

FY25 Q1 Earnings Release Conference Call Transcript

October 1, 2024

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[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2025 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 Corporate Finance and Treasurer.

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 2025 First Quarter results.

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.

Joining us on today's call is one speaker NIKE, Inc. Executive Vice-President and Chief Financial Officer Matt Friend.

We will start with prepared remarks, and then open up for questions. Today's call will be abbreviated as compared to past earnings calls. In order to allow as many of you to ask questions as possible in our allotted time, we would appreciate you limiting yourselves to one question.

I'll now turn the call over to Matt.

[MATT FRIEND]

Thanks, Paul, and hello to everyone on the call. Before we get into a review of the first quarter, let me acknowledge that we are reporting our results in a transitional moment as John retires as President and CEO and Elliott Hill joins us as our new President and CEO on October 14.

First, we deeply appreciate John's contributions to Nike. He has served on our Board, led our company through a global pandemic and meaningful supply chain disruption, accelerated our digital transformation and initiated new NIKE community investments around the world. We thank him for all he has done to move NIKE forward. As we look ahead, we're excited to welcome Elliott back to NIKE. Elliott is a beloved NIKE veteran who brings a powerful connection to our employees and culture, a deep love for our brands and a passion for sport.

Over his 32 years with the company, he built a proven track record of leading our global teams, brands and businesses with significant expertise in delivering growth by bringing product and storytelling with impact into an integrated marketplace. Our Board believes that Elliott is the right leader to drive NIKE's next stage of growth. Having had the opportunity to work closely with Elliott for many years, he leads with a passion that inspires the best from the team.

Our employees' response to this announcement has been tremendous. You can feel the energy and the enthusiasm walking around campus. And we've heard nothing but excitement from our teammates around the world, including our alumni network as well as our partners.

We all look forward to working with Elliott as he leads NIKE's next chapter.

Given our CEO transition and with 3 quarters left in the fiscal year, we are withdrawing our full year guidance. We intend to provide quarterly guidance for the balance of the fiscal year. This provides Elliott with the flexibility to reconnect with our employees and teams, evaluate the current strategies and business trends, and develop our plans to best position the business for fiscal '26 and beyond. To that end, we have also decided to postpone our Investor Day.

Now let me turn the discussion towards our current business. NIKE's first quarter results largely met our expectations set last quarter. We are moving aggressively to shift our product portfolio, create better balance in our business, and reenergize brand momentum through sport. That said, a comeback at this scale takes time. And while there are some early wins, we have yet to turn the corner. Today, I want to provide a deeper insight into the trends we saw in our first quarter. Then I will speak to the portfolio shifts that we are driving and the implications for our near-term performance. I will also touch on some of those early wins, including indicators to track our progress. And last, I will review our financial performance and Q2 outlook.

Let's start with a deeper look into the first quarter. While Q1 revenue was largely in line with our plan 90 days ago, we delivered lower unit sales than we expected, partially offset by a higher ASP. Traffic declines across NIKE Direct were more significant than we anticipated. We saw particular softness in traffic on NIKE Digital as well as in our partner stores in Greater China. As a result, retail sales underperformed our plan, including our wholesale partners, with slightly elevating marketplace inventories requiring higher levels of promotional activity in Q1 to drive conversion.

This included the back-to-school period as our results underperformed the market. We saw store traffic improves in August and growth in factory stores in Q1, but the overall period fell short of our expectations. However, Q1 showed that we took an important step forward as we shift our portfolio to create better balance in our business. We have been intentionally reducing

the proportion of our business driven by our Classics Footwear franchises, Air Force 1, Air Jordan 1, and Dunk. And as expected, NIKE revenue in Q1 from these franchises decelerated, declining more than the total business as we tighten marketplace supply. We expect this trend to continue tempering our reported revenue over the coming seasons.

Our timelines differ across each franchise, each geography and each channel. Overall, we have taken the most aggressive actions in NIKE Direct and especially Digital. In Q1, these franchises were down nearly 50% versus the prior year on NIKE Digital while we saw much better sales trends in wholesale. So, we are actively rebalancing product allocations to our highest traffic channel in order to maximize franchise health and full price realization.

In the near term, this will have implications for certain dimensions of our business. Our men's and women's lifestyle business was planned down double digits in Q1, and we expect these declines to continue through the year. The Jordan brand was planned down double digits this quarter, and we expect Jordan to be down at the same rate for fiscal '25. And we expect NIKE Digital to decline double digits in fiscal '25 versus the prior year. All taken together, these trends drove a mid-single-digit headwind on Q1 revenue.

As we look ahead, we are working to position new products in the path of the consumer, create scale for new ideas, and drive more balanced marketplace growth. Partner feedback on our future product pipeline has been very positive. I had the chance to meet with many of them at our Partner Summit in Paris during the Summer Olympics and directly hear their response to the products and stories that we have coming in our second half. We also gave them a sneak peek to what is coming in fall '25, deepening confidence in our accelerated pace of innovation to build a more compelling future product pipeline.

Progress with partners will be accelerated through new brand momentum and new energy with consumers. But the multi-brand environment is very competitive today and it will take time to expand market share. This was reflected in our spring '25 order books, which came in roughly flat versus the prior year, a little lighter than we had planned. Our teams are now hustling to close out the upcoming summer season, closely engaging our partners as we

finalize bookings.

Now let's turn to some of the early wins that we are seeing, especially as our teams get back on the offense in sport with consumers. This quarter, we saw growth in multiple sport dimensions, an indicator that we are gaining traction. This was led by men's fitness, men's global football, and men's and women's running footwear. In addition, 2 of our largest performance franchises, Mercurial and Global Football and the G.T. Series in basketball delivered double-digit growth across all channels.

We are especially encouraged by the momentum building in our Running offense. This has been one of our toughest fights over the past few years and it is one of our biggest opportunities. Our team's focused here first in driving our comeback. And more recently, men's and women's running footwear delivered positive growth in Q1, a meaningful improvement versus the prior quarter. The order book looking forward is strong with spring '25 footwear units set to grow double digits versus the prior year.

In North America, we were up double digits this quarter with Running specialty partners, and our holiday and spring order books will build on that strength. We also just launched a new campaign, one of our biggest Running brand investments in years, which will carry into fall and holiday. So far, consumer engagement has been very strong. Meanwhile, our ground game activations are creating energy and running communities around the world. In addition, our Pegasus 41 launch showed the impact that we create when we launch new ideas at scale, delivering mid-teens growth above last year's Pegasus model.

And this is just the start as we scale the franchise through multiple dimensions, Peg Trail, Peg Plus, and coming in spring, Peg Premium, which introduces visible full-length NIKE Air with more energy return than ever. Most importantly, we are most optimistic regarding the full product pipeline in Running across footwear and apparel that we will bring over the coming seasons. This includes a new maximum cushioning system in an iconic line, blending comfort and style for our softest, smoothest ride yet, a premium model that combines high-stack ZoomX foam and Zoom Air for a new sensation that had test

runners raving; a refreshed lineup of performance running apparel, including new women's-led designs; the latest NIKE Trail models updated for even better traction and durability and new franchises below \$100 that scale innovation to more accessible price points.

Looking more broadly across our product portfolio, particularly in footwear, we see clear indications of progress in accelerating newness and innovation. Q1 revenue from new footwear products was up strong double digits versus the prior year. This includes multiple franchises that have scaled quickly based on unit growth over the past 12 months. For example, in performance footwear, Sabrina has grown roughly 5x. Kobe has nearly quadrupled and Alphafly has almost tripled.

Meanwhile, in lifestyle, what we call our look of running business, led by Vomero 5, V2K and P-6000 has grown more than 4x over the past year. While this is not yet large enough to offset the declines elsewhere in our portfolio, we are gaining ground. As we look to the spring season, contribution from newness and innovation will take a significant step forward with growth in footwear units of mid- to high single digits versus the prior year. And over the coming seasons, we expect to see sequential gains and the percentage of newness and innovation as a mix of our total footwear business.

As we move forward, we are continuing to invest to grow while staying disciplined on costs. For our teams, this means tightly managing operating overhead and reallocating resources to maximize consumer impact and growth. You saw that this summer with our Paris Olympics campaign, Winning Isn't for Everyone. We led with the voice of the athlete on sport's biggest stage, backed by one of our biggest brand investments in years as NIKE athletes dominated the medal count. NIKE owned over 60% of total share of voice during the games, resonating especially deeply with our athletes and Gen Z consumers.

Most importantly, this summer was just the start, with the investment lined up behind a steady cadence of bigger, bolder brand storytelling to come. In addition, we are investing with our partners to elevate and differentiate our brand in retail. For example, last year, we partnered with DICK'S Sporting Goods to introduce an elevated women's fitness concept, which is generating impressive year-over-year comparisons in pilot doors. We also teamed

up with Foot Locker to introduce a new concept, Home Court, in their doors with a shared vision to deliver a fresh, new multi-brand basketball experience.

By bringing the best of NIKE, we create sport-inspired distinction for consumers and deliver attractive returns for both NIKE and our partners. Together, we shape the kind of retail environments that drive competitive separation and segment the marketplace for growth, enabling us to serve consumers through strong assortments with full expression across each dimension of our portfolio. All told, we expect that the return to strong growth will take time, but we believe that we have all the right building blocks, especially with Elliott now leading us forward.

Now let me turn to our first quarter financial results. In Q1, NIKE, Inc. revenue declined 10% on a reported basis and 9% on a currency-neutral basis. NIKE Direct was down 12% with NIKE stores up 1% and NIKE Digital down 20%. Wholesale was down 7%. Gross margins expanded 120 basis points to 45.4% on a reported basis, primarily due to lower NIKE brand product costs, lower warehousing and logistics costs, and benefits from strategic pricing actions in the prior year. SG&A declined 2% on a reported basis with accelerated investment in demand creation more than offset by a reduction in overhead expenses, primarily driven by wage-related savings. Our effective tax rate was 19.6% compared to 12% for the same period last year. Diluted earnings per share was \$0.70.

Next, let me turn to our operating segments. Given similar themes across many of our geographies, I will keep my comments here briefer than usual. In North America, Q1 revenue was down 11%, NIKE Direct declined 11% with NIKE Digital down 15% and NIKE Stores down 1%. Wholesale declined 11%, reflecting unfavorable shipping timing. EBIT declined 15% on a reported basis with gross margin expansion offset by higher investment in demand creation. This quarter's highlights included brand activations around a full summer of hoops. We engaged players and fans with our New York versus New York Series, our WNBA All-Star celebration, Jordan Grassroots Basketball in Chicago and L.A., and our Mamba League Invitational.

In EMEA, Q1 revenue was down 12%. NIKE Direct declined 12% with NIKE Digital down 24% and NIKE stores up 3%. Wholesale declined 11%. EBIT declined 15% on a reported basis. This summer in Paris, both NIKE and Jordan were unmissable, with our Olympics campaign just about everywhere you could look on billboards, big screens, on the side of buildings and, most importantly, across all of our retail touch points. In addition, Jordan introduced its new campaign with a 6-week District 23 takeover in the city, a global one-on-one basketball tournament, and the brand's first-ever Twitch live stream, which drove over 10 million views, the biggest ever activation for any brand on the platform.

In APLA, Q1 revenue was down 2%, NIKE Direct declined 4% with NIKE Digital down 15% and NIKE Stores up 9%. Wholesale declined 1%. EBIT declined 3% on a reported basis. This quarter, we celebrated the opening of our new NIKE and Jordan World of Flight door in Mexico City, our largest retail space in Latin America and first dual brand shopping experience. Q1 traffic and sales for this concept far exceeded our plan, with consumers seeking out exclusive products, member-only experiences, and our latest women's and Jordan assortments.

For Greater China, let me go a little deeper into this quarter's performance. Q1 revenue was down 3%, NIKE Direct declined 16% with NIKE Digital down 34% and NIKE Stores down 4%. Wholesale grew 10%. EBIT declined 4% on a reported basis. This summer, retail sales moderated across the industry, and NIKE was not immune as traffic decelerated in our channels with lower sell-through rates. This has resulted in elevated inventory in the marketplace in an already promotional environment. That being said, NIKE continues to be the #1 sports brand in China, and we continue to create brand distinction when we bring our best stories and products to local consumers.

Over the summer, we drove incredible social buzz with storytelling around NIKE Athlete, Zheng Qinwen, who took home gold as China's first Olympic Tennis champion. Jordan's first athlete tour in China since the pandemic was also a big success as Luka, Tatum, Paolo, and Zion connected with young fans in Shanghai and Beijing. Top innovation and sport performance continues to resonate. This quarter's standouts included Peg 41, Alphafly and Sabrina 2. In addition, consumer response to our latest Protro release proved that Kobe

remains one of the most beloved athletes in China. While our outlook for the near term has moderated, we remain optimistic about the long-term opportunities for sport and for NIKE in China.

Now let me provide specific guidance for the second quarter. We expect Q2 revenues to be down in the 8% to 10% range. We expect Q2 gross margins to be down approximately 150 basis points, with higher promotions, channel mix headwinds, and supply chain deleverage more than offsetting lower product costs and a decreasing benefit from strategic pricing actions. We expect SG&A to be roughly flat versus the prior year, with increased demand creation investment largely offset by tighter operating overhead. We expect other income and expense, including net interest income to be \$30 million to \$40 million, reflecting lower interest rates. And we expect our effective tax rate to be in the high teens range.

Although we will not be providing full year guidance for the remainder of this fiscal year, we do want to provide additional color to help you understand our latest read of NIKE's business trajectory as we see it today prior to our leadership transition. Looking forward, our revenue expectations have moderated since the start of the year, given traffic trends on NIKE Digital, retail sales trends across the marketplace, and final order books for spring. Franchise management actions will continue throughout the year, and we expect a similar impact in scale to what we experienced in Q1.

However, we continue to see indications of slight second half improvement in revenue trends versus our first half as we plan to introduce and scale newness and innovation across the marketplace. We now expect gross margins to decline versus the prior year due to incremental headwinds based on the previously mentioned factors. We intend to remain disciplined on cost, especially operating overhead, while we invest to fuel brand momentum.

Before I wrap, I'd like to finish with this. Throughout our history, NIKE has always faced pressure. NIKE was born through adversity. Every obstacle, every setback was an opportunity to learn, to adjust, and to improve. This is the foundational mindset at NIKE, inspired by athletes and competition. And today is no different. Adversity creates sharper

focus, leading to innovation and new growth. We will continue to address the challenges head on, and we look forward to doing so with Elliott's leadership. With that, let's open up the call for questions.

[OPERATOR]

Your first question comes from Bob Drbul.

[BOB DRBUL]

I was just wondering if on the inventory situation, I think you talked about specifically China being elevated. Can you sort of break down some more regional, your perspective on where we are with inventories regionally with some of the I don't know if I'd use the word dislocation with some of the classics, North America specifically?

[MATT FRIEND]

Sure, Bob. I'd start by saying that as we look at the performance of our business over the last couple of seasons, retail sales have underperformed plan. And that's a statement about the overall portfolio. It doesn't specifically relate to just the classics. While we saw growth in retail sales in North America and China in Q1, we are seeing slightly elevated inventory as a result of the retail sales plans falling behind.

And so, as we've looked at our outlook for the remainder of the year and the commentary around trends moderating, we've taken into consideration a more muted point of view on retail sales trends and also the gross margin implications of needing to not only be more promotional to work through some of this elevated inventory, but also acknowledging the fact that the outlook for the balance of the year is going to require us to be more promotional as we're scaling new ideas and concepts while working through the rest of the product portfolio.

[OPERATOR]

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

[MATT FRIEND]

Yes, Alex. I mean, overall, when we look at the business in its total, we are encouraged by the performance that we've seen on the new products that we brought to market. And we've delivered I mentioned, we delivered double-digit growth in our new products. And it continues to give us encouraging signs as we see the team's focus on sport and performance and the way that those products are landing in the marketplace and the growth that we're driving.

As it relates to our performance in the quarter and the unit misses, I would start by saying that in Greater China, we did see performance in the quarter underperform our plan. And so that was one factor that impacted our unit decline. What I would say more broadly than that is just general macro across the different geographies. We just saw more softness for another season. And so, our teams are on it. They are focused on moving through these slightly elevated inventories.

They're not in a place that cause us significant concern at this point in time, but they do require us to be proactive and to take action. And that's what we're focused on doing while we bring newness and innovation at a greater scale with greater impact in the second half of this year. On Digital, we did see we were down 20% in the quarter in Digital, and that was largely driven by the 3 classic franchises being down nearly 50% versus the prior year.

And the sales trends for those franchises in our in the wholesale channel was substantially better. And so that also had an impact on our Q1 results. But as I said, we planned for the declines on those big 3 franchises, and we're continuing to manage the inventory of those franchises carefully, beginning with NIKE Digital so that we can put the product where the traffic is, and we can drive high full price realization on that product in the right channels in the marketplace in order to continue to manage the long-term health of those franchises.

[OPERATOR]

Your next question comes from the line of Michael Binetti with Evercore ISI.

[MICHAEL BINETTI]

Matt, I guess just one thing in the near term. You said that the spring order books actualized a little lower than you were expecting. But you did mention some elements of the second half revenue outlook that are maybe a few bright spots versus what you thought 90 days ago. Could you just help me reconcile those 2 comments, I guess?

And then thinking a little bit more long term, I think the plan previously was for direct-to-consumer to rise in mix and pull the margins of the company up as the margins in the DTC segment rise above wholesale after some pretty heavy investing you guys did to stage the D2C business for scale. Are those investments in place and do they become leverageable over time? Or are there elements of the -- in the D2C business that need to keep growing as you do look ahead to getting back to growth of that business?

[MATT FRIEND]

Sure, Michael. Well, starting with the spring order books, what I mentioned is that our order books came in on with our partners at flat versus the prior year. And it was a little light relative to what we expected. What we're seeing in there that we're encouraged by, very excited by is the fact that we're seeing newness and innovation scaling in the second half.

And so, I mentioned that footwear units related to newness and innovation, and we define that as products that have been introduced. They're either new or have been introduced within the last 8 seasons, are growing mid- to high single digits in the second half and, in particular, in that spring season.

Underneath that, where we look with the most optimism and where we've been focused first is Running. I talked about the momentum that is building in Running. And this is where our team started focusing first more than a year ago. This quarter, women's running footwear was up and it was the first time we've got positive growth in several quarters. When we look at the order book for spring footwear, men's and women's Running footwear is growing double digits.

Our North America Running specialty partners were up double digits in Q1, and the order books for holiday and for spring are giving us indications that we're going to sustain that momentum. And when you look at the way we're investing behind the brand, the ground game that we're operating, if you visited any running events around the world, I recently ran a half marathon and saw NIKE quite present, but I know they were we were very present over the Berlin Marathon and multiple activations around the world. We're focused on being present with runners in their communities in order to truly land the impact of our product portfolio.

And then I talked about the pipeline of what's coming. And we're really excited about a number of things that are coming in our product pipeline, including new cushioning innovation, new premium models that are blending Foams and Zoom Air for a new running sensation. We've completely refreshed the lineup of our performance running apparel, which has always been a strength for NIKE, and so we're excited about the product that we're bringing there.

The trail models that we've got are continuing to perform well in the marketplace. And we're excited about the growth that we see in the running segment around trail. And then lastly, we've talked about the core opportunity, which we define as below \$100. And our teams have been focused leveraging our speed lane to be able to get product to market faster at below \$100. And this represents several billion dollars' worth of revenue that we walked away from over the last couple of years. And our partners are very excited about the new product that's coming in this dimension.

So, Running and Core are the 2 areas where we're most optimistic that we see momentum building from an innovation and a newness perspective. As far as your question about DTC and the investments that we've made in DTC, we continue to see opportunities to more profitably run our Direct business. We talked about the investments that we were making against expectations for further growth, and we were largely meeting the demand that the consumer was driving towards those channels.

We continue to see opportunities to drive efficiencies in the profitability of our Direct business. And that includes a higher mix of full-price product in our direct channels but also leveraging supply chain capabilities against the capacity that we've, in effect, built to serve our DTC business. As we've talked about for the last couple of quarters, our focus is on driving growth across the entire marketplace, balanced growth across the entire marketplace. And that is where our teams have been focused, and that's where you'll continue to see us trying to drive growth and improve profitability across both dimensions of the marketplace.

[OPERATOR]

Your next question comes from the line of Simeon Siegel with BMO.

[SIMEON SIEGEL]

Matt, any color you'd be willing to provide or just order of magnitude on how large each of the core franchises that you are resetting are at this point and just maybe where you'd like to take them? And then just revenues were down double digits, but the gross margin still grew nicely this quarter. So, any context on the margins of those franchises that are being reset versus the rest of the product?

[MATT FRIEND]

Well, Simeon, what we've been talking about for a couple of quarters is trying to create better balance in our business. And over the last couple of years, one of the things that we've talked about but especially this last year, is that we've our portfolio has gotten too concentrated, particularly against these classic the classic dimensions. Our teams have tried to bring new dimension to these classics. And as a result of that, we've created an incredibly large amount of consumer demand.

But at the same time, the portfolio was largely too concentrated against these styles. Classics Footwear is an important dimension of our overall portfolio. Internally at NIKE, we refer to these products as icons. They're incredibly culturally relevant and they will continue

to be an important part of our portfolio overall. But this quarter, in particular, we took a big step forward in the reduction of these products, causing them to decline more than the typical overall business so that we could start to shift the portfolio back in order. And we're going to continue to take those steps over the coming quarters.

And what I can tell you is that the continued actions results in us expecting to see a headwind similar to what we experienced in the first quarter. In other words, a mid-single-digit headwind on revenue for the balance of this year as a result of more proactively managing these franchises back into a proper place within the overall portfolio. They are long-tenured products. They do drive attractive margins for the company, especially when we sell them through Digital. And so, part of the pressure on margins and the additional color that we provided on the balance of the year is that by driving the dimensionality more particularly in the NIKE Direct channels and particularly in the Digital channels, it does create a transitory headwind on margin as we right size the portfolio largely focused on the Digital side or the Direct side of the business.

But looking forward, like I said, these products will continue to remain an important part of the portfolio. We just are focused on trying to accelerate newness and innovation in order to create more momentum with consumers and more energy with consumers.

[OPERATOR]

Your next question comes from the line of Lorraine Hutchinson with Bank of America.

[LORRAINE HUTCHINSON]

How would you characterize the receptivity of your wholesale partners to get behind some of the new launches? And how are your partners feeling about the level of inventory in the wholesale channel now and for the spring season?

[MATT FRIEND]

Yes, it's a great question, Lorraine. We've been working our teams have been closely

engaging with our partners since we acknowledged some of the missteps related to over-centering on Direct. And I think the momentum that we're building with our partners is very encouraging. I referenced specifically the interactions that we had that I was personally a part of in Paris during the Summer Olympics. But our geography teams, Tom Petty, our partners are leaning in, in order to be able to reignite growth and momentum for NIKE on the wholesale side.

And I wouldn't drive past the fact that what's most important in wholesale is we've got to have a breadth of distribution segmented to create and demonstrate the full dimension of the NIKE portfolio across men's, women's, and kids, across sport dimensions and the Jordan brand. And one of the ways that we do that is we invest with our partners to elevate and differentiate our brand at retail.

That isn't a new playbook for NIKE but it's one that enables us to play to our strengths. And we've got a couple of proof points that we're already working on with partners on the sporting goods side. We're excited about the women's pad and concept, the women's fitness concept that we've been testing with DICK'S in their House of Sport. It's set to be ready to pilot, given the returns that it's driving for both us and for DICK'S.

We're excited about bringing new energy to basketball with Foot Locker and you remember the House of Hoops concept, coming forward now with this new Home Court concept. And to be honest with you, maybe I'll take an opportunity to tie this a little bit back to Elliott because this is a similar approach that we took when we ignited growth in North America back in 2010. When we say things like we need to sharpen our focus on sport, it doesn't just mean that we need to sell more performance products. What it means is that we have to create deeper connections with consumers through sport. And that's where our relationship starts.

And when we create deep connections with consumers through sport, that enables us to extend into sportswear and lifestyle. And one of the things that we did in North America back in 2010 when our business was stagnating from a growth perspective, and Elliott was a new general manager at that time, was we reprofiled the marketplace around sport to ignite

growth in the marketplace. And the net result of that was double-digit growth over the next 4 years and really set the foundation for NIKE to grow throughout the decades of 2010.

And so that is where our focus and our attention has been. Digital is still and Direct is still an important part of our overall marketplace strategy. Having direct connections with consumers is strategically important. But our consumers want to connect directly with NIKE, whether it's in our own channel or with a partner. And so, we're going to continue to focus to elevate and to raise the marketplace and bring the best of NIKE to the market.

[OPERATOR]

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

[PAUL LEJUEZ]

You mentioned Running up double digits in North America, your Running specialty partners. Can you talk about how far that business has fallen from peak to trough? How much do you think you have to regain in that channel within North America? And also, the second quarter gross margin decline that you mentioned, can you just dimensionalize that by region, where your bigger pressure points are? Is it across the board? Where are the larger declines versus smaller declines?

[MATT FRIEND]

Well, on your first question, Paul, what I would say is that we've acknowledged that we've lost market share in the Running specialty channel. More than 4 years ago, we pulled back on our engagement with that channel. And as a result of that, we saw market share losses. But what I would also say is that the importance of investing and connecting in the Running specialty channel extends way beyond the business impact of driving revenue there.

It's about the community of running. It's about connecting directly with runners. And while we've seen tremendous success at the top of the pyramid with innovation with marathons and on the track, we haven't made as much progress with everyday runners. And that's where our team's focus and attention has been over the last year. And what I can tell you is

that some of the statistics that I highlighted are there as indicators for us and for you to see the momentum that's building for us in that dimension of the business. And it is incredibly important to NIKE.

NIKE's a running company. NIKE is a running brand, and it's incredibly important for NIKE to win with runners. And so, our commitment to reinvesting in those channels with those partners on the ground every day is how we're going to change the trajectory of this business. And the proof points and the indicators that I provided are our early signals of confidence that this momentum is building. And then the pipeline of product that we've got coming behind it, we're incredibly excited about.

And you'll see it extend from Running specialty into sporting goods. You'll see some of these innovations cross the line into lifestyle based on the ways that we bring the product to market. And so, we're deeply encouraged by that momentum that's coming and running.

As it relates to the second quarter margin question, I guess what I would tell you is this. There are a number of puts and takes between Q1 and Q2 on margin. And the higher promotions that we referenced, some of the channel mix headwinds, the supply chain deleverage as well as the actions to manage the marketplace, they're largely across the portfolio. There's not it's I wouldn't point out one particular geography more so than the other in terms of where a particular challenge lies. We are seeing a lessening benefit from product costs in Q2 and from strategic pricing actions in the prior year, which we still saw in Q1 of this year. And so that's also playing an impact on the year-over-year comparisons.

And then I guess what I would also highlight is we're watching the East Coast port strike really closely. We haven't baked anything in for a timeline on the East Coast port strike, but that's a possibility of a risk related to what we're talking about right now.

[OPERATOR]

We have time for one more question, and that question comes from Brooke Roach with

Goldman Sachs.

[BROOKE ROACH]

I was hoping we could dig in a little bit more on the China business, and what you're seeing between the read on the macro and what's specific to NIKE. How should we be thinking about your inventory levels by channel in China? And what types of engagement are you seeing on some of your franchise product versus your new innovation with the Chinese consumer today?

[MATT FRIEND]

Well, as I mentioned in my prepared remarks, our traffic was soft across all channels in the quarter. And when we look at the performance in our business, we look at our industry and we look across industry, from what we can see, NIKE is not immune to the challenges with the consumer in Greater China today. The marketplace has been promotional, and we've actually been seeing improvements in full price realization over the past few seasons as we've managed our inventory very, very carefully.

But this quarter, we did we were more aggressive in promotional activity, given the traffic trends and given what we were more broadly seeing across the industry. I think that you can probably most notably see where we're focused on inventory on the wholesale side, where our revenue was up 10% in Q1. This was partly impacted by shipping timing, but retail sales grew in the quarter, but they didn't grow at that rate. And so, we're focused on proactively managing forward-looking order books with our partners, but also margin assistance in order to move through excess inventory so that we can ensure that we stay healthy and that our partners are getting behind the newness and the innovation that's coming in the second half of the year.

In the first quarter, our top innovations for performance stories actually resonated quite well. Peg 41, Pegasus 41 performed really strongly. Alphafly 3 and Running is growing in China. Sabrina 2, KD resonated with consumers, and I mentioned Kobe. Kobe's a beloved athlete in China, and it was one of the biggest opportunities we saw to bring Kobe back into the product family, and we're incredibly excited about the energy that's building in China for Kobe. And so, we believe that when we create distinction in the marketplace, whether it's against our global competitors or local competitors when we

bring our best stories and our best products to the marketplace. And I think we continue to see that.

As it relates to the largest, the classics franchises, there was definitely strong demand for the classic franchises in China. Jordan is a big business in Greater China, and we're watching and managing that business carefully. But our focus and attention is really on performance and innovation. And you heard me say before that innovation has the highest mix of business in China relative to some of our other geographies.

Now as we look long term, even though we've moderated our near-term expectations for China for the remainder of this year, sport is a growth industry in China. Sport participation is on the rise, and we believe that we're optimistic about the long-term possibilities for NIKE in Greater China. We're going to keep playing our strengths around innovation and newness. We think that the investments that we have in the marketplace from a retail point of view and the way that we present our products to consumers through our partner stores gives us an opportunity to present our brand in a way that we can't do anywhere else in the world.

And we're focused on capabilities that we've been building, specifically China for China, around product, around our Digital platforms and supply chain in order to be able to continue to serve the local consumer at the speed that, that marketplace is moving. So, we're optimistic about the long-term opportunity for NIKE in China and the long-term opportunity for sport in China.

[OPERATOR]

And ladies and gentlemen, that does conclude today's conference call. Thank you for your participation, and you may now disconnect.