

REMARKS AS PREPARED FOR DELIVERY

Q1FY24 NIKE Inc. Conference Call

September 28, 2023

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[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2024 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.

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 2024 first 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.

Nike's foundational competitive advantages are the envy of the industry.

As the global athletic market leader, our scale and portfolio allow us to create an impact that only Nike can. Consumers all over the world recognize Nike as the #1 champion for athletes and sport, as we fuel inspiration and push the limit of human potential with the industry's most innovative products.

Over the past few years, we've navigated through an unprecedented external environment. We've worked through many challenges: societal, geopolitical, global health, supply chain and more.

And during this time, Nike has grown larger and stronger. In FY19, Nike's revenues were \$39 billion. Today, we're over \$50 billion. What's more, our growth has outpaced the overall industry during this period.

Let me offer a few examples of how we've redefined the game over the past few years. The consumer told us they wanted lifestyle product and we delivered, growing Air Force 1, AJ1 and Dunk to be the three largest footwear franchises in industry history. We continue to set the bar in key global sports like Basketball and Global Football. Jordan is now one of the leading brands in North America, with potential for so much more. We accelerated digital capabilities that fueled engagement with our brands and deepened direct consumer connections around the world. The list could go on and on. But we have a saying here at Nike: There is no finish line. We never settle. We always measure ourselves against our full potential.

Nike has always been synonymous with sport. We are at our best when we deliver breakthrough ideas by lining up innovative product with distinctive storytelling delivered through differentiated marketplace experiences. And when we do it well, we expand and grow the market.

Today, as I've just mentioned, we're succeeding in many areas of our business. But we expect more of ourselves in others. For example, over the past few years, we have launched new product innovations in Running but we need to drive more meaningful consumer connections among everyday runners and scale these innovations more effectively across the marketplace. Our storytelling has driven energy in many areas, but we have opportunity to cut through with more sharpness and clarity around the performance benefits and distinction of our products. And we have built a best-in-class marketplace with unrivaled scale and reach but we have opportunity to deliver more compelling assortments particularly when it comes to serving our Women's consumers.

So, across the Company, we are focused and mobilized to address areas where we need to raise our game, while continuing to drive competitive separation across the board. We're aligned, we're confident and we've kicked into a new gear.

One recent example: Two weeks ago, we had over 300 leaders from across the globe gathered here in Beaverton to immerse ourselves in our Fall '24 lineup. Our teams have been back together in-person over the past 15 months, and our innovation pipeline is strong and was on full display. The excitement and alignment of our Leadership Team was clear, as we continue to obsess the product and storytelling we'll be bringing to life for consumers at the Paris Olympics and into the fall. Simply put, our teams are on the offense, as we compete to win, in all segments.

Today, I'd like to offer three examples of where Nike showed our best this quarter where we brought together product, storytelling, and marketplace to connect with consumers and drive results.

Let's start with this summer's World Cup.

At Nike, as I've said before, it always starts with great product. In Football, that's led by Phantom Luna and Mercurial, our most innovative football boots as well as our array of national team kits designed for elite female players and our style-driven collections that stood out so well this summer.

We also brought our culture of innovation to life through our storytelling, as we dominated the conversation with the leading share of social voice. In particular, we were incredibly effective in reaching Gen-Z women through our lens of sport, style and culture. On TikTok, our priority channel for Gen-Z, our "engaged audience" meaning those who actively interacted with our content was up 172%, a huge statement of Nike's ability to connect with authenticity to this important demographic.

We also extended the tournament's energy through our stores. I was in Australia this summer and got to experience our Dream Arena, the immersive retail destination we created for the World Cup by transforming Sydney's flagship store just the latest example of how we can amplify global sports moments at retail. The experiences inside Dream Arena included the best of Nike: jersey customization, local co-creator workshops, Nike Trainer-led workouts, exclusive product launches and more. The response to Dream Arena surpassed our expectations, with some great learnings we plan to use at scale moving forward.

And all this led to results. In both footwear and apparel, we beat our sell-through plans with strong double-digit growth across Men's, Women's and Kids in Global Football. In EMEA, all our key boot franchises Mercurial, Phantom, Tiempo and Phantom Luna saw double-digit growth in Q1, leading Global Football to grow double digits in the geo. In APLA, Football also grew double digits, with strong growth in Kids-sized kits as we continue to inspire the next generation of fans to fall in love with the sport. From this summer's World Cup and the Euros last summer, to the WNBA and our investment in coaching, we are committed to growing the game for Women's sport.

Next, let's touch on Basketball another area where you can see our end-to-end offense driving accelerated competitive advantage.

In Basketball, we have an unprecedented portfolio of product. Earlier this month, we announced our latest signature shoe, Devin Booker's Nike Book 1. It's a shoe built for comfort and performance, with a clean, on and off-court style. The Nike Book 1 will hit retail in December, with consumer energy already building.

The Sabrina 1 continued its very strong sell-through this quarter, across both Women's and Men's. And just a few hours ago, we launched the LeBron 21. The 21 builds on the success of the 20 by keeping its low-cut profile design and adding premium lightweight materials designed to connect with younger generations.

Q1 also saw the official introduction of the Kobe Brand. We commemorated Kobe Day on August 24 with rereleases to very strong demand so strong that we only fulfilled a fraction of it. And, with Vanessa Bryant, we also selected six schools to be honored as "Mamba Programs" for the upcoming college basketball season, with both their men's and women's teams having the opportunity to wear Kobe Brand player-exclusive footwear. We see huge potential with the Kobe Brand on and off the court, as we continue to honor his legacy.

This quarter we also brought the energy of basketball directly to the consumer. We hosted tournaments in cities like LA and Chicago, culminating with the Nike World Basketball Festival in

New York. These events created an electric atmosphere especially during the NBA offseason like only Nike can.

And in a quarter where Jordan footwear grew double digits, Jordan Brand demonstrated its power by bringing Zion, Luka and Tatum to Paris for Kay 54 one of the world's biggest streetball tournaments that doubles as a showcase of the culture and growing community of basketball.

Moments like these don't just grow competitive separation for Nike and Jordan. They are also how we grow the game and we grow the broader market.

Finally, I'll walk through the geography where our overall vision comes to life best: Greater China. In Q1, Greater China grew double digits for the second straight quarter, and we are taking share in the market.

It's in Greater China that we offer the consumer Nike's most premium and elevated retail. The team gets the most out of our innovative product through world-class and locally relevant storytelling and strong marketplace execution.

A great example is our Women's business, which outpaced overall growth in the quarter. The work the team has done to serve our Women's consumer is proof of what Nike can do when all the pieces are aligned.

A highlight in Q1 in Greater China was our three-day sport festival, "Sportchella," where we welcomed thousands of women to connect with our three brands through movement and mindfulness. The team amplified the impact of the festival by partnering with Tmall to create the first Nike Super Brand Week, which drove more than 2 billion impressions. This partnership seamlessly integrated the event with a digital shopping journey that generated very strong consumer response and engagement.

The team also brings our brands to life in our best retail experiences, fueled by strong, meaningful storytelling. These breakthrough retail experiences highlight our innovations and marketing in a clear package to the consumer. For example, in Q1 our seasonal presentations and curated head-to-toe style guides had very favorable consumer response.

And, again, this combination of innovation, storytelling and marketplace execution all leads to results. We took share in Women's in Greater China this quarter, with strong growth across a wide range of products from footwear with the Motiva and Free Metcon to apparel with our statement bras and leggings.

All in all, across our entire portfolio, the Greater China team has orchestrated a fully connected marketplace. They continue to transform digital commerce, launching China-specific versions of our apps that are faster and more personalized, including a new Jordan destination to the Nike app in Q1. And they're expanding connected partnership, which after just a few quarters is now live in 350 doors across 102 cities and is driving substantially higher member demand vs last quarter.

Simply put, Greater China sets the execution standard for us. Our goal is to scale their success across every geography, every sport and every dimension of our business. That's how we win over the long-term.

In the end, as I said, we're focused and moving with new confidence against the opportunities we see. The teams are feeling energized, united by our shared passion and urgency for competing at the highest level.

We set high expectations for ourselves at Nike. That's what winners do. And now, more than ever, we're ready to bring our best and demonstrate what Nike is capable of.

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

[MATTHEW FRIEND]

Thanks John, and hello to everyone on the call.

Nike's first-quarter results demonstrated the impact of staying on the offense when we drove a quicker return to a healthy marketplace in Fiscal '23 and leading with operational discipline as we begin the new fiscal year.

We delivered Q1 results in line with our guidance. Retail sales across Nike Direct and wholesale continue to grow on top of extraordinary sales this past year. Both Nike inventory and our total marketplace inventory are healthy. Working capital efficiency is improving with a normalized supply chain. Gross margins are expanding on an operational basis, excluding the effects of foreign exchange, and transitory headwinds are abating.

In short, we are building on a strong foundation for sustainable and more profitable long-term growth. Before reviewing our financial results, let me first speak to what we are seeing from our consumer and the marketplace, and where we are driving focus and attention to unlock even greater potential ahead.

In Q1, retail sales across Nike Direct and wholesale grew mid-single digits versus the prior year. Our top franchises are driving strong full-price sales, and our newest product offerings across Nike, Jordan and Converse are generating positive consumer reception.

Looking at inventory, we continue to feel very good about our position. Nike inventory dollars are down 10% versus prior year. Our total inventory units across the marketplace, including Nike and our wholesale partners, are down double-digits versus the prior year. Partner-owned inventory units are in line with the previous year, with levels planned to remain lean through our second quarter a meaningful accomplishment after higher levels of wholesale sell-in during Fiscal '23.

On the whole, we are very comfortable with the level of inventory in the marketplace in relation to the retail sales we are seeing, as we begin increasing levels of wholesale sell-in our second half.

And overall, we are confident in the health and shape of our marketplace.

Nike Direct continues to lead our growth, up 6% versus the prior year. As we deliver on our strategy to elevate the marketplace through premium physical and digital retail experiences, we continue to see that consumers want to connect directly and personally with our brands. And in fact, member engagement within our Direct business is up double-digits versus the prior year, with increasing average order values.

Our Stores delivered an especially strong quarter, with traffic up double-digits from last year and members driving an increasing share of business, as consumers shifted from our digital to physical channels. This is similar to what we are seeing across the industry, and after seeing this trend building in early June, our team was nimble in transitioning inventory to capture higher full-price sales across our entire store fleet.

Nike Digital grew 2% with non-linear comparisons to the prior year including liquidation actions and a higher number of product launches on the SNKRS App in Fiscal '23.

Looking through all that, what stands out are the underlying consumer trends we see in our Digital business. This includes sustained momentum on the Nike Mobile App, with growth in traffic and increasing member buying frequency. We continue to see a growing structural advantage as more consumers start their shopping journeys with us on mobile.

Meanwhile, within wholesale, we see largely positive results from our most important strategic partners. Specifically, we were pleased to see high single-digit to low double-digit retail sales growth

and strong inventory management with many of our key partners including Dick's Sporting Goods and City Specialty partners in North America; JD, Zalando, and Sports Direct in EMEA, and Top Sports and Pou Sheng in Greater China. We continue the reset of our business with Foot Locker, planning for near-term sales declines as they invest in consumer-right concepts for the future.

Ultimately, we have a segmented portfolio of strong partners across price points and channels, with no single partner representing more than a mid-single digit of Nike's total business. And looking across the entire marketplace, we are confident in our brand momentum as we accelerate direct consumer connections, elevate our Brands, and create capacity for long-term growth.

Looking ahead, our priorities start with our product pipeline. And over the coming seasons, we will build on the market share gains that we have accelerated in recent years by scaling newness and innovation across our portfolio, while carefully managing the health of our most iconic product franchises.

This year, for example we will build on the consumer momentum around Running and modern comfort with performance and lifestyle franchises such as Infinity, Motiva, Invincible, Vomero 5, V2K and Air Max 1.

We will refresh our basketball portfolio across Nike and Jordan through innovation and style and grow the Kobe brand. We will ignite the next chapters of Pegasus, the Jordan game shoe, and Tech Fleece while continuing to grow powerhouses like Dunk and Metcon.

And as we look toward the second half of this fiscal year, and beyond from the 10th anniversary of Air Max Day to the Paris Olympic Games we will introduce our next wave of Nike Air innovation. This will bring our most comprehensive evolution of the Air platform in years one that we expect to catalyze both our brand and business. We will deliver pinnacle performance innovation to athletes, while also scaling into new lifestyle franchises over the next several years.

Ultimately, we are focused on scaling a deep, diverse, and distinct product portfolio not just for one quarter or one season; but for years to come.

Last, we are turning the corner in driving more profitable growth, while also recovering on transitory cost headwinds.

This includes structural improvements in profitability in areas such as supply chain, with reduced digital split shipments and improved digital fulfillment costs enabled by investments in our regional service centers and a new transportation management system. In addition, Nike Brand ASPs are

up across footwear and apparel, across all geographies, as we focus on the price value of our products. And in Greater China, consecutive quarters of double-digit growth, healthy inventory and sequential improvement in full price sales will enable us to begin rebuilding towards higher profitability in the geography.

Finally, we are focused on improving our marginal cost of growth, with more modest increases in operating overhead this fiscal year following two consecutive years of double-digit growth in this area. We are doing this by unlocking speed and productivity as we transform our operating model to build a faster, more efficient Nike.

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

In Q1, NIKE, Inc. revenue grew 2% on a reported and currency-neutral basis.

Nike Direct grew 6%, with Nike Stores growing 12% and Nike Digital up 2%.

Wholesale grew 1%, reflecting our proactive decisions to restrain inventory supply and prioritize marketplace health, particularly in North America.

Gross margins declined 10 basis points to 44.2% on a reported basis, primarily driven by higher product costs and approximately 90 basis points of unfavorable changes in net foreign currency exchange rates, almost completely offset by strategic pricing actions.

SG&A grew 5% on a reported basis, primarily due to increased demand creation expenses around World Cup '23, and more moderate increases in operating overhead benefiting from shifts in timing of technology investments to the remainder of the year.

Our effective tax rate for the quarter was 12.0%, compared to 19.7% for the same period last year, primarily due to a one-time benefit provided by the recent delay of the effective date of U.S. foreign tax credit regulations.

Diluted earnings per share was \$0.94.

Now, let me turn to our operating segments.

In North America, Q1 revenue declined 1%, with Wholesale down 8%, in line with our expectations following our restrained sell-in of marketplace supply. Nike Direct was up 7%, as Nike Stores grew

11% and Nike Digital grew 4%. EBIT grew 4% on a reported basis, primarily due to strong gross margin expansion.

In a competitive environment, our retail sales momentum grew throughout the quarter across Nike Direct and Wholesale. Nike's Back-to-School performance outpaced the broader industry, with strong sales from our top franchises and clear consumer excitement around newness.

Infinity 4 drove strong full-price sales as we partnered with key running specialty accounts to host community activations. Our newest generation of Tech Fleece amplified by strong investment from key marketplace partners drove retail sales up double-digits from last year across Nike Direct and Wholesale. Zenvy, Go and Universa fueled double-digit growth in statement leggings, with Dunk and Free Metcon driving strong sell thru. And Jordan Brand continued its momentum with double-digit growth, led by Jordan Women's and Kids, as well as performance Basketball.

In EMEA, Q1 revenue grew 6%, with Nike Direct also up 6%. Nike Stores grew 17%, and Nike Digital declined 2%. EBIT declined 5% on a reported basis.

Global Football and fitness grew double-digits, and Women's outpaced our total growth in the geography this quarter. New innovation and styles are resonating, with Phantom Luna driving strong sell-through; Metcon up double-digits; and Motiva, our new walking shoe, off to a great start in creating a new performance category for Nike. Pegasus, Invincible and Vomero also delivered strong results in the quarter.

In addition, statement leggings and shorts grew double digits with integrated brand and retail experiences. And as we deepen our focus on serving all segments of the running community, trail running footwear grew double digits with new product innovation and brand activations.

In Greater China, Q1 revenue grew 12%. Nike Direct grew 10%, with Nike Stores up 12% and Nike Digital up 6%. EBIT declined 3% on a reported basis.

Throughout the quarter, we saw incredible energy around the return of sport with thousands of young runners joining in our Back-to-School Kids Race players across cities taking part in our Jordan Flight basketball tournament and historical highs in social engagement with our NBHD accounts as consumers joined in hyperlocal community experiences to celebrate our newest Kobe release.

Retail sales across Nike Direct and Wholesale grew double-digits with another quarter of strong sell-through. In a highly promotional marketplace, we outperformed industry trends with

improvement in full-price sales. Our performance dimensions led growth, with consumer excitement around GT Jump, Sabrina 1, and Invincible. And in lifestyle, Vomero and other retro running styles are gaining momentum as we prepare to scale over the coming seasons.

In APLA, Q1 revenue grew 3%. Nike Direct was up 3%, with Nike Stores up 10%, and Nike Digital declining 3%. EBIT declined 17% on a reported basis.

Japan, Southeast Asia & India, and Mexico led our growth this quarter, as we accelerate our momentum in international markets. In particular, store traffic in Japan is returning to pre-COVID levels sales through our new Myntra partnership in India are already exceeding plan and Mexico's digital business delivered double-digit growth.

Kids led our growth in the geography, up double-digits with strong growth from Mercurial, Court Borough, and fleece. We also saw market share gains in Women's lifestyle, with positive consumer response to Air Max Koko, V2K and Gamma Force. In addition, Jordan continues its global growth, with Luka and Tatum fueling strong momentum in performance basketball, and our new Streetwear footwear franchises resonating with consumers.

Now, let me turn to our financial outlook.

As we look forward, we are confident in Nike's new product innovation pipeline, brand strength, deep consumer connections and the health and shape of our marketplace. Our Q1 results reaffirm our expectation for healthy, profitable growth this fiscal year.

For the full year we continue to expect reported revenue to grow mid-single digits. At the same time, we are closely monitoring the operating environment, including foreign currency exchange rates, consumer demand over the holiday season, and our second-half wholesale order book.

As a reminder, this growth outlook includes approximately four points of headwinds from accelerated liquidation and higher wholesale sell-in during the prior year, as we sold roughly five seasons of supply within four financial quarters. Therefore, quarterly comparisons across marketplace channels and in the aggregate will be non-linear.

We continue to expect gross margins to expand 140 to 160 basis points on a reported basis, which includes 50 basis points of negative impact from foreign exchange headwinds. We are cautiously planning for modest markdown improvements for the balance of the year given the promotional environment.

We continue to expect SG&A to slightly outpace revenue growth, more specifically at the high end of mid-single digits.

We continue to expect other income and expense, including net interest income, to be \$225 to \$275 million for the year.

And we continue to expect our effective tax rate to be in the high-teens range.

Now, let me provide some additional color on our second quarter. We expect second quarter reported revenue growth to be up slightly versus the prior year, as we face our most challenging comparisons from Fiscal '23.

We expect second-quarter gross margins to expand approximately 100 basis points versus the prior year, reflecting benefits from strategic pricing, improved markdowns, and lower ocean freight rates, partially offset by higher product input costs. We continue to expect a negative impact from 50 basis points of foreign exchange headwinds. We expect second-quarter SG&A to grow mid to high single digits. We expect our second-quarter effective tax rate to be in the high-teens range.

For Nike, being on the offense means competing to win now and over the long term. We are confident in our strategy our leadership position and our ability to create even greater opportunity ahead.

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

[OPERATOR]

We'll take our first question from Bob Drbul, Guggenheim Partners.

[BOB DRBUL]

Hi. Good afternoon. Thanks for taking the question. I guess the first question really is, when you talk about the innovation pipeline for fall of '24. Can you just expand a little bit more in terms of the focus or the categories or really sort of what you see driving the business that you laid out at the most recent meeting? And I have a follow-up.

[JOHN DONAHOE]

Great, Bob. Well, as I said in my remarks, we cannot underestimate the understate, really, that the impact of having our teams back together in person over the past 15 months, and we absolutely see that kicking into gear with our product pipeline. And so, this past quarter, you heard a couple of great examples of performance innovation around Phantom Luna, our World Cup kits, the Infinity 4, which had one of our latest foam platforms, React X foam, highest energy return and lowest carbon footprint, that will sustain for many quarters and years.

And over the next six to nine months into the Paris Olympics and into the fall, there are several areas we're very excited about. Matt and I both talked about basketball, I don't think we've ever had a stronger portfolio of basketball shoes, whether it's the Sabrina 1, the LeBron 21, Book 1. Jordan has Tatum, Luka, Zion, and a great Game Shoe coming. And then, of course, we have Kobe. So, we see real growth, growing our basketball business and growing the game and market of basketball on and off the court.

In running, we feel good about the Invincible 3 and Infinity 4, Vomero 5, OPeg 41, we feel very good about coming into Paris as well as the Motiva, which we think have real legs. And then Air. Air is an are putting a huge amount of focus, and we're very excited about the innovations coming in Air, both performance and lifestyle. And so, we have the tenth anniversary of Air Max Day in the spring as we move into the Paris Olympics. Air will be an important opportunity both in performance and in lifestyle. So, we see several opportunities to build real scalable innovation and growth.

[BOB DRBUL]

Got it. Thanks, And I just have a question. In North America, I guess, in the current quarter, what's the bigger tailwind to the business right now? Is it the Travis Kelce jerseys or the Colorado football merchandise?

[JOHN DONAHOE]

Oregon Ducks jersey.

[MATT FRIEND]

We love the NFL and we continue to see a lot of momentum with Coach Prime, so both.

[BOB DRBUL]

Thank you.

[OPERATOR]

Up next is Adrienne Yih, Barclays.

[ADRIENNE YIH]

Great. Thank you very much. I guess my question is going to be on kind of the shaping of wholesale. Matt, if you can help us out with the I guess, do we expect direct to be similar to the current quarter and then the balance of that, the kind of up slightly for the current quarter guidance to the balance of that come out of North America wholesale? And then my other question is on the China market. John, you talked about kind of strength and regaining market share. But at the same time, you talked a little bit about continuing to be promotional. It's great to see that you're regaining full price. How much demand creation are you doing there? What does the promotional environment look like exiting the quarter? And any comment on exit trends? How should we think about kind of the trends over the next couple of quarters relative to your long-term algorithm? Thank you very much.

[MATT FRIEND]

All right. Well, John, why don't I start on marketplace.

[JOHN DONAHOE]

Sure.

[MATT FRIEND]

So, Adrienne, when we look at our performance this quarter, I'd be remiss to not just reiterate what I said on the call, which is we saw very strong retail sales in the marketplace up mid-single digits. And in particular, we're very pleased with the performance across a range of our most important wholesale partners, delivering growth high single digit to low double digit.

What I said last quarter in terms of the way that I was thinking about channel growth for this year, I said that NIKE Direct would lead our growth. And it did this quarter, and we do expect NIKE Direct to continue to lead our growth throughout the remainder of this fiscal year. The period that we're

heading into in Q2 and Q3 is really the higher levels of sell-in that we did last year as we proactively focused on returning our marketplace to a more healthy level.

As an example, you might recall our Q2 wholesale revenue last year was up 30% versus the prior year. And so, as we face those comparisons, we do expect that NIKE Direct will be the best indication of the growth that we're driving in the marketplace, while we comp those nonlinear comparisons in the prior year. But we feel very good about the health and the shape of our overall marketplace, including in North America. And we're continuing to focus on driving growth across dimensions, across channels, up and down price points and are very focused on building a product pipeline to enable us to do that over the coming years.

[JOHN DONAHOE]

And Adrienne, in China, it's interesting. I've been to China twice now in the past 4 months. And I think, Matt, you were there in August. And I we feel good about the market there and our position. Frankly, a couple of things stand out. One, sport is back in China. You can just feel it. And that gives us great confidence about the future and the Chinese consumer in our segment regardless of the macroeconomic outlook there.

And you saw we had double-digit strong double-digit growth in Q1 and Q2, and we're helping to really drive momentum in sport there. I talked about Sportchella. I think Matt mentioned the back-to-school kids race. Giannis did his tour there this summer that got huge response, outdoor basketball. So, we're doing what we do best, which is driving energy and excitement around sport, which then translates into our brand connection and our consumer connection being as strong as it's been in a long time.

And as I said, it's perhaps the best example currently where we bring this great innovation with distinctive storytelling, with distinctive marketplace reaction. And so even in a promotional period, our full price sell-through and our innovation are connecting well and doing well.

And so, we got our inventory in shape much sooner than the market in China, and so we're playing on the offense. We're playing on our front foot. And we feel good about the opportunities in China in the coming quarters and into the medium to long term.

[MATT FRIEND]

Yes. And I would just say that I think that the retail sales growth that we referenced in our 2 biggest wholesale partners is a great indication of the health of our inventory and our ability, especially in this first quarter, to flow a complete assortment and season into our retail stores in the marketplace.

And we that's NIKE at its best, our most premium elevated retail experiences, high levels of seasonal assortments where we can tell stories and really bring the breadth and the dimension to consumers. And we saw that momentum building throughout the quarter. So, we feel really good about the decision we made to move fast. And even though the marketplace is promotional, we're on our front feet in terms of the way we're able to present our brand and our stories and our products to consumers in that market right now.

[OPERATOR]

Next, we'll take a question from Alex Straton, Morgan Stanley.

[ALEX STRATON]

Perfect. I just wanted to focus on kind of the running innovation that you guys highlighted a number of times on the call across areas. I think you had said you launched some running in the last few years, but perhaps it didn't connect as much as you wanted, or you wanted to scale it more effectively. So, could you just touch on maybe what changed in NIKE's approach in the last few years and then what you plan to do differently to kind of reignite that?

[JOHN DONAHOE]

Yes, Alex. As I said, we we're at our best when we align innovative product with distinctive storytelling through a differentiated marketplace. And in running, we have 3 different categories in running. In racing, we take our performance innovation, which sets the bar in the industry with the Alphafly, the Vaporfly and NEXT%. We have compelling breakthrough storytelling, whether it's Breaking 2, or we reached that elite runner and we reached them through a differentiated marketplace, and so we're doing well there. In trail running, which is the fastest growing segment, the Peg Trail is doing very well. We feel really good about our innovation pipeline, and we're increasingly leaning into the trail running community and to marketplace connection with that trail runner.

And then the area that we talk about, road running or what we call road running or every day running, we're very clear we're prioritizing the everyday runner who wants newness and consistency, and we're focusing, therefore, on some key models, ensuring that we get in the path of runners. So, in terms of innovation, as I mentioned in my remarks, we've had some very good innovations in the last couple of years. The Invincible took some of the performance benefits from our road racing shoes, particularly ZoomX, and brought them into an everyday running shoe along with some great cushioning, so good innovation.

Similarly, the Infinity 4 brought the React X foam platform, which has got some real characteristics of low- carbon footprint, better high energy. But we're not yet combining those innovations with getting in the path of the everyday runner with a really strong ground game, and so that's what we're focused on. And that starts with distribution, making sure we're breaking through everywhere every day runner shops, so whether that's around direct channels, wholesale channels. Running specialty doors play a really important role.

You may have noted we launched the React 4 in partnership with running specialty doors. So that's a step in the right direction, and we're really working to break through in these channels. And then we're working hard to better connect with runners in their community where they are, whether it's driving connections through Nike Run Club and our mobile apps, being present in marathons and races and just being where runners are. And so, in this case, we know what we need to do. We are focused on it, and we are moving with urgency to deliver.

[MATT FRIEND]

There's also a meaningful opportunity as running influences lifestyle and sneakers. And as we've had tremendous success from a classics perspective over the last couple of years, we have a rich heritage of products in our pipeline related to running for decades. And so, one of the things that we're also doing is accelerating our opportunity in running lifestyle with some of our best franchises and capturing on that trend and also the consumer shift to modern comfort. And we feel like that 1, 2 punch, as John mentioned, innovation, performance, and lifestyle, is really going to position us well to take greater to greater take a greater attack at the running marketplace holistically.

[OPERATOR]

And next up is Matthew Boss, JPMorgan.

[MATT BOSS]

Great. So, John, maybe could you speak to underlying demand trends as the first quarter progressed? Or any early fall trends that you're seeing in both North America and China. And then multiyear, I'm curious what you see as the next leg of the Consumer Direct Acceleration strategy or just any initiatives that you see to drive further market share gains as we look forward.

[JOHN DONAHOE]

Actually, Matt, why don't you take the first part of that and close in on demand, and I'll take the second.

[MATT FRIEND]

Sure. Well, Matt, as I referenced, we saw mid-single-digit retail sales growth this quarter. And this quarter, we have a unique dynamic because we saw a difference in what we're reporting or what we're communicating from a retail sales perspective versus where NIKE's reported revenue is, and that's because of the restriction of sell-in that we put into place the last couple of quarters of last year. We do expect that to continue as we go into the second quarter. And so, we are planning for retail sales growth to be in line with what we delivered this quarter from a mid-single-digit perspective.

When we look at the big consumer moments this quarter, 618 seems like so long ago at this point in time, but 618 in Greater China, we were the #1 sports brand on Tmall and saw impressive double-digit growth over that time horizon. And within back to school, we outperformed the industry. And when you look at our performance over the quarter, we saw momentum building throughout the quarter heading into back to school. And so, we were encouraged by what we were seeing from a consumer perspective.

I mentioned that we saw high single-digit to low double-digit growth in our most important partners and strong growth in NIKE Direct this quarter given what we're anniversary-ing in the prior year. So, we continue to see consumer demand for our brands and for our products to be very, very strong. Sport is growing, and the consumer is proving to be resilient.

There are some dynamics in terms of shifting that's happening from channels. We saw it in our partners a couple of years ago. And this quarter, we are seeing consumers spending more time in brick-and-mortar locations. But 90% of their shopping journeys are starting with digital and so we continue to believe that.

our digital and physical strategy of serving consumers at the right strategy to serve demand as we look forward.

[JOHN DONAHOE]

And Matt, if we just extend out, as you asked, a little bit longer term, we step back. We still see the same fundamentals, which are some structural tailwinds in our industry, right? The definition of sport is expanding. And so, with the movement toward health and wellness and fitness and new big areas of movement like dance, one of my favorite we've had a lot of interaction with breakdancing in the last 3 months here on campus, seeing some of the elite breakdancers who will compete in the Paris Olympics coming. But dance throughout Asia and other places is a huge market. So, we just see an expanding definition of sport where movement has become sport, and we're at center of that.

The movement toward athleisure, right, there doesn't need to be a trade-off between what you wear on the pitch and at work between comfort and performance and style. Athleisure combines all of those, and we are very well positioned to continue to drive that trend.

And then the digital connection of consumers means that sport, whether they're watching it or commerce is always one click away. And our leading portfolio of digital assets gives us a huge advantage there. So those are some structural tailwinds.

And then we just do we're in a great industry with those tailwinds. We've got to do what we do so well. Innovation plus great storytelling plus great marketplace, we believe will drive real strong growth. And we see great growth in women's. Jordan, we think, has extraordinary growth. Running, we think we have great growth; continuing to expand the market in basketball, global football. And as Matt mentioned, this driving performance and then into lifestyle is something that makes our industry, our business and our future quite attractive.

[OPERATOR]

Jay Sole from UBS has the next question.

[JAY SOLE]

Great. Matt, you talked about you're seeing underlying structural gains and profitability in margins. Can you just talk about how you're feeling about the long-term opportunity for margin in the context of the long-term guidance you gave a couple of years ago for NIKE's ability to get to a high teens EBIT margin over time?

[MATT FRIEND]

Sure, Jay. Well, we remain confident in our ability to drive our long-term financial goals. And we still believe those long-term goals of profitability are achievable. But the timing is difficult to predict. But the reason why I emphasize what I emphasized this quarter is that I feel I really feel strongly that fiscal year '24 is a turning point for us and a proof point for NIKE to drive more profitable growth.

The structural things that I referenced, the structural drivers, I should say, that I referenced, it starts with creating value for the consumer and our products. And we continue to see benefits in our gross margin through strategic pricing and managing the price value of our products with ASPs across the NIKE brand across all geos up this quarter.

One of the opportunities we continue to see, and we saw some benefit of it this quarter is lowering our supply chain costs. We've increased the size of our supply chain in the last few years to be able to address the growth that we've seen in our business, both overall and in digital. And now our teams are very focused on driving greater efficiency in the way that we serve consumer demand across channels.

And I mentioned a couple of examples like reducing digital split shipments so that a consumer doesn't get 2 boxes for the same order, the way that we're lowering our outbound fulfillment costs through the investment in regional service centers that are closer to where consumer demand is. And so those are just a couple of examples that we continue to see.

And then, of course, we do expect that while the ultimate landing spot of digital and direct isn't as clear, we do believe we're going to be a more direct and a more digital company and a more profitable company. And there's a channel mix and channel profitability opportunity that comes with that as well. So, we continue to believe these goals are achievable. And based on our gross margin plans for this year, our performance in the first quarter, we believe we're turning the corner on starting to climb to greater profitability as a company and as a brand.

[OPERATOR]

The next question comes from Piral Dadhania, RBC.

[PIRAL DADHANIA]

Most have been answered, so maybe I could just ask a follow-up, a clarification. Matt, I think you said that in Q1, your partners registered a high single-digit to low double-digit sales growth in the period. I just wanted to understand whether that was their sell-out number or whether that was your sell-in number. Any clarification there would be very helpful.

[MATT FRIEND]

Sure. That was a sellout number. That was a sales-to-consumer number.

[OPERATOR]

We'll take our next question from Jonathan Komp, Baird.

[JONATHAN KOMP]

Matt, if I could ask a follow-up, just as you think about the second quarter, given some of the unusual comparisons, would you be willing to share any shaping guidance across some of the segments? And then bigger picture, if you could just comment on sort of the shape of the recovery of the sales and the profitability that you're seeing in China and any thoughts as we look to the balance of the year?

[MATT FRIEND]

Sure. Well, as it relates to the second quarter, what I said was that we expect our growth to be up slightly versus the prior year. I did answer Matt's question just and I'll connect the 2 together, but we are expecting retail sales, so to sellout to the consumer, to be in line with the mid-single digit that we delivered this quarter across the full marketplace. And the second quarter is really the last season that we've managed the sell-in to a more restricted level so that we could ensure that the marketplace was set right as we look towards the remainder of this year.

As far as the comparisons go, Q2, and I think I referenced the wholesale number earlier, but we're comping about 27% currency neutral growth in Q2, but what we're much more focused on is the quality and the health of the growth that we're delivering in the quarter. And so as you see our gross margins expanding in the second quarter on an operational basis, excluding the impact of FX, we're up 150 basis points and are really encouraged as we think about what we delivered in the first

quarter, the improvements we're guiding to and believe we can deliver in the second quarter and then the way that will accelerate through the balance of the year.

So, as we get into the second half of this year and we think about our gross margins, we're going to start to see even more impact from ocean freight because those are rolling in midway through this quarter. We're expecting to see lower product costs in the second half, and our FX headwinds are going to abate a little bit as we get into the back half of this year. And so, some of those elements will drive increasing margin expansion as we carry through the balance of the year.

I think your the last part of your question was on China and profitability. What I would just say is that we know from a long history of managing this business that when you have a healthy marketplace and you're driving full price sales and you are driving productivity in your retail formats, you're -- you've created the environment that's ripe to drive profitability improvement. And as we look at the momentum that we're seeing in Greater China, another quarter of double-digit growth, we're increasingly confident that we're going to begin to rebuild towards higher profitability in that marketplace. That's on the product and marketplace side.

And then also I referenced an example where we're lowering our supply chain costs in Greater China. And so, we feel we feel quite good with that as well. Our reported numbers in China are going to be challenging for the next couple of quarters because of foreign exchange headwinds. And so, we'll continue to try to highlight the opportunities and what we're driving from a profitability perspective, but that's one of the reasons why our EBIT was down this quarter in Greater China, as foreign exchange headwinds as a result of the strength of the U.S. dollar definitely has created a bit of pressure in the short term. But that's we're focused on what we can control and continuing to drive a healthy, profitable business in that market and believe the fundamentals for long-term growth and profitability are strong for NIKE.

[OPERATOR]

We'll go next to Aneesha Sherman, Bernstein.

[ANEESHA SHERMAN]

So as a result of your direct-to-consumer strategy, you've shifted, I guess, more than 20 points of sales mix from Wholesale to NIKE Digital over the last 7 or so years. You're seeing shoppers returning to stores this year. You did make some adjustments to adding physical distribution points. Do you feel like you are in enough physical retail doors today to appeal to a rebalancing of shopping habits?

And then a quick follow-up on overheads. You talked about lowering some of the specific costs of direct and split shipments and fulfillment costs. Can you give us more color on the investment cycle or on the investment cycle to support the Direct business as well as centralized investments like ERP and kind of where you are this fiscal year and next fiscal year?

[JOHN DONAHOE]

Matt, I'll take the first part. Maybe take the second. So Aneesha, again, our entire marketplace strategy is driven by giving consumers what they want when they want it, how they want it. That starts with our digital properties, our own direct retail, which Matt will talk about in the second part of the answer, but wholesale plays a really important role for us to get the breadth and depth of access to consumers and consumers' access to our products.

And so as you know, we've really sharpened our wholesale focus over the last few years to focus on fewer multi-brand partners that where we're investing in elevated retail experiences and connected digital membership at scale. And so that's DSG, JD, Zalando, our partners in China. We've got a great launch with Pro:Direct. Hibbett will come online with connected membership in October. And so, we think there's a lot of growth opportunity with those strategic wholesale partners.

We're also putting increased attention on our neighborhood partners who are authenticators. They help authenticate both sport and lifestyle and drive energy and local connections. And then as we said, where we see gaps, whether it's in a price point or a gap in a product segment, we'll selectively add wholesale partners in different geographies and in different segments. And this will be a dynamic thing. I mean we're led by the consumer. We have the blessing of the strongest direct connections in the industry; and with direct connected membership, we can be indifferent about which channel.

And Matt, you're going to talk a little bit about, I guess, the margins of our direct, with the Nike Rise, our direct mono-brand doors, Nike Rise, and our well-collected doors are doing quite well. And we feel like we're getting our concept right now that we have seasonal right assortments coming into them. We feel very good about our ability to augment where there are gaps as well with our own mono-brand doors, also a House of Flight on Jordan. So we feel good about being on the front foot with our marketplace, I think the most wide and connected marketplace offense in the industry.

[MATT FRIEND]

Yes. And I think I would just add maybe one point and then I'll hit the last part. When I think about the momentum that we've seen over the last several years from a digital perspective, you're right. We have shifted our channel mix, and that's been a consumer-led and a consumer-driven shift based on the consumers' desire to want to connect with NIKE, both through our digital apps and through our stores.

What we saw this quarter wasn't unexpected for us. And when we look underneath the momentum that we saw in our NIKE mobile app, we saw a strong growth, high single-digit growth in traffic. We saw member activity continue to increase both in terms of engagement and buying behavior and a higher basket size, a higher AOV. And so we continue to be focused on creating the best personalized experience for our members from a digital perspective. And we believe that that's going to continue to fuel growth in our digital business over the long term.

I do think this year, the comparisons are going to not be linear as we go quarter-to-quarter, channel to channel given what transpired last year. But what we're seeing from a consumer perspective doesn't shift our dimensionality in terms of needing to do something different in order to serve consumer demand. As John said, we've got the biggest, deepest breadth of distribution of anyone and have the right partners to be able to serve the marketplace.

As it relates to overhead, the numbers that I referenced actually impact our gross margins, our lower digital fulfillment cost that sits in our gross margins. And it's something that we've been focused on for some time. We started investing a couple of years ago in regional service centers in North America and in Europe and in pickup points closer to the consumer in Europe, all with the intention of building a supply chain that enables us to serve demand closer to consumers.

It's more sustainable because we don't have to put product on airplanes and leveraging our store footprint through O2O capabilities. And so, we've been investing for a few years in developing and scaling those capabilities to be able to serve consumer demand.

And as I look forward from here, our investments will be aligned with the way that we grow the business. In other words, we've invested to and now we're learning to operationalize and take advantage of these capabilities.

We are implementing our ERP in North America. We went live with our retail business in the first quarter, and everything has gone well. And we're focused on bringing the second part of our North America business, the wholesale side of our North America business online and our new ERP later this year. So that is our largest investment in transformation of our supply chain and enabling us to operate like a retailer.

And I couldn't be more excited about the opportunity that it presents for us to really modernize the way we work and to serve consumers at speed across the marketplace.

[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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