

FY 2023 Q4 Earnings Release Conference Call Transcript
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PRESENTATION

[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2023 fourth 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.

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 fourth quarter results.

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

Before we begin, 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 NIKE's reports filed with the SEC.

In addition, participants may discuss non-GAAP financial measures and non-public financial and statistical information. Please refer to NIKE's earnings press release or NIKE's website, investors.nike.com, for comparable GAAP measures and quantitative reconciliations. All growth comparisons on the call today are presented on a year-over-over basis and are currency-neutral, unless otherwise noted.

We will start with prepared remarks, and then open up for 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.

Fiscal '23 was a milestone year for Nike, as we set new records while delivering on our operational and financial goals. It's clear that our strategy is working, and that Nike's unique advantages continue to drive competitive separation.

Looking at our results, we exceeded \$50 billion in revenue, with growth of 16% on the year. This growth was broad-based across our consumer construct of Men's, Women's and Kids; across performance and lifestyle; and across all geographies. North America, EMEA and APLA all saw full-year double-digit growth, and Greater China returned to double-digit growth in Q4.

We're also driving strength through our industry-leading brand portfolio with Nike, Jordan and Converse, all of which achieved strong growth in FY23. In particular, I want to highlight Jordan Brand's record year. Jordan grew mid-30s, with impressive growth across Men's, Women's and Kids; footwear and apparel; and in both North America and international. In fact, Jordan is on its way to becoming the second-largest footwear brand in North America.

And last but not least, we returned to healthy inventory, ahead of the competition. Our inventory is flat year-over-year in value and down in units vs 12 months ago. The actions we've taken position us for more profitable growth moving forward.

Across our business, we continue to build a marketplace that addresses how consumers want to be served giving them what they want, where they want it and how they want it.

Nike creates distinction across the marketplace by segmenting consumer experiences to drive deep, direct connections with consumers and grow the marketplace.

Today, in the industry, with digital and physical growth converging, we've accelerated investment to create a truly distinctive digital experience through our own platforms. Every year, we serve traffic in the billions, which delivers strong Digital growth, as both conversion rate and average order value continue to improve.

This success helped increase the digital share of our business to 26% in FY23, as compared to 10% in FY19. For the year, we had strong digital growth of 24% and we expect digital to continue to lead our growth.

This is all powered by our membership offense. We know our consumers better and are better able to serve them, with data-driven insights fueling the end-to-end value chain, including product creation, marketing and merchandising. This is translating into sustainable and profitable growth for Nike, and we believe this growth will only accelerate as we add new capabilities built to serve consumers at scale.

In FY23, we expanded our membership base but more importantly, we elevated and deepened these consumer relationships. Our members now engage with us more frequently, buy more and are more loyal to our brands. Once members join our ecosystem, they are increasingly continuing their lifelong sport journeys with us.

Of course, Nike members also shop across marketplace channels. And so, as we grow, we're always actively managing our marketplace to serve consumers with expanded choice, access and convenience.

We think about our multi-brand partners in three complementary groups that each serve distinct needs.

First, over the past five years, we've created greater focus and differentiation by working with fewer large multi-brand partners. These partners have the scale to invest in retail experiences and connected digital membership to drive long-term growth.

Second, we've also sharpened our commitment to neighborhood authenticators in both sport and lifestyle to drive energy and validate our brand. This investment in community ensures brand access as well as deep, local consumer connection.

And third, we partner with accounts that help us provide access to consumers across different segments and price points.

At the same time, we continue to invest in Nike store concepts that create new distribution and serve growth opportunities not currently being addressed by our wholesale partners. The recent unveiling of our Nike Well Collective which responds to deep insight from our female consumers rebrands Nike Live and creates an elevated approach to retail. Nike Well Collective brings new energy and sharpens our focus on serving the opportunity we see with women.

This is how our Consumer Direct Acceleration strategy drives the future of the marketplace a seamless, member-led experience that addresses the opportunities we see across the consumer landscape.

Last month I was in Shanghai and Beijing, and I was blown away by how the entire marketplace experience comes to life there. Our Greater China teammates are building a connected and seamless journey across digital and physical, commerce and social, owned and partnered doors. The merchandising is best-in-class you can just feel the energy of our brand and our product. With our record-breaking performance during this year's 6/18 shopping holiday, in which we were the No. 1 sports brand on Tmall, I'm even more confident in our playbook and strategy.

Today, we're excited and confident with the opportunity we see in front of us. Looking to fiscal '24 and beyond, we will continue to expand our competitive separation. To that end, this quarter we made some shifts within our senior leadership team that will further deepen our growth and accelerate our marketplace advantage, elevating Heidi O'Neill and Craig Williams to become Nike Brand's two Presidents.

Heidi and Craig are both incredible leaders with long track records of driving growth, and their new roles are designed to drive greater focus on innovation and integration for our business. These changes will streamline our efforts across product, brand storytelling and marketplace. I'm thrilled and I can tell you their teams are thrilled for the kind of growth we'll be able to achieve under this new, simplified structure.

So, for the remainder of my remarks today, I want to walk you through something that defines everything we do and that's sport.

Sport is who we are. It will always be our differentiator. No brand can grow the world of sport like Nike. No brand connects people to sport by putting all the pieces together like we can. We stay in the lead because we can combine innovation, brand, and the culture around sport and do it all at global scale.

This is the power of our strategy. We're able to both unleash athlete potential and create the lifestyle of sport around the world. Where other brands strive to grow their slice of the pie, we're able to grow the pie itself.

Let me walk through three areas where we've expanded the world of sport and see even greater opportunity ahead.

First, let's discuss Global Football.

In FY23, Global Football grew 25%, nearly doubling total Nike growth with the Women's and Kids businesses growing even faster. Key boot franchises like Mercurial and Phantom saw high full-price realization, as we continue to win share on-pitch.

We invest in the grassroots of the game while also partnering with the sport's greatest. Erling Haaland joined our roster this quarter, as his record pace of goal-scoring cements his stamp on the future of the game.

And we can't wait for this summer's World Cup. Nike is proud to partner with more federations in the tournament than any other brand and we've matched that energy with our most comprehensive women's football collection ever.

For example, we'll launch the most innovative women's-led football boot in our history. After more than two years of testing and designing, the new Phantom Luna boot features a proprietary cleat pattern that provides peak traction and stability for female players.

In addition, our World Cup kits will debut significant fit and material innovations mapped to a woman's specific movements.

And we've created our largest-ever football-inspired sportswear collection for both fans and athletes when they're off-pitch.

Just weeks out from the tournament, we're focused and aligned to drive energy like no one else, as we connect the next generation of fans to the world's most popular sport.

Next, let's discuss Basketball, where we continue to see significant market leadership. Today, Nike defines basketball. As we look at the landscape, we see only expanding competitive separation ahead.

Our influence in basketball is elevated by the strength of our portfolio of brands: Nike, Jordan and Converse. In fact, our roster, already the game's greatest, set a new standard this season. For the first time ever, all three of our brands were represented on the All-NBA First Team, with Luka and Jayson from Jordan, Giannis from Nike and rising star Shai Gilgeous-Alexander from Converse an unprecedented accomplishment.

Speaking of the game's greatest, FY23 marked 20 years of LeBron's signature shoe. We're excited for the continued potential of the LeBron business, as his brand reaches a new dimension with LeBron bringing back earlier styles onto the court – igniting new energy for these retro models with consumers.

In addition, the Sabrina 1 is resonating strongly since launch, helping double our WNBA business vs. what it was just two years ago. And it's going to be an exciting summer as we set the stage to relaunch the Kobe Brand in advance of Kobe Day on 8/24.

This has already been such a great few months for basketball. A thrilling NBA season concluded with Nikola Jokic taking the Denver Nuggets to their first-ever title. The WNBA season kicked off with Brittney Griner making her return to the court and earlier this week A'ja Wilson was named an All-Star team captain.

Ten-time Chinese Basketball Association All-Star point guard Guo Ailun won his third CBA championship.

And last week in the NBA draft, Victor Wembanyama was selected 1st overall by the San Antonio Spurs. We are thrilled to have Victor in the Nike family and we're excited for what the future holds in basketball.

Now, let me go a bit deeper into the Jordan Brand.

Jordan's greatest advantage is its authenticity and connection to sport, which drives a special bond with generation after generation. The brand has built a cultural identity that transcends the game, connecting people with deep emotion and a sense of self-belief.

It's this authenticity that fuels Jordan's leadership in streetwear. Jordan continues to dictate the conversation by being a premium brand that drives sportswear culture.

You've seen this come to life through Jordan's partners across pop culture, from product launches like the Women's Teyana Taylor AJ1 High to the brand's meaningful collaboration with the movie "Spider-Man: Across the Spider-Verse."

Today, Jordan is extending its core strength in Men's. In Q4, Jordan launched the Tatum 1, which completes the brand's signature offense along with Luka, Zion and the game shoe. With this foundation in place, Jordan has plans to now scale these four franchises even further.

At the same time, Jordan is building real energy around its biggest growth opportunities. In FY23, Jordan had over-indexing growth in both Women's and Kids, alongside increasing strength in apparel. And today, growth in performance footwear at Jordan is now outpacing retro footwear.

But no discussion of Jordan's opportunity would be complete without looking at its international business. In most of our geos, Jordan penetration is about 10 points lower than it is in North America. This is the growth opportunity we plan to capture moving forward.

Simply put, we continue to see a tremendous amount of potential for Jordan Brand and its differentiated ability to drive culture, connection, and growth like no one else.

Finally, our Running business. Running has been a competitive battlefield lately, with more and more brands joining the market.

Today, we are more aligned and resourced to compete and win. We saw roughly 10% growth for our Running footwear business in FY23. And we're just getting started.

As you know, with Nike's advantage in innovation, we continue to set the pace in the Racing and Trail Running categories, led by the new Vaporfly 3 and Peg Trail 4, respectively.

And following our recent reset, we are prioritizing the needs of everyday runners through newness and consistency in the key styles they love most.

Last quarter, we launched the Invincible 3, which continues to perform well. Since its Q3 launch, Invincible has already doubled its retail sales vs. last year.

And next quarter we're debuting the Infinity Run 4: another major update to a popular franchise. I'm wearing a pair now, and I have to say they feel great. The Infinity 4's ReactX is our newest foam a breakthrough innovation that's more sustainable and offers runners a smooth and responsive ride, following years of women-led testing.

This is just the start as we reinvigorate our Running footwear line, with more to be unveiled as we build momentum heading into the Olympics in Paris next summer.

In addition to innovating for runners, we are also driving the lifestyle of running as only Nike can.

The Vomero 5, which in FY23 kicked off our strategic relaunch into the intersection of running and streetwear, has already become a staple of modern sneaker culture. The Vomero 5 is coming into the summer with a ton of momentum, as we've substantially increased its volume all year.

And last month, we launched the Motiva, a walking shoe with a distinctive design, at an attractive price point and one that's representative of the aggressive approach we're taking to opportunities we see in the market. In just two months post-launch, Motiva has had strong sell-through, particularly for women, already becoming a Top 5 performance footwear style globally on Nike Digital.

Ultimately, when we look at the full Running business, while we know a lot of work remains, we are confident in our go-forward strategy and firm in our belief that we are set to compete with strength.

In the end, our CDA strategy is working. Our brands have strong energy, our innovation pipeline is as relentless as ever, and we are executing against what matters most to consumers.

Looking to FY24, Nike will occupy the same leadership position that we earn year after year, as we usher our industry into the future.

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

[MATTHEW FRIEND]

Thanks John, and hello to everyone on the call.

Nike is a growth company, and Fiscal '23 demonstrated our ability to deliver strong growth in the midst of rapidly changing market conditions. Throughout the year, we drove competitive separation by doing what Nike does best: serve athletes with product innovation and rich storytelling amplify our brand voice through key sport and consumer moments... deepen consumer connections across our portfolio and actively manage the marketplace to drive sustainable, profitable growth.

For the full year, we delivered mid-teens revenue growth, with accelerating momentum in our performance business, and sustained strength in lifestyle. We added \$7 billion in revenue in total on a currency-neutral basis, which included adding \$3 billion to North America – our largest, most mature market. In addition, our top franchises drove strong full-price sales with mid-single digit price increases, and we grew units and ASP across both product engines.

In Q4, we saw another quarter of strong consumer demand, with traffic growing online and in our stores, and total retail sales across the marketplace up double-digits versus the prior year.

Beyond driving strong topline growth, we finished the year with a significantly improved marketplace position, with total marketplace inventory units including Nike and our wholesale partners – down year over year.

We feel very good about the results driven by our decisive actions over the past year, as well as the sales momentum that we continue to see from Nike Direct and our top strategic partners – including DICK's Sporting Goods, JD, Sports Direct, and our City Specialty partners.

To go a little deeper, NIKE, Inc. inventory dollars are flat versus prior year, with units down double-digits across both footwear and apparel. Apparel units are down more than 20% versus the prior year.

Our mix of in-transit inventory has normalized, and days in inventory show improvement versus prior quarter and prior year.

Closeout mix is in line with pre-pandemic levels, with improvement in the average age of our closeout inventory versus the prior year.

And from a geography perspective, both North America and Greater China have inventory dollars down high single-digits versus prior year, with units down double-digits.

All told, we are entering Fiscal '24 on our front foot ready to navigate any uncertainty that may be ahead of us, and ready to compete from a position of strength.

As we move forward, we are building on a strong foundation for future growth.

Our confidence is grounded in the power of Nike's portfolio: deeply connected to the consumer centered in sport and youth culture fueling authenticity and distinction unrivaled in breadth and depth. Our strength begins with our scale from our investment in innovation, to our sports marketing portfolio, our digital platforms in membership, and our global reach. We create value for consumers around the world, leveraging Nike's scale and competitive advantages to drive sustainable growth and strong returns to shareholders over the long term.

And today, Nike's opportunity to grow is as large as it has ever been. Consumer interest around the world in sport, health, and wellness has never been greater, and what excites us most is the potential still ahead.

Let me share just a few examples.

First, one of Nike's greatest competitive advantages is our relentless pace of innovation. We innovate to make athletes better, to serve more athletes, and to make the world better for athletes everywhere. And right now, in our LeBron James Innovation Center, we are creating new concepts, platforms, and capabilities to fuel Nike's next 50 years of innovation and growth. We will continue to increase investment in innovation to create value for athletes, and this gives me confidence we can drive long-term growth for Nike. We have some great opportunities over this next fiscal year to showcase our latest innovations on the global sports stage.

Second, we are accelerating direct consumer relationships across our digital platforms. By better knowing and serving the consumers who love our brands, we are also unlocking strategic and financial benefits for Nike. For example, we have partnered with Adobe to enable 1:1 member personalization, driving gains in member retention, click-thru rates, and conversion resulting in higher demand per member and returns on digital ad spend. We are only beginning to operationalize these new capabilities and consumer experiences on our digital platforms, and we see even greater opportunity to come.

Third, we see meaningful growth potential in our international markets. This includes Korea, one of our most digitally-connected markets, Central and South America, a region with a deep love of sport Southeast Asia and India, with one of the world's largest youth populations and, of course, China, where young consumers are seeking out top product innovation, and Gen Z is coming of age as the country's most active generation ever.

Last, we can now see around the corner on the transitory costs headwinds that pressured profitability in Fiscal '22 and '23. When combined with our structural opportunities to improve profitability as we grow, we are confident that we will deliver above-average margin improvement in Fiscal '24, with many of the drivers continuing into Fiscal '25.

Now, let me turn to our NIKE, Inc. fourth quarter results.

In Q4, NIKE, Inc. revenue grew 5% on a reported basis and 8% on a currency-neutral basis.

Nike Direct grew 18%, with 14% growth in Nike Digital and 24% growth in Nike Stores.

Wholesale grew 2%, moderating as planned, as we tightened supply to normalize marketplace inventory levels.

Gross margins declined 140 basis points to 43.6% on a reported basis, primarily due to higher product input costs and elevated freight and logistics expenses higher markdowns... and 100 basis points of unfavorable changes in net foreign currency exchange rates partially offset by strategic pricing actions and lapping higher inventory obsolescence reserves in Greater China in the prior period.

SG&A grew 8% on a reported basis, primarily due to wage-related expenses, variable Nike Direct costs, and increased demand creation expenses.

Our effective tax rate for the quarter was 17.3%.

Diluted earnings per share was \$0.66.

Now, let me turn to our operating segments.

In North America, Q4 revenue grew 5%. Nike Direct was up 15%, and Nike Digital grew 17%. Wholesale declined 3%, following reduced spring and summer sell-in to proactively manage marketplace inventory. EBIT declined 6% on a reported basis.

For another consecutive quarter, strong consumer demand drove total retail sales up double-digits across the marketplace, enabling us to drive a quicker return to healthy marketplace inventory levels. Member engagement grew on all Digital platforms, and buying frequency was at an all-time high. Nike Store traffic and revenue grew double-digits, surpassing industry trends.

We saw strong brand momentum across our portfolio. Performance dimensions delivered strong growth, with LeBron and Giannis up double-digits. Free Metcon extended its lead as our top Women's performance franchise. And the Jordan Brand delivered another dominant quarter, with Women's leading growth, Luka and Tatum highlighting momentum in performance, and iconic franchises inspiring the next generation. In fact, this quarter's AJ1 Spideverse launch drove our largest-ever Kids' Shock Drop on the SNKRS App.

With a robust product pipeline, a healthy mix of inventory, and a normalizing supply chain, we are confident in Nike's ability to set the pace in North America as we look ahead.

In EMEA, Q4 revenue grew 7%. Nike Direct was up 28%, and Nike Digital grew 24%. EBIT declined 13% on a reported basis.

EMEA's fourth quarter results demonstrated the strength of our complete offense, as Nike increased market share in performance and lifestyle. Digital continues to power growth, with traffic up double-digits and conversion rates expanding. Brick-and-mortar traffic in key countries also remains strong.

Nike's authenticity in sport and culture continues to create separation. Vaporfly and Alphafly topped shoe counts at the Paris and London Marathons, while Pegasus and Invincible drove strong sell-through. We channeled the energy of Air Max Day into positive momentum for Air Max Pulse and Air Max 1. And we closed out our biggest football year ever, up double-digits with strong full-price sales led by Mercurial and Phantom, and balanced growth across Men's, Women's, and Kids.

In Greater China, Q4 revenue grew 25%. Nike Direct grew 19%, with Nike Digital declining 12% as consumer buying continues to over-index in brick-and-mortar versus the prior year. EBIT grew 70% on a reported basis.

This quarter left no doubt: sport is back, consumer confidence is rebounding, and Nike's brand momentum is growing. We celebrated the return of sport with full marketing activations around the Chinese High School Basketball League, Air Max Day, and Super Brand Day. And we extended that energy into our strongest product sell-through in 8 seasons, with full-price momentum accelerated by our healthy inventory position.

Running grew double-digits, fueled by newness and hyperlocal storytelling, including strong Express Lane executions for Invincible 3 and community activations around Pegasus 40. Basketball grew double-digits, led by the GT Cut. And we saw exceptional sell-through for our GT Jump player's edition, inspired by longtime Nike athlete Yi Jianlian.

Earlier this month, our 6/18 results surpassed last year's record-breaking performance, with sales up double-digits. And next week, we will build on that momentum as we kick off Nike's first athlete tour in China since the pandemic by welcoming Giannis to Beijing.

As we look forward, we are confident in the strength of our consumer connections and confident in Nike's ability to drive sustainable, long-term growth in China.

In APLA, Q4 revenue grew 6%, including approximately 6 percentage points of a headwind due to the impact of our shift to a distributor model in Central and South America. Nike Direct was up 9%, with Nike Digital growing 9%. EBIT declined 16% on a reported basis.

This quarter highlighted our balanced growth in the region. Jordan Brand continued its international expansion with strong double-digit growth, as our new World of Flight doors in Tokyo and Seoul create local brand energy. We also saw strong growth in Women's lifestyle

and Men's performance, with positive momentum from Cortez and Vomero 5, and sustained strength from Pegasus and Invincible 3. In global football, we drove double-digit growth across Men's, Women's, and Kids, with excitement building ahead of this summer's Women's World Cup.

We finished the year in APLA with new milestones and new opportunities in the region. In Southeast Asia and India, we grew our business by over 40% this year, reinforcing the potential that we see in the market. In Korea, our Nike App launch drove 2.5 million downloads and \$100 million in incremental demand within its first quarter, showing how elevated, local digital experiences can accelerate consumer demand. And across the region, we continue investing to grow from launching Argentina.com and Peru.com to introducing Nike's first direct digital footprint in India.

Now, let me turn to our Fiscal '24 financial outlook.

We enter the new year with clear advantages: strong consumer momentum, a robust product innovation pipeline, healthy inventory, and a normalized flow of supply. That said, we are closely monitoring the macro environment, consumer behavior, and retail trends.

Our priority for Fiscal '24 is to drive healthy full-price growth, while unlocking speed, agility, and efficiency in our operating model. We are focused on what we can control as we position Nike to compete at its best.

We are taking a balanced approach to planning our business, building on our proactive decisions more than six months ago to tighten buys. We expect this to translate into an improved marginal cost of growth, expanding profitability, and higher returns on invested capital.

We have also taken into account several non-comp factors from the prior year that will impact overall rates of growth, as well as quarterly comparisons.

For the full year we expect Fiscal '24 reported revenue to grow mid-single digits, led by Nike Direct. This includes approximately 4 points of headwinds from the prior year from wholesale shipment timing and accelerated liquidation activities. Based on current spot rates, we do not expect any material translation impact on revenue in Fiscal '24.

We expect gross margins to expand 140 to 160 basis points on a reported basis, which translates to approximately 200 basis points of operational gross margin expansion, excluding 50 basis points of impact from foreign exchange headwinds. This reflects the beginning of recovery from transitory headwinds, including more favorable ocean freight rates starting halfway through the second quarter, and a modest improvement in markdowns versus the prior year.

We also expect continued structural gains from our focus on price value, including low single-digit price increases in FY24, plus ongoing benefits from our shift to a more direct business. We expect this to be partially offset by higher product costs, with inflation causing higher labor and fulfillment expenses in the supply chain.

We expect SG&A to grow slightly above revenue, as we increase investment in demand creation to support key global sports moments and product launches; and invest in capabilities to transform Nike's operating model for greater speed and effectiveness. We will continue to manage SG&A to remain below pre-pandemic levels as a percentage of revenue.

Other income and expense, including net interest income, is expected to be \$225 to \$275 million of income for the year.

We expect our effective tax rate to be similar to Fiscal '23.

Now, let me provide a few important insights into our first quarter:

We expect first-quarter revenue growth to be flat to up low single-digits, reflecting our decision to tighten first-half buys and restrain marketplace inventory.

We expect another quarter of sequential improvement in gross margin, down 50-75 basis points on a reported basis, which translates to 25-50 basis points of operational gross margin expansion, excluding the negative impact of 100 basis points of foreign exchange headwinds.

We expect SG&A to grow low double-digits on a reported basis, driven by increased demand creation investments around the Women's World Cup; and transformational investments to drive efficiency, including the activation of the next stages of our ERP implementation in North America.

Looking ahead, we will remain agile and on the offense, leveraging our experience and the capabilities we have developed to lead through times of uncertainty, while investing to capture the growth opportunities in front of us.

For Nike, creating the future always starts with serving athletes and sport. As we look to Fiscal '24, we have an incredible year of sport ahead of us from this summer's World Cup to the road to the Paris Olympic Games. It will be a year to remember, and just like the athletes we serve, Nike will be ready to bring our best.

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

[OPERATOR]

We'll take our first question from Tom Nikic with Wedbush Securities.

[TOM NIKIC]

I want to ask about North America and specifically the wholesale channel. I think there's been some news recently about maybe some wholesale partners that you had either exited or deemphasized and now you're going back into some of those retailers. What drove that decision? And I guess kind of what changed in your mindset that maybe, a year or 2 ago, you saw DSW was not somebody you wanted to partner with, but now you do and Macy's, et cetera? So just any insight or color there would be really helpful.

[JOHN DONAHOE]

Yes, Tom, I'll take that. Let me just say upfront, our marketplace strategy remains the same as it's been over the last several years, and this is simply a continued evolution of the very same marketplace strategy. And I'll remind you that our marketplace strategy is driven by the consumer. I mean, at the end of the day, we start with the consumer, and consumers in this day and age want to get what they want, when they want it, how they want it.

Consumers want digital and physical access. They shop across both channels. They want a monobrand and multibrand. They use different shopping occasions. They use different channels. Consumers expect us to know who they are, and consumers have said to us they want a consistent and seamless experience. And so that is what has driven our marketplace strategy.

And as you know, it starts with digital, our -- a direct connection with the consumer. Our digital apps, our mobile apps are unmatched in the industry, and that's our fastest-growing channel. That will continue to be our fastest-growing channel because we directly connect with the consumer digitally.

We augment that with owned retail, where we are building out stores, NIKE stores in segments that are currently underserved by our wholesale partners. We would say women's is one of those cases and Jordan being another. So we're selectively opening new doors. And then multi-brand wholesale partners play a really important role. And as I said in my remarks, there's different segments. So we spent a lot of focus and attention, and we've talked a lot over the last couple of years about the larger multi-brand partners like DICK's and JD and Foot Locker and Sports Direct.

We've talked some around neighborhood doors where we authenticate. That's such an important role. And then we have accounts that help us serve distinct segments of consumers or price points. And so what we've done over the past quarter is simply an extension of that. Our Direct business will continue to grow the fastest, but we'll continue to expand our marketplace strategy to enable access to as many consumers as possible and drive growth.

[OPERATOR]

And next up is Matthew Boss, JPMorgan.

[MATT BOSS]

So John, with the expanded definition of sport and greater awareness of health and wellness that you cited, could you elaborate on how you believe the NIKE brand is positioned to capture market share globally? And then, Matt, on the revenue guide for this year, could you just help bridge 1Q relative to the full year? Maybe some of the puts and takes, I think, would be really helpful in terms of getting from the first quarter to the full year.

[JOHN DONAHOE]

Thanks, Matt. And Matt Friend, I'll take the first. You take the second. So Matt Boss, we see the same structural tailwinds you just described. We are blessed with structural tailwinds around an expanding definition of sport, particularly around health and wellness and a related structural tailwind around this movement toward athleisure. And our marketplace strategy is simply geared to expand, leverage our competitive advantages to not only gain share but also grow the market

by being where consumers are and again, as I said a minute ago, to give them what they want, when they want, how they want it.

Two examples come to mind. One is just digital. Our -- I cannot tell you how important it is, our mobile apps. In fact, in Q4, our 4 mobile apps, SNKRS, the NIKE Mobile App, NTC and NRC, had over 500 million visitors within the quarter, and that's just in the U.S. or North America, APLA and EMEA. Didn't even count in China. So there's no one else in the industry that has anything close to that.

And what that means is we are in -- we're in the privileged position of being in consumers' pockets and on their home screens or their phones. That's cherished real estate. So our mobile apps give us a huge advantage because it creates shopping occasions when they're browsing on SNKRS. It creates shopping occasions when they're working out. It connects us to consumers globally and will help us both grow the market and gain share.

A second example will be around health and wellness in women's, and we talked in my remarks about the NIKE Well Collective. And what this really is, Amy Montagne is leading our women's team and just doing a fabulous job. Amy and her team have sharp consumer insight around -- through the eyes of the women consumer, the female consumer, this intersection of sport, wellness, community, and it's all infused with style. The distinction of style and performance for women is a much more nuanced and integrated thing.

And so NIKE Well Collective is both a branding and a way that our voice to her and our storytelling to her will come to life but also our retail doors. And we have been opening Nike Live doors, as you know. We'll rebrand those NIKE Well Collective. I will tell you the Nike Live doors, which are largely focused on women consumers, are performing very strongly around women's performance product, around women's fitness, leggings and bras, around lifestyle as well.

And so in that way, we're expanding our access to women consumers. And so we'll continue in our marketplace strategy. It really reiterates what I said a minute ago of being aggressive to be where the consumer is so that we're there when they want us, where they want us and how they want us.

[MATT FRIEND]

And Matt, I'll just jump in on the question around revenue guidance. Let me start by just saying we're incredibly pleased by the growth that we delivered in fiscal year '23 with 16% growth on a currency- neutral basis. And if you look at our results in North America and EMEA on a currency-neutral basis, our growth was even higher. When you then compare our reported revenue growth to retail sales growth to the consumer across the marketplace, we drove strong double-digit growth in retail sales to the consumer throughout the year, including that trend continuing into the fourth quarter. And NIKE Direct in the fourth quarter grew 18% versus the prior year.

So in this fourth quarter, remember that we moderated the sell into wholesale but continued in terms of trying to prioritize a healthy marketplace, and we still drove strong growth in retail sales across the marketplace. As we look ahead to fiscal '24 and the mid-single-digit guide, it starts with the approach that we've been taking around assessing marketplace health and our consumer trends and then the pressure that we see -- the potential pressure that we see on the consumer.

And so we made a decision to tighten our first half buys and continue the trend that we had done in the second half. But we are expecting retail sales to continue a trend, so retail sales to the consumer to continue a trend of growth versus the prior year. And actually, when we look at the first half and the second half of next year, we're actually planning for a fairly consistent level of retail sales growth to the consumer.

The distinction with the first half is that we're continuing to manage marketplace inventory and continue to just manage marketplace health. NIKE Direct is going to continue to lead our growth. And when we look at next year in the second half, in particular, we're excited about the new products that we brought to market this year and scaling them next year. We're excited about new product introductions and then ultimately capturing the energy around the Paris Olympics, which is a wonderful moment for NIKE. But mid-single- digit revenue growth on the full year and that includes 4 points of noncomp headwinds from wholesale shipment timing in fiscal year '23 plus some of the accelerated liquidation activities that we have. So all told in this environment, we feel like mid-single digits is a great number.

[OPERATOR]

And Jim Duffy from Stifel is up next.

[JIM DUFFY]

Some great progress on the inventories, and you spoke to an improved inventory posture in the marketplace. Just thinking about competitive dynamics, can you elaborate on your expectations for the promotional backdrop in fiscal '24? And then related to that, you were very promotional clearing inventory across fiscal '23. How does that factor into your outlook for the mid-single-digit growth and specifically the growth for the DTC business?

[MATT FRIEND]

Sure. Well, Jim, I would say, in general, the marketplace remains highly promotional. And when we step back and look at the actions that we took last year, we're very happy with where we finished the year. In fact, our inventory levels are ahead of our plan and ahead of the competition. We saw total marketplace inventory units down versus the prior year. And when we look at NIKE-owned inventory in particular, we feel incredibly good about where we are and the plans that we have going into the first half of next year.

The large majority of our strategic partners have also done a beautiful job moving through the inventory and balancing the trade-offs of investing in consumer connections, elevating the retail environment and moving through inventory. And so we feel great about where we are, but we recognize that, next year, the environment is going to continue to be promotional, and that even puts pressure on our wholesale partners in terms of how they think about managing through the first half of the year.

And so we believe that the right focus and attention for NIKE is to focus on recovering a higher level of full-price growth in fiscal year '24, profitable growth, full-price growth. The mid-single-digit guide does reflect 4 points, as I mentioned, of noncomp impacts, which are partially wholesale shipment timing because you recall last year, there was a lot of late supply from '22 that came into '23 but also a little bit of extra liquidation as we were more aggressive moving inventory both through our own channels and our partner channels. But when I look at our growth plan for next year, adjusting for the comp headwind and look at the profitability recovery that we see on the margin -- gross

margin and EBIT line, I feel like it's a great plan and sets us up well for long-term growth and profitability.

[OPERATOR]

Your next question is Kate McShane, Goldman Sachs.

[BROOKE ROACH]

This is Brooke Roach filling in for Kate. You commented in the prepared remarks about seeing around the corner on transitory cost headwinds that have pressured your profitability and FY '24, we'll start to see some relief there. Can you speak to the proportion of transitory costs that you anticipate to recapture in FY '24? And what's still on the horizon for FY '25 and beyond?

[MATT FRIEND]

Sure. So when we look at where we ended the year and the progress that we've made on inventory, we feel really good about our ability to drive healthy growth in '24. And so -- and you see that in our gross margin guide. We're guiding to expand margins by 140 to 160 basis points, and that includes a 50 basis point negative FX headwind. If we back out the FX, it's approximately 200 basis points of operational gross margin expansion.

The large majority of the 200 basis points is the beginning recapture of transitory headwinds. We will continue to see structural benefits in fiscal year '24, but those are being partially offset by higher product costs and inflation in parts of our supply chain. When I look at the large majority of our transitory headwinds, we've been talking about 2 for the past several years. One is freight and logistics, and the second one is liquidation.

We've now negotiated our ocean freight rates with partners for fiscal year '24, and we've negotiated rates that are near pre-pandemic levels. Those benefits don't kick in until halfway through the second quarter, and so we'll start to see that tailwind come in, in Q2 and then accelerate in Q3 and Q4 and then carry into fiscal year '25.

As it relates to the liquidation impact, we are planning for an improvement in full-price mix and markdowns, and we've baked that into our plans for fiscal year '24. But we recognize, as I answered the question for Jim a little bit earlier, that we continue to operate in a promotional marketplace. And so we're going to continue to read and react; and as a result of that, we've planned for a modest recovery of those costs.

And you'll also recall that in fiscal year '23, we were comparing to extraordinary levels of full-price realization, well above the 65% threshold that we had provided as our target. And so at this point in time, we're not planning that we're going to recover back to that level of full-price realization but that instead, we will be operating at or around the 65% level. But we've also now seen a new way of living. And so it gives us some optimism that there can be more opportunity than even the metric that we've provided.

But those 2 things taking into consideration, as we look to our margins beyond '24, there's going to be some structural tailwind that comes from freight and that -- or sorry, some benefit that's going to come from freight. And then our focus is going to be on the structural drivers that give us confidence in achieving the long-term margins that we've been talking about.

[OPERATOR]

Cristina Fernández, Telsey Advisory Group, has the next question.

[CRISTINA FERNANDEZ]

I wanted to see if you could talk about the recovery you're seeing in China. How did that progress through the quarter? And just overall, when you look at the marketplace, how is it different today versus pre- pandemic and your ability to use your athletes and influencers to drive sales?

[JOHN DONAHOE]

Yes. Cristina, probably the highlight of the last 90 days for me was getting back to China for the first time post-pandemic. And I will tell you, it just -- it was such a palpable reminder, a, what a strong team we have there, and I just want to again call out our China team who has just done a spectacular job over challenge after challenge after challenge over the last 3 or 4 years. But what's also clear is the consumers back in China and NIKE and Jordan brand are strong.

So you heard our Q4 growth was 25%. We had a strong 618, and that's across different categories, performance and lifestyle, men's, women's, kids, really strong performance in running and basketball, wholesale fitness. But what was really clear is that the NIKE formula of the best innovation combined with great local storytelling, combined with the marketplace is connecting with Chinese consumers, particularly Gen Z.

And so the Gen Z consumer in China cares about innovation, and they're doing a great job of taking our global innovations and hyper-localizing them as well a great job of local storytelling. When I was there, we saw -- Craig Williams and I were there together. We saw that live streaming studio where we do a lot of live streaming in a way that really connects with Gen Z. Social shopping is taking off in China in a bigger way than other places, and we're at the front edge of that.

And then as you know, we have 6,000 monobrand doors that provide such an advantage. I will tell you, being in several of those doors in Shanghai and Beijing, what was -- it was right when the Motiva was launched. And the far majority of those 6,000 doors, the first floor is dedicated to women's. And you walk in. It is some of the best merchandising of a great innovation like Motiva connected to her, pulling her off the street and into the doors. And so we'll continue to invest in China. Our China for China strategy, I think, is going very, very well.

And looking ahead, we're optimistic about NIKE's brand, Jordan's brand, the momentum we have as well we think it's the structural tailwinds in the region make us optimistic over the long term. Gen Z is the most active generation. There's a growing middle class, increased focus on health and wellness, so a very energizing visit and makes us very confident about our brands and our business in China.

[MATT FRIEND]

I think that the other thing I would just add is the activity and the effort that we've taken over the last 3 quarters to improve our inventory position in the marketplace. We had another great quarter we reported. And where you really see that come to life in a mono-brand marketplace, where you can see the full breadth in our stores is that you get the full breadth of a seasonal assortment, which is when NIKE is operating at its best, leading with innovation.

China actually is our largest penetration of innovation of any geography that we operate in, and that connects well with what John referenced in terms of what the consumer is looking for. But this quarter, in particular, as we've improved our inventory position, we saw the highest level of full price selling that we've seen in 8 quarters. And that just shows the strength of NIKE when we have a healthy marketplace

and we can bring the breadth of the assortment and the depth of our stories to bear for the consumer and to drive consumer demand.

[OPERATOR]

And our final question today will come from John Kernan, TD Cowen.

[JOHN KERNAN]

Matt, just wanted to go back to the margin puts and takes and maybe talk a little bit about the long-term margin targets that were issued way back in fiscal '22. I know a lot has changed since then. But are we still thinking in terms of a high-teens operating margin long term? And how do we think about the margin profile of DTC and the mix shift of DTC?

[MATT FRIEND]

Sure, John. Well, let me start -- I'll start with the back and I'll come to the front in terms of the way you asked the question. We're making substantial progress towards the long-term goals that we had highlighted a couple of years ago. Our Consumer Direct Acceleration strategy has been a consumer-led strategy, and when we look at the mix of our business in digital and in direct relative to where we were in fiscal year '19, we've made significant progress against it. And we continue to invest to grow based on the fact that consumer continues to choose to shop in our stores and in our digital channels or at least to engage in our digital channels before they go try to find the product that they want in our -- in the wholesale marketplace.

And so we're very pleased with where we are today. We finished fiscal year '23 at a 44% mix in total direct and a 26% mix in digital. And the consumer will decide the ultimate end point. And what I mean by that is whether we land exactly at 60% or not doesn't really matter. But what we are confident long term is that we're going to be a more direct and a more profitable company.

And so when I look at our guidance for fiscal year '24 and the gross margin expansion that we're planning for on an operational basis, we're making significant progress to come back to where we were prior to the transitory impacts. And then we still see the benefits of structural opportunities to drive our margin long term. We've talked about those before. Those include the price value that we create in our products and the opportunity that creates for us to raise prices to the impact of having an increasing channel mix to some of the cost -- product cost opportunities we see through simplification of our SKU line and end-to-end efficiency.

But the time line to predict when we're going to get there, as we've been talking about for a couple of quarters is, is difficult to predict. And a point on that in cases, we've got 150 basis points of foreign exchange headwinds between last year and this year. But we are confident that we're on the path towards achieving these long-term goals, even though it's a little bit more difficult to predict the exact time that we're going to get there. But we think that we're on a path to the high 40s long-term gross margin goal. And at this point, we're continuing to do within our control in order to move us in that direction.

[JOHN DONAHOE]

And Matt, I John, I'll just build on one of the things that Matt says. The key to the whole thing is having the best innovation in the industry. That's what brings people to our direct channels. That brings people to our digital channels. And the momentum, Heidi has had her team together offsite earlier this week and seeing the design, product creation, men's, women's, kids, storytelling and brand teams really accelerating the pace of innovation, accelerating our ability to connect with the consumer, is ultimately what's going to fuel not only our top line but also our bottom line. And so the feeling of momentum and confidence is really growing as we move into this more streamlined structure.

[OPERATOR]

And everyone, that does conclude our question-and-answer session. It also concludes our conference for today. We would like to thank you all for your participation. You may now disconnect.

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