

2013 NIKE, INC. INVESTOR MEETING



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ERIC SPRUNK, CHIEF OPERATING OFFICER

Well done. Well, how are we doing, everybody? I know you've had a full morning. I'm the last speaker before lunch, but I promise you, this is going to be a great finish to an already great morning. When I spoke to you in 2011, I talked a lot about how great product fuels the category offense and defines our brand with consumers. Great product always starts with great innovation. And as we've demonstrated this morning, that isn't changing. In fact, we're more committed than ever to accelerate in that process.

RIGHT PRODUCT
RIGHT PLACE
RIGHT TIME

But innovation isn't limited only to products. We see huge opportunities to innovate not just in what products are made, but how they are made and how we assure they get to the consumer at exactly the right moment. It really is about having the right products in the right place at the right time. Yes, I know it's an often used phrase, but it really does capture what we're trying to achieve. While the product obviously has to be perfect, there is a lot going on backstage to make sure we deliver it on the right place, right time part of that equation, and at NIKE, it's actually a pretty complex system.



Last year alone, we shift approximately 900 million units through our supply chain. I'll let that sink in a bit because it's a really big number, 900 million units. To get those products to consumers, we work with more than 700 factories in 42 countries around the world, with over 1 million people working on NIKE product on any given day. The product moves from 57 distributing centers across a network of approximately 18,500 accounts and approximately 140,000 retail doors. And we're proud of that network; it's world class and a huge source of strength for our brand.

And on top of the complexity I just described, consumer expectations continues to rise. To make sure we continue to meet those expectations, we are developing new manufacturing and supply chain capabilities. More and more, we'll have to create direct relationships with our consumer, and our operational capabilities have to support those relationships at scale. And at the same time, we'll continue to challenge ourselves on key operational metrics around delivery precision and inventory management in a capital-efficient and profitable way. In that context, our operations at NIKE are not only an enabler of growth, but a true source of competitive advantage.

Now at NIKE, we talk a lot about mastering the fundamentals. And to use an American sports analogy, this is the blocking and tackling we do every day to accomplish 2 really important things: one, deliver on our promise to our consumers to bring innovative products and services to market; and two, deliver on our promises to you, our shareholders, that we are going to do that in the most profitable and sustainable way possible. Our ability to deliver on those 2 promises has been instrumental in our ability to drive impressive results.



Now from a supply chain perspective, the 2 fundamental metrics we keep a close eye on are days in inventory, or DII; and delivered in full on time, or DIFOT. That's our key measure of delivery precision. Our DII has been relatively stable over the past 3 years. And as you know, at the end of fiscal year '13, it was at 88 days. DIFOT has improved almost 3 percentage points over that time to 78%. We're not satisfied with either of those outcomes, but it's really important to note that we delivered those results while increasing our top line by over 35% and reducing our factory base by nearly 250%. In addition, much of this growth was driven by our short lead time businesses, businesses like always available, the NFL and digital commerce. Those businesses have collectively grown at an annual rate of 30%. And over the course of the next 3 years, we expect revenue from these responsive business models to continue to outpace overall revenue growth.



You might be asking yourselves, so what? Well, it means our business will continue to be complicated and we have to increase the agility and flexibility within our supply chain. We have built capabilities to do just that. As a result, we expect to improve our inventory efficiency and reduce our DII by 5 to 10 days. For those of you who like to talk about cash and cash flow, which, I'm assuming, is most of the room, that's over \$250 million. We also plan to improve DIFOT to 90%, and that's important because delivery precision means better margins, less inventory in the supply chain, lower markdowns and consumer right product assortments delivered together at retail. Again, right product, right place, right time.



All right, we'll change gears. I've spent a little bit of time talking about the delivery portion of our supply chain. But before those products can find their way to consumers, they need to be made. Our product creation teams placed a heavy focus on executing and mastering the fundamentals to manage profitability throughout the entire process. However, over the last few years, the entire industry has faced some significant headwinds, well documented that labor costs are on the rise. And while recently, the cost of some inputs have declined compared to a year ago, over the long term, most have been rising and that's a trend we anticipate will continue.

MANUFACTURING REVOLUTION

Delivering the right price value in our direct guidance from consumers while delivering on our promise to shareholders to expand margins and drive profitability gets to be a bit tricky. We continue to work across all elements of the business, including product creation, design and merchandising to strike that balance. One thing we know for sure is that we have to lead with innovation. And that's why I'm really excited to talk to you today about what we're calling manufacturing revolution, which Mark introduced earlier this morning.

For as long as any of us can remember, the availability of labor and materials has driven a decision of where athletic footwear and apparel gets manufactured. It's no secret, this model is facing significant challenges with rising labor rates and trends towards protectionism in a few key markets around the world.

At NIKE, we love a good challenge and we have tackled this one with the same energy and fortitude that we've been known for. Some of the most exciting work in the company right now is the game-changing innovation we're driving and how our products are made. As we introduce more and more of this innovation, we expect significant increases in labor productivity, and these innovations also create the possibility to make products closer to market, so we can serve our consumers more quickly with products that perform better.

So what is manufacturing revolution? Simply, it's a portfolio of initiatives aimed at redefining how our product is made and what our product is made from. Some of these initiatives are moving into execution right now today. Some are a little bit farther out and needs some more time. We expect these projects to reduce waste, increase productivity and advance our sustainability and corporate responsibility goals. However, the most important goal for all of these initiatives is to create new means of production that unlock our potential to make even better product for our consumers. We think about our manufacturing revolution that's just in 3 broad areas: The first, sustainable manufacturing excellence; the second, manufacturing modernization; and the third, manufacturing innovation. So let's look at them one at a time.



**SUSTAINABLE
MANUFACTURING
EXCELLENCE**

Sustainable manufacturing excellence is taking what we currently do in the making of our products and doing it better and with less waste. I've talked to you at the last few Analyst Meetings about our work in lean manufacturing. We have created significant savings in our product cost the past several years as a result of our work in this area. We continue to believe lean is a great way to drive efficiency in manufacturing. It helps manage costs and increase the quality of our product.

LEAN MANUFACTURING

APPAREL

76%

FY13

FOOTWEAR

85%

FY13

At the end of fiscal year '13, 70% -- 76% of our apparel and 85% of our footwear is manufactured on certified lean lines. In addition to the significant savings we've already achieved in just the last 2 or 3 years, lean has delivered an additional \$0.15 savings per unit through better labor productivity and less waste. Maybe most encouraging in this area is a more work we do in lean, the more confident we are, there are still significant savings to be achieved.

WASTE REDUCTION

SOLID WASTE

-28%

FY05-FY13

WASTE TO LANDFILLS
& INCINERATORS

-70%

FY05-FY13

WATER CONSUMPTION

-23%

FY05-FY13

Another area we've spoken about for the past several years is material consolidation. We continue to drive real value here by working to reduce the number of materials we use and the number of material vendors we source from. But the work in this area we're the most excited about is the reduction of waste throughout the manufacturing process. So check out the results we've achieved in this area. Between fiscal year '05 and fiscal year '13, on a per pair basis in footwear, footwear alone, we've helped reduced solid waste generation by 28%. Waste sent to landfills and incinerators has been reduced by 70%. And in the last 3 years alone, we've reduced water consumption by 23%.



Now speaking of water, it's something many people take for granted. Well, we don't. It's a scarce resource we know we must use wisely. And many of you probably know, we've invested in and partnered with a company named DyeCoo. We're working together to explore processes around the implementing of scaling waterless dyeing. We have the opportunity to further reduce energy and water use, while, at the same time, delivering a better product for our consumer. We do it because it's the right thing to do for our consumers and for our business because it cuts waste, allows greater flexibility in our supply chain and decreases our reliance on increasingly scarce resources.

MANUFACTURING MODERNIZATION

Okay, that brings me to the second group, manufacturing modernization. And this is really about taking individual steps in the manufacturing process and automating them or making them more efficient. To give you a better idea of what that means, let me share with you a great example, automated stitching.



Think about our iconic Air Force 1. At first glance, this appears to be a relatively simple shoe, but the Air Force 1 is made up of multiple components, well over 500 for a typical size run. All of these components must be sewn together with absolute precision. That's a lot of pieces to manage. But to complicate things further, we make the Air Force 1 in more than one factory with different equipment and different processes. This generates 2 big challenges. It's difficult to maintain the level of precision, consistency and quality we and our consumers require, and there is a lot of moving material around the product, all of which is inefficient. One way to attack this is through automated stitching. With the right equipment, one machine and one operator can produce the entire upper portion of the shoe. The improvement in processing time can be substantial. The time to stitch just the Swoosh onto the pattern, for example, can be reduced by 2/3.



Now, where we piloted this, we've generated savings of \$0.18 per pair. And remember, it's a relatively simple shoe. Just as importantly, we have higher quality, more consistency and lower defects. And while I use the Air Force 1 as an example, we use manual stitching throughout our entire product line. We believe there's an opportunity to eventually drive overhead down and quality up in well over half of our current production. And remember, it's one example of one initiative across a few components in the making of footwear. We have enormous possibilities here.



Another great example is Grabit technology. Most of the current manufacturing processes require physical movement of individual pieces of some kind. Considering the number of individual pieces that are needed to make a shoe, it's a lot of labor cost just to move materials. Automating the movement of this isn't a novel concept, but the application has been very limited as traditional vacuum-powered tools cannot be used with all materials.

Gorbit, which is an early-stage technology and a company we announced a partnership with earlier this week, uses electroadhesion to accomplish the same task and presents an incredible opportunity to pick, place and handle any material, any material, including air permeable materials like mesh and knit that traditional vacuum technology can't handle. We use mesh and knit throughout our -- almost our entire product line of footwear. This significantly expands the scope of work that can be automated. It also has uses in logistics and distribution that we get really get excited about. Grabit is a super cool deal for us and unlocks a bunch of potential.

So let me summarize what I've just shared with you in manufacturing modernization. One, gave you an example of where we want to be more efficient with our value-added work, automated stitching, and one where we're working to eliminate non-value-added work, the movement of materials. Modernization efforts like this enable us to create better products potentially closer to the market with more value to the consumer.



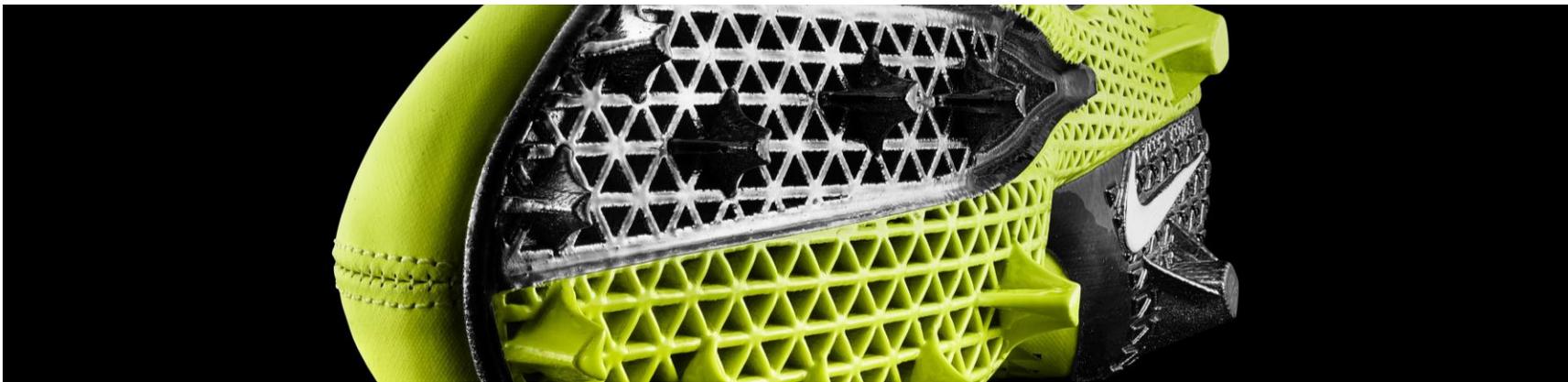
Okay. Now I think that's pretty exciting. It's not near as exciting as what we get to talk about next, which is the manufacturing innovation space. We believe that through innovating new methods of making products, we will unlock new ways to make performance product and shift the economics around a significant portion of our production.



NIKE Flyknit is a great example. Mark referenced it earlier, and I think just everybody you've seen this morning has talked about it. The product is beautiful and it's an incredible game changer on many different levels. And let me illustrate that by comparing it to the shoe I used before, the Air Force 1, which is a typical cut-and-sew shoe.



There is 70% less waste. There are 80% fewer components and the efficiency of direct labor required to make the shoe is doubled, 2x more efficient. These are huge differences when you're making footwear. Remember, the way athletic footwear is made has stayed basically the same for decades. And as Jeanne mentioned, we are just at the beginning of our journey in knit. We don't even know what's possible yet in knit. And from an overall manufacturing perspective, we're really only talking about the upper. We have plans to revolutionize the bottom unit as well. We're going to blow you away when we talk about that with you.



Now speaking of the bottom, one of the most compelling near-term innovations in that area, 3D printing. We are at the forefront of our industry in using 3D printing, and it already benefits us, and the impact on rapid prototyping, the investment in tooling, what -- that's required to make footwear and the increased speed in bringing our product to market. We have several other just as unbelievable concepts in the pipeline, and you'll be hearing more about all of those from us in the future.

We're going to get smarter, faster, better at these new methods of making that will continue to improve the quality, efficiency and profitability of the output. Right now, these new methods represent an extremely small percentage of our overall volume; that is obviously going to grow. Most exciting about all of these manufacturing innovations is that they unlock the power of creativity and allow our innovators and our designers to think about solving problems for our athletes in ways not possible before. And as you think about a model, when they all begin to work together, you can begin to see some of those possibilities.



Now the last few times I've spoken to you, I left you with a few things to ponder at the end of the presentation. And I'm happy to say, we lived up to most all of those things. Today, I want you to imagine, if it's possible, to provide highly-customized product specific to your own body, your own feet, maybe different separate left foot from right foot, manufactured locally in the markets that you live, delivered within hours, if not minutes, profitably, at scale. We don't just imagine it, we're planning for it and we're creating it. I think this area of innovation is incredibly exciting. It should also be clear, none of this is about taking shortcuts or sacrificing quality for the consumer. In fact, it's just the opposite. A key enabler to make that happen is our commitment to innovation, our knowledge of the consumer and our operational ability to get the right products to the right place at the right time. Nobody does that better than NIKE. I hope you enjoyed your morning. Thank you for your time.

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