer response to the Pegasus 39, Invincible 2, and the Peg Trail 4. We also celebrated our most successful Mercurial launch ever and an unforgettable moment for women's sport at the European Championships, with our Never Settle, Never Done campaign driving over 450 million impressions.

Since Fiscal '19, EMEA gross margins have expanded by more than 500 basis points, with NIKE Digital increasing its penetration from 7% to 20%, nearly tripling its share of EMEA NIKE brand revenue. This is another great proof point for how our consumer-led digital transformation is accelerating NIKE's growth and profitability.

Next, I'll provide some color around our results in Greater China. In Q1, revenue declined 13% on a currency-neutral basis, and EBIT declined 23% on a reported basis. NIKE Direct declined 2% on a currency-neutral basis, with a 5% decline in NIKE Digital. While COVID-related disruption had meaningful impact on store operations and retail traffic, business

performance and inventory management are ahead of plan as we continue to proactively recalibrate supply and demand.

Brand strength is our competitive advantage, with NIKE setting the pace as Chinese consumers' number one cool and number one favorite brand, further extending our lead among teams. Product innovation remains a key differentiator, with strong sell-through from the Alphafly Next% 2, the Pegasus 39, the G.T. Cut 2, and other performance products. Jordan brand's momentum was another highlight, with year-over-year growth driven by a standout Luka 1 launch, key franchise strength, and the energy of Jordan's 25th anniversary campaign.

We continue to deepen connections with Chinese consumers in locally relevant ways, from elevating the street dance community with hyper-local product and storytelling to igniting youth basketball culture through the lens of the Chinese High School Basketball League. With Gen Z member demand growing more than 25% versus last year on NIKE's digital platforms and the newly launched, localized NIKE app already leading as the number one brand shopping app, we're more encouraged than ever about NIKE's opportunity to serve Chinese consumers with distinct, premium, and localized experiences.

As mentioned last quarter, we are taking a cautious near-term approach in Greater China, given the ongoing risks of COVID-related disruption. However, our brand and business momentum gives us increasing confidence that NIKE's unique value proposition will fuel long-term growth in Greater China.

As we turn to APLA, Q1 revenue grew 16% on a currency-neutral basis, and EBIT grew 4% on a reported basis. We delivered our third consecutive quarter of double-digit, currency-neutral growth, led by Southeast Asia and India and Korea. NIKE Direct grew 30% on a currency-neutral basis, led by 29% growth in NIKE Digital and 31% growth from NIKE-owned stores.

Our Member Days offense continues to accelerate member engagement, tripling repeat buying versus the prior year. Women's continues to deliver outsized growth, with momentum in performance running, footwear, bras, and sports style innovation footwear like Air Max.

Performance fueled strong growth in Men's, with the launch of Pegasus, Infinity, and Invincible in running, and the Mercurial in global football. In addition, we have now transitioned our businesses in Argentina, Chile, and Uruguay to a distributor model.

Now I'll turn to our updated financial outlook for Fiscal '23. To date, we continue to see strong consumer demand for our portfolio of brands across our geographies. We are closely monitoring consumer confidence and behavior, and ultimately, the implications of high inflation on consumer demand.

We've managed through cycles like this before, and we know these are times to stay on the offense, leveraging our financial strength to prioritize a quicker return to a healthy pull market. In this environment, strong brands set the pace, and we are confident NIKE will emerge even stronger. We are focused on what we can control as we take a measured approach against an uncertain macro outlook.

Accordingly, we will tighten up our second half buys and liquidate excess inventory more aggressively beginning in the second quarter, focusing the flow of new product to our strategic partners and NIKE Direct.

Headwinds from foreign exchange have also shifted significantly in the last 90 days, as the trend of U.S. dollar strengthening has accelerated. Based on current spot rates, net of hedging activity, we estimate the full-year negative impact of foreign exchange on reported revenue and EBIT to now be approximately \$4 billion and \$900 million respectively, creating a wide divergence in constant versus real dollar performance.

We continue to expect currency-neutral revenue growth of low double-digits versus the prior year, equating to reported revenue growth of low-to-mid single-digits versus the prior year, assuming 800 basis points of foreign exchange headwinds.

We now expect gross margin to decline between 200 to 250 basis points versus the prior year. This reflects approximately 150 basis points of annual impact from higher markdowns and higher off-price mix to liquidate elevated inventory, a second straight year of more than 100 basis points of headwinds from elevated freight and logistics costs, and foreign exchange pressure now a 70-basis point headwind on the full year.

We now expect SG&A to increase high single-digits as we prioritize investment in new transformational capabilities to serve consumers directly and at scale, partially offset by tighter expense control and limited headcount growth across the business. We now expect the Fiscal '23 effective tax rate to be in the mid-to-high-teens range, primarily due to decreased benefits from stock-based compensation.

For the second quarter specifically, we expect reported revenue to grow low double-digits on strong consumer demand, despite 900 basis points of foreign exchange headwinds. We expect second quarter gross margins to decline approximately 350 to 400 basis points versus the prior year, the largest impact across the Fiscal Year as we discount out-of-season products more aggressively in a largely promotional marketplace. This will require higher markdowns in our own channels and through wholesale partners.

The second quarter also compares to last year's record level of full-price realization and includes headwinds from freight, logistics, and other supply chain costs, as well as foreign exchange.

As we look toward the rest of our fiscal year, we are confident in our strategy and in our opportunity ahead. While we expect circumstances to remain dynamic, we are optimistic as we continue to make progress towards our long-term financial goals. Our brand momentum is strong, the power of our portfolio is unrivaled, and our vision of NIKE's limitless potential is clear.

On that note, I'd like to close by thanking our 79,000 NIKE, Jordan, and Converse teammates around the world, who serve our mission with a passion for sport and a culture

of innovation unlike any other. They represent our true competitive advantage and our greatest reason for confidence as we create NIKE's future.

With that, let's open up the call for questions.

[Operator]

Your first question comes from the line of Bob Drbul with Guggenheim. Your line is open.

[Robert Drbul]

Hi. Good evening. A couple of questions.

The first one is, when you look at the inventory situation, and I guess specifically in North America, when do you think you will have recalibrated the supply/demand for NIKE? I guess, I'm just wondering what you think about the industry when you think the industry might also sort of be better in balance on the supply/demand equation? Thanks.

[Matt Friend]

Sure, Bob.

Well, as I mentioned on the call, our inventory grew 44% this quarter, which was led by 65% growth in North America. Maybe just as a point of context because you're right, it is North America where we're focused, where we've seen the most significant volatility and disruption in the supply chain, in Greater China, as an example, our inventory was down 3% versus the prior year, and we feel quite confident about our inventory levels in EMEA and APLA.

In North America in particular, we saw in-transit growth of 85%, and in-transit inventory now represents approximately 65%, so almost two-thirds of North America's total inventory. That's really being driven by a couple of factors. The first one is the disruption that started over a year ago when our factories closed for almost 15 weeks in Vietnam, and for a lesser

extent in Indonesia, and the decisions that were taken after that with regards to inventory that was in process to be made.

Secondly, we've seen quite a bit of volatility in transit times. We saw them increase in the second half of last year, and then most recently this quarter, we saw a significant improvement in transit times after we, and many others, had made the strategic decision to buy the holiday season earlier, because of the longer transit times. So, when we look at our overall inventory, we think that there's about 10% of the inventory that we're focused on, in terms of trying to drive more accelerated liquidation.

While our inventory was high at the end of the first quarter, we do expect to see sequential improvement in inventory balances from here, over the next three quarters. We plan to compete, as I mentioned, in a more promotional environment, and given the macro uncertainty that's out there for the consumer, we're taking a more measured approach and we're tightening our inventory buys around the world, based on some of the risks that could materialize in the second half.

We're confident that the actions that we're taking, which we started a bit in the first quarter and now we're more aggressively accelerating in the second quarter, are going to position us and our strategic partners very well for Fiscal '24.

[John Donahoe]

Bob, I'd add onto the second part of your question around—you're right, it's the entire industry, and so we're entering the next 90 days and the remainder of this fiscal year with the same mindset we've had the last 2.5 years, which is, through whatever period of turbulence we've got, we want to leverage our strengths to emerge in a stronger position than our competition at the other end of it.

In a promotional environment, brand strength matters. We will be aggressive, as Matt said, on liquidating excess inventory, but also coming hard with our key popular franchises to bring heat and energy to them, just like we did in Q1, like the Travis Scott AJ1. That had

very strong full-price realization. We've got a very strong innovation pipeline that will still be coming hard and hot in Q2, Q3, and Q4. You saw in Q1, we had the Air Zoom Mercurial; we had the Air Max Scorpion; the NIKE Forward. We've got a really strong innovation pipeline.

So, we talk about the transitional and the structural. The transitional is navigating through the inventory situation; the structural is leveraging our competitive advantages so we emerge in a stronger position, and we'll be playing offense on both.

[Robert Drbul]

Great. Thank you very much. Good luck.

[Operator]

Your next question comes from the line of Matthew Boss with JPMorgan. Your line is open.

[Matthew Boss]

Great. Thanks.

Maybe John, to that point, could you speak to the inflection in demand that you've seen in North America? What have you seen in early fall with full-price selling? Does any of this change your pipeline of innovation, and how will you balance this pipeline looking forward, of newness and technical innovation, while at the same time taking the aggressive inventory actions that you've outlined?

[John Donahoe]

Well, Matthew, it's just as Matt said earlier. We see strong consumer demand in North America currently. There's no signs of any softness. It was relatively promotional in August, but strong, strong into the first couple weeks of this quarter, and so, we again talk in terms of transitional and structural.

On a transitional basis, as Matt said, we're going to work through the excess inventory to get to a pull marketplace as fast as we can, and try to do it in an intelligent way that takes share, and as my predecessor used to say, through a few competitive elbows along the way.

Then, our innovation agenda is still going to continue full speed ahead. Consumers are responding to innovation and compelling storytelling, and that's been true. That's true in running, that's true with the Peg 39, and the innovations coming in our running line are excellent over the next year. We're very excited about building Pegasus, Invincible, Infinity, the entire what we call the must-win six.

We have a great basketball portfolio coming. You've seen the LeBron 20, right? Launched, already hard to get, if not sold out, and the LeBron 20 and what's beginning a real refresh of our entire basketball signature line, both in NIKE and Jordan.

In women's fitness, we've got a very strong—the Alate bra is out, with very good, early consumer response, and our entire tights line will be coming in, and full bra line in this coming fiscal year.

Then, Air Max Scorpion was the starting point in the lifestyle basis. We have a strong Air Max pipeline over the next six months to 12 months. We're going to be going full speed ahead on those with strong and compelling storytelling, and it's kind of a balance. We think those are the structural things that set us up to gain long-term share while we're navigating through the short-term, industry-wide excess inventory.

[Matt Friend]

I might just add, Matt, that when we look at our performance in Q1 and then to date in September, we're seeing double-digit growth in retail sales. We're bringing what we call fresh assortments, so new product into market. We are seeing strong consumer demand, strong average weekly sell-through, and high full-price realization.

I think the distinction here that we're trying to make is a distinction between footwear strength and seasonally appropriate product and innovation, and late-arriving apparel that has been impacted from the factory closures a year ago, and some of the decisions made around what to continue to make and bring to market, and then what's been impacted by transit times. We're really focused on trying to clear through that late, off-season apparel inventory that we have, predominantly in North America, but we do have a little bit of it in EMEA and APLA as well.

We continue to see strong month-to-date sales in EMEA and APLA as well, so our brand momentum is pretty clear around the world, and we continue to be encouraged as we see the way the consumer is responding to a greater availability of supply than we've been able to have over the past year.

[Operator]

Your next question comes from the line of Paul Lejuez with Citi. Your line is open.

[Paul Lejuez]

Hey, thanks, guys.

Curious how you're thinking about the international market, curious what the promotional levels look like in those markets, and how do you think about balancing the sales versus gross margin equation? Are you more likely to go for market share in the international markets, versus the (inaudible) margin? If you can maybe share your thinking on international, and anything outside of North America. Thanks.

[John Donahoe]

Maybe, Matt, I'll just make one comment and then...

You're going to hear a key theme over and over today. Our highest priority is building our long-term competitive position, and that's what we've been doing. Whether that's in China, coming out, where we are very enthusiastic about the signs we're seeing in China, and coming with a full wave of innovation and storytelling and hyper-localized innovation

storytelling we think will serve us well in China, and as Matt mentioned, EMEA and APLA, strong consumer demand with a strong pipeline.

Our ultimate goal and where we're prioritizing is, what's going to enable us to improve our competitive position and build that deeper relationship with consumers, with a direct connection, surrounded by membership that allows us to have a lifetime relationship with those consumers?

Then Matt, you can comment on some of the details.

[Matt Friend]

Yes, I'll just give you a couple of specifics and a couple of geographies, Paul.

In EMEA, as I mentioned, we saw significant gross margin expansion again this quarter, and a very high level of full-price realization, and so our performance and our approach in that marketplace has been one that's driving growth and profitability, and that strength has been true across channels, so in our own channels but across the Wholesale channel as well.

When we look at Greater China as an example, where we know that the marketplace has been more promotional because of what's transpired with regards to the COVID-related disruption that everybody's facing in that marketplace, we over-delivered our plan in Q1, and that wasn't just in our financial results. We saw stronger retail sales across the marketplace than we had planned. We were able to liquidate more units than we planned, and we saw a higher full-price realization in Greater China than we had planned.

As a result of that, we're increasingly confident that our inventory will be normalized by the end of this coming quarter and in a position to compete on a full-price basis.

The last thing I would probably just say, and I sort of alluded to it in my prepared remarks, but NIKE is at its best when we are able to bring together product, storytelling, and a retail

experience for the consumer. When you look at the depth and breadth of our product portfolio and the way that we dimensionalize our products for the consumer, it's a competitive advantage for us that makes our brand stand apart relative to others.

When we think about the way we're going to navigate the excess supply and liquidation relative to the way that we're trying to maintain a full-price marketplace for the new inventory that's flowing in, we're prioritizing the flow of new products to our strategic partners and to NIKE Direct, and so we'll use our factory stores, we'll use Digital a little bit in order to liquidate some of this excess apparel, and we'll use other partners in Wholesale to liquidate it, but we are focused on ensuring that the holiday product, as the starting season that's arriving on-time, is going to be set in the marketplace, in our strategic partners, so that we can put our best foot forward with the consumer.

[Operator]

Your next question comes from the line of Alex Straton with Morgan Stanley. Your line is open.

[Alex Straton]

Great. Thanks so much for taking my question.

I wanted to just hit on macro fears, which are obviously top of mind for investors right now, particularly as it relates to potential recession. Can you just talk about what your guidance assumes as it relates to any potential recession? Can you just remind us how NIKE has performed in previous periods of economic pressure, as well as if you've seen any signs of trade-downs so far within the business? Thank you.

[John Donahoe]

Yes, Alex.

We again will repeat some consistent things. We're coming off a strong quarter and we feel very good about our competitive position, and we have not yet seen any signs of slowdown.

That said, we don't have any crystal ball around the external factors, whether it's FX, whether it's inflation, whether it's the impact in energy prices on consumer spending.

Matt will talk a little bit about the assumptions we have built in to our second half, but what we're focused on is what we can control, which is staying on the offense. We believe that we can meet consumer demand regardless of the macro demand, meet consumers and gain share through this period. Whether that's in a promotional environment in North America in the next six to 12 months, or if that's in EMEA, APLA, and China as we've discussed, we feel like we can have better price realization and use our strong brand strength and product innovation to gain share during this period.

[Matt Friend]

Yes, and I just would add, specific to the guidance, that as John mentioned, in the first quarter, we exceeded our own internal plan, with double-digit currency-neutral growth. My guidance for second quarter was continuing to see strong consumer demand, with reported revenue growth growing low double-digits, and 900 basis points of foreign exchange. Given where we sit today, we're confident in the plan we have for the next 90 days and the way that the consumer is responding.

We're closely monitoring consumer confidence, and to give you an example, we've seen double-digit growth in retail sales in EMEA, in September, season-to-date, but we're seeing some softness in the U.K., and it's being more than offset by strength across the rest of the EMEA portfolio, in France, Germany, Italy, Spain, etc., and so we're taking a measured approach to the second half, and that specifically relates to the way we're planning inventory. For us, the decisions we take and the commitments we make to inventory end up mattering most in the context of the way that we look at the forward plan.

Our full-year forecast of low double-digit currency-neutral growth, given our performance in Q1 and what we anticipate for quarter two, is reflecting a more modest growth rate in the second half. That's us taking a measured approach. At the end of the day, like John said, we're going to focus on the consumer and leverage the operational playbook that we have,

where there are some very specific things we're doing with regards to excess inventory in North America.

But we're going to keep focused on the consumer, and we're confident that, to the extent that something more significant happens, we're taking some of the right actions now in order to position us well in that scenario.

[Operator]

Your next question comes from Brian Nagel with Oppenheimer. Your line is open.

[Brian Nagel]

Hi. Good evening. Thank you for taking my questions. A couple of questions.

First off, with regard to China, is there something you can point us to, to maybe help us understand better, help us frame better the underlying demand, the underlying healthy demand in that market? The reason I ask, you talk about it qualitatively. We see that numbers are still weak (phon); that's been primarily a function of the ongoing COVID disruption. Is there something more quantitative that we can see that will really help us understand that underlying demand?

Then the second question I have, and I know there's been a lot of questions on inventory already, as you think about this, shall we say, pocket of excess inventory that's now in the system, is it simply just delayed, or is there something else that encourages you to want to clear it as opposed to just work it through over a normal course of time at full price? Thank you.

[John Donahoe]

Brian, how about, Matt, I'll take the first and you take the second? Thanks, Brian, for the question.

On China, as you know, we've got a very strong local team there, led by Angela Dong, and they're doing a remarkable job navigating through this dynamic situation with the temporary COVID closures. Our hope is that that gets better over time, but that's a factor that—it's a little like inflation, we can't completely predict it.

The great news is our team there is showing great agility navigating through again, what we're calling a transitional environment, but structurally, we see some very encouraging signs of consumers. In fact, I was talking to Angela last night, and she's very clear that they're seeing Chinese consumers are emerging from these lockdowns with a real hunger for innovation, quality, and energized storytelling, particularly around sport, and that's what we do best.

They are responding to our strong flow of global innovative product. The G.T. Cut sold out, as Matt mentioned, Alphafly Next% sold out, but even more what they're responding to is when they take a global innovation and hyper-localize it. So the Peg 39, they hyper-localized it into a gel design; our dance pack, they hyper-localized. As a result, they're having the lowest markdowns in the industry and we're building a hyper local-brand voice there.

The NIKE mobile app and SNKRS are now fully localized, which allows us to, both in livestreaming and in other ways, deliver a very localized consumer journey and consumer experience. Matt mentioned some of the storytelling in his remarks around the Jordan 25th anniversary and what we're doing with High School Basketball, that it is connecting with consumers, and so we continue to be the number one cool and favorite brand. We are strengthening with young consumers and Gen Z consumers on that.

So, I don't know if there's quantitative; what is clear is that the Chinese consumer is ready to come back into the market. What they're looking for is innovation, quality, and storytelling, and we feel that plays well to our positioning and to our opportunity. We're optimistic.

[Matt Friend]

Yes, and I would just add that when we referenced that China grew ahead of our plan, 13% decline was better than we were anticipating in light of the fact that our team was planning for disruption, given the episodic closures by city that are occurring. Now, given the performance that we saw in the quarter, we saw retail sales across the overall marketplace increase relative to our plan align with that.

What I would say, Brian, is that this encouragement that we've been noticing for the past three quarters is really giving us confidence from across the marketplace that while we've been navigating through some near-term issues, that NIKE is positioned to grow in Greater China. The fact that we're moving quickly to move through our inventory will be a competitive advantage for us in that marketplace, and we're ready to compete beginning next quarter. We've got a great team, as John mentioned, and we think that we're toes-on-the-line ready to serve the consumer in the ways that we've talked about.

I think on your second question on pockets of excess inventory, I think that was a more broad question, that wasn't for China. What I would basically tell you is this. Because we had late product arriving for the spring, summer, and fall seasons because of the disruption that we've seen in North America, and then the decision to early-order holiday and to have that arrive earlier, we effectively have a few seasons landing in the marketplace at the same time.

Because we have a portion of that inventory being seasonally out of relevance, we've decided to take that inventory and more aggressively liquidate it so that we can put the newest and best inventory in front of the consumer in the right locations.

That's where we're focused. It's predominantly apparel. It's in North America, predominantly, and that's where our focus and attention is. When we look at our full-year guidance, it's a 150-basis point annual impact, which we believe is transitory. In other words, we will incur it this year in order to be able to move that inventory through, and then we've got a

foundation for growth and expanded profitability in Fiscal '24, pursuing a full-price realization against our new product and innovation pipeline.

[Paul Trussell]

We have time for one last question.

[Operator]

Your last question comes from the line of Michael Binetti with Credit Suisse. Your line is open.

[Michael Binetti]

Hey guys, thanks for taking our questions here.

Matt, I was just wondering if you—to clarify one simple thing. You said North America inventory peaked in first quarter. Could you clarify the total Company inventory starts to decline on a year-over-year basis after this? Maybe, some of the visibility you have into the back half related to how you're building it, after your comment that 2Q will be the low water mark on gross margin.

Then John, I know it's a very different macro, but the comments you guys just made for Fiscal '24 and beyond, any reflection on the five-year targets that you gave us a year ago, some of the growth rates and year-over-year margin opportunities as we get past this year, relative to that plan? Thanks.

[Matt Friend]

Well, as it relates to inventory, Michael, the answer—you don't usually get a yes or no question, but the answer to your first question is yes. We do expect total inventory to improve as we go from the first quarter. I highlighted North America because that's obviously

the geography where we've seen this most significant increase, but we do expect to see it reduce on a dollar basis.

Then as it relates to the margin impact, the second quarter will be the largest impact. We do expect that there will be some residual liquidation that takes place in the third quarter. Like I said just before, the total annual impact we see as a transitory, 150-basis-point cost to effectively liquidate the inventory that we want to liquidate and serve the marketplace with the fresh holiday product, and then looking forward, that we see.

[John Donahoe]

Mike, on the second part of your question, I'm really glad you asked that, because it gets to why we're so focused on the medium to long-term, because we do believe there is some very strong structural advantages that come into play. This directly connecting with consumers is critical to serve consumers going forward, to have that direct connection, use our membership program to translate what has been a transactional relationship into a lifetime relationship of value, whether it's directly or through our partners.

With our movement toward Direct, both Digital and our own monobrand stores, as Matt has said each quarter, there is a structural benefit to our margins. It's good for consumer, it's good for competitive position, and it's also good for our margins. That's why we're staying ruthlessly focused on it. That's why you see our Digital growth rate still continuing to be quite strong. We will continue to move ahead on our marketplace strategy.

So, we continue to be confident in the five-year macro outlook and guardrails Matt put out there. The exact timing of those, I think we're a little bit out of the game with trying to predict year-in and year-out, given how dynamic it is, but the structural things that we've laid out in our strategy we believe are as strong today.

[Matt Friend]

And still achievable.

[John Donahoe]

And still achievable.

[Matt Friend]

Yes

[Paul Trussell]

Thank you for the question, Michael, and thank you everyone for joining us today.

We look forward to speaking with you next quarter. Take care.

[Operator]

This concludes today's conference call. You may now disconnect.