

PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q118 NIKE, Inc.

September 26, 2017

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Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2018 first quarter conference call. For those who need to reference today's press release you'll find it at <http://investors.nike.com>. Leading today's call is Nitesh Sharan, Vice President, Investor Relations and Treasurer. Before I turn the call over to Mr. Sharan, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC including the annual report filed on Form 10-K.

Some forward-looking statements may concern expectations of future revenue growth or gross margin. In addition, participants may discuss non-GAAP financial measures, including references to wholesale equivalent sales and constant-dollar revenue. References to wholesale equivalent sales are only intended to provide context as to the overall current market footprint of the brands owned by NIKE, Inc. and should not be relied upon as a financial measure of actual results. Similarly, references to constant-dollar revenue are intended to provide context as to the performance of the business eliminating foreign exchange fluctuations. Participants may also make references to other non-public financial and statistical information and non-GAAP financial measures. To the extent non-public financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliations will be made available at NIKE's website, <http://investors.nike.com>.

Now I would like to turn the call over to Nitesh Sharan, Vice President, Investor Relations and Treasurer.

Nitesh Sharan:

Thank you operator.

Hello everyone and thank you for joining us today...to discuss NIKE, Inc.'s fiscal 2018 first quarter results.

As the operator indicated, participants on today's call may discuss non-GAAP financial measures.

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You will find the appropriate reconciliations in our press release which was issued about an hour ago, or at our website: investors.nike.com.

Joining us on today's call will be NIKE, Inc. Chairman, President and CEO Mark Parker, followed by Trevor Edwards, President of the NIKE Brand. And finally you will hear from our Chief Financial Officer, Andy Campion, who will give you an in depth review of our financial results.

Following their prepared remarks, we will take your questions. We would like to allow as many of you to ask questions as possible in our allotted time. So, we would appreciate you limiting your initial questions to two. In the event you have additional questions that are not covered by others, please feel free to re-queue and we will do our best to come back to you. Thanks for your cooperation on this.

I'll now turn the call over to NIKE, Inc. Chairman, President and CEO Mark Parker.

Mark Parker:

Thanks, Nitesh. And good afternoon, everyone.

Last quarter, we began our conversation with three consumer insights that are driving today's marketplace shifts...

...the appetite for a constant flow of fresh and innovative product...

...the expectation of superior service...

...and the demand for real-time delivery...

To stay ahead of these needs, we've done what successful companies do – evolve and lead through a time of change.

We've aligned into a new formation – the Consumer Direct Offense – focused on reinventing our business AND the industry.

And while changing your approach is never easy...Nike has proven before that when we do...it's always ignited the next phase of growth for our company. We've had to make some tough

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choices with our teams. We've tested and learned... and we got better.

Looking back to the creation of the Category Offense in 2007 we went from being organized against footwear, apparel and equipment....to re-aligning through the eyes of consumers – by sport.

With the new Consumer Direct Offense, we're taking that consumer connection one step further. We're going deeper. We're connecting more personally...to help each individual make the right choice for them. That's incredibly powerful for a brand that motivates people to do more.

To make that vision a reality at scale, we're taking some bold steps. We are breaking old models. And we're fully re-aligning our teams to be more personal by:

...adding resources to our fastest-growing cities

...editing our lines to create more choice on top-selling products

...investing in better data and analytics to sense market shifts faster

...activating new product creation teams focused only on speed-to-market

...and we're leading with mobile

In the last 90 days, we have moved through the final stages of this realignment. Before reviewing what we've accomplished, let's look at the numbers:

- NIKE, Inc. first quarter revenues were \$9.1 billion, flat to prior year on both a reported and currency-neutral basis.
- Gross Margin was 43.7%, down 180 basis points to prior year.
- Earnings per share was \$0.57, down 22% to prior year.
- And we delivered ROIC of 32%.

In Q1, we made meaningful progress against our Triple Double Strategy – 2X Innovation, 2X Direct and 2X Speed.

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Let's start, of course, with 2X Innovation. The foundation for Nike's success will always be inspiring and innovative product. It's the source of creative storytelling...it's how we drive distinction in the marketplace...and it's a competitive advantage under any market conditions.

We've talked a lot about accelerating both the cadence and impact of innovation. In the last few weeks alone, we've introduced...

... the lightest and most breathable high-performance NBA jersey ever

...one of the most anticipated sneaker releases of the year with a collection of re-constructed icons called "The Ten"

...and basketball innovation that delivers on the right balance of performance and style with the highly-tuned and detail obsessed Jordan 32...and the LeBron 15 with the new high-strength Flyknit Battle construction and articulated Max Zoom cushioning system.

We know that creating innovation with impact requires more than the launch of a single style. Impact...comes from scale.

Air Max is a great example of that this quarter, where energy in performance is being led by VaporMax...and where we've increased access to high-demand classics like Air Max 97. Stay tuned...we have exciting new Air Max platforms on the way soon.

Our latest cushioning platforms – Zoom X and Nike React have been getting strong reviews from the most demanding runners and basketball players. And, this spring, we'll bring the sensation of Nike React to even more sports...and to the streets.

A few weeks ago, we unveiled a fully sustainable leather called Flyleather, which is a real game changer. It is 40% lighter, five times more durable and has an 80% lower carbon footprint than traditional leather manufacturing. Look for Flyleather versions of our most iconic footwear styles.

In apparel, we also have some exciting new developments with Flyknit technology...to push both performance and style. The new flyknit bra is a great example...and just a start.

We always rally around big sport moments and, this quarter, nothing was bigger than Nike and the

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NBA. I mentioned the NBA jersey. We not only unveiled new on-court innovation, we also introduced NikeConnect...our first step into an era of digitally-connected products. We see great potential ahead to link future product with services and experiences in seamless ways.

There's also a massive commercial opportunity that comes from working directly with the NBA. With the three most authentic basketball brands - Nike, Jordan and Converse – we will drive growth for performance product and connect the energy of the NBA to sneakers, style and the culture around the game.

That's the kind of consistency – across performance, style and sustainability – that we expect to deliver.

And all told, the line-up for the rest of FY18 is even more impressive...so we can tell better stories, increase demand and accelerate full-price sell-through.

One of the topics on everyone's mind is the overall marketplace, which is why 2X Direct is so important to our growth.

One point I want to make clear is that this approach is about serving all of our consumers globally. It is more than transforming a developed market like North America...it's also about accelerating developing markets, too.

Our international business is now over 55% of our revenue...and there's much more opportunity ahead in our developing markets. That's why we focus on a market like China, for example, where 2X Direct works so well. With an economy that's being driven by digital natives, they've bypassed old models...naturally blending digital and physical retail...and shopping within their social channels.

In contrast, a developed market like North America must embrace change to its legacy retail infrastructure. As the leader, we are fully committed to energizing and growing the marketplace through both our own NIKE Direct businesses and with strategic wholesale partners.

Although it's a shifting landscape in North America...our industry has key advantages over other retail sectors. In sport...storytelling, expertise and service matter. People need and seek

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guidance. And for the sport and sneaker consumer, mobile is the first step in any search for the right product.

The key is for our experiences to feel special. That could mean a personal 1-to-1 interaction...reserving products based on a consumer's shopping history...or as simple as delivering product within hours.

Our vision is for every consumer who engages with the Nike brand to enjoy an elevated, consistent experience, regardless of channel. That's why we are working so closely with a select group of our strategic partners to define the new consumer experience, together.

Our most progressive partners are already testing elevated and digitally-integrated consumer concepts. Others, are just beginning their acceleration. And with new commerce partners, we're really pushing the boundaries of existing models.

Retailers who don't embrace distinction will be left behind. While the transformation may be difficult for some, Nike will lead the industry to come out much stronger.

One pilot this quarter that combined consumer personalization, 2X Direct and 2X speed was our live-design experience at the Nike By You Studio in New York.

It's where we engage the consumer to generate custom graphics and colors...and we build the shoe on site...and have it ready to take home in an hour. There's a lot of great learning here that we are connecting back to our broader membership plans.

2X Speed is coming to life in other ways across the company. On a larger scale, we're capturing more real-time demand...while delivering end-to-end benefits to our entire product creation cycle.

A few specific examples this quarter from around the world include:

...a quicker turn, T-shirt process with Footlocker in North America, that resulted in higher sell-thru & growth in our t-shirt business

...in EMEA, an expansion of our replenishment program with icons like Air Max 90 and Air Force 1 that drove a significant uplift in sales

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...and our new Asia Express Lane is already making an impact to our business in China where it's accelerated our fleece business.

We plan to provide much more dimension of all of our growth accelerators at our upcoming Investor Day next month...and will show in detail how PERSONAL and MOBILE are fueling our transformation into the Consumer Direct Offense.

And how we're creating sustained growth for our company, the industry and our shareholders for years to come.

Thanks, and now here's Trevor.

Trevor Edwards:

Thank you, Mark.

Let's start with the financials. As always, my comments are on a constant-currency basis. For the quarter:

- NIKE Brand revenue grew 2%.
- And, revenue in our NIKE Direct business was up 11%, driven by online growth of 19%, new stores and comp store growth of 5%.

Mark mentioned how Nike evolves and leads through times of change. By leveraging the power of sport, time and again, we authentically connect with consumers through premium innovative product and elevated services led by digital and mobile. Our Consumer Direct Offense accelerates that work through a more personal lens.

And by infusing digital in how we bring our brand to life for consumers, we invent new ways to connect more closely with them. It all comes down to serving the consumer completely. Our ability to connect breakthrough technologies to our brand-defining energy and emotion has us incredibly excited about the future. It's with this focus that we take the sports industry into the next era of digital.

Let's talk about how that work comes to life through our key categories.

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First, NIKE Basketball. The NBA partnership is in full force, and we are confident about what it means for us and our consumers. First of all, of course, we are elevating performance through innovation, with the lightest and most breathable NBA jersey ever.

At the same time, the Nike NBA Connected Jersey is much more than a uniform – it's a digitally enabled jersey that drives a new level of service for fans to tap into the game they love and get insider access to their favorite teams, players and special products. Above all, it's a premium and personal membership experience that fuels a direct, emotional connection and allows us to better serve them.

The jersey experience will unlock a brand-new world of connections for our members. For example, NBA players can now connect directly to fans who own their jersey, sending personalized and exclusive messages instantly to their phones. That's a future we're really excited about – both as a brand and a business.

In Basketball footwear, the Kyrie 3 continues to be the #1 selling performance basketball shoe. Also in the quarter, the KD 10 showed incredibly strong sell-through.

And of course, Nike continues to lead in elevating the culture of the game thanks to our full basketball offense, stretching across the spectrum of performance and sportswear. Proving the power of that spectrum is the new ThermaFlex Showtime Jacket, the first hoodie to be worn on-court during game-time. The Showtime jacket celebrates the style of the game by refreshing a beloved apparel icon into a new performance product for athletes on-and-off the court.

Our NBA partnership is inspiring exciting new footwear as well, with eight new NBA-exclusive colorways of the Air Force 1 offering just a taste of what's to come.

Ultimately, we are confident that with this complete offense we will fuel the game of basketball globally.

Of course, the NBA partnership also elevates the Jordan Brand, as the Jumpman logo will now be seen on NBA jerseys – with a few more surprising spotlights for the Jordan Brand to come. And with the Jordan Brand's expansion into new countries and new dimensions beyond basketball, like Women's footwear, Jordan is setting the foundation for sustainable, long-term growth.

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Global appetite for the brand remains extremely strong. For example, in Greater China new expressions of Jordan product like the Jordan1 Retro High Flyknit have been incredibly successful. That said, in North America within the retro side of the business, we are managing the cadence of our launches, while bringing to market fresher stories and expressions that drive demand. Over the balance of the year, we're focused on new ways of delivering on the exclusivity and aspiration that is expected by fans of this iconic brand.

In Running, we are leading the way with key products that translate our deep understanding of runners into groundbreaking performance innovation. The Zoom platform saw strong consumer response, from the Pegasus 34... to the Zoom Fly... to the Vaporfly 4%, which sold out completely in Q1.

As we revitalize some of our core Running franchises, in just the last three months, Air VaporMax has grabbed #1 market share in the U.S. at the \$150-and-up.... price-point. The success we are seeing with VaporMax is lifting our entire Air platform.

It underscores that when we deliver performance innovation and distinction, there is always demand at premium price-points.

Meanwhile, our Sportswear category continues to impress. In Q1, Nike Sportswear's momentum resulted in our largest revenue quarter ever, thanks in part to iconic styles such as the Presto and Air Force 1.

Our Women's Sportswear product, like Cortez and Air Max Jewell, are also seeing strong response in the market. And we continue to fuel growth through digital, with Sportswear growing high double-digits on Nike.com.

The Sportswear category is also a great way to bring to life our Key City approach, where we create energy with consumers in the most influential hubs of sport and style. As Mark mentioned, this past quarter in New York, we launched "Off Campus," a collaboration with Virgil Abloh. There, we introduced new energy for ten of our most iconic shoes, while engaging with those who love the design and function of sneakers.

Overall, our categories highlight what our new formation under the Consumer Direct offense can

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accomplish: creating a vision and a journey for consumers that serves them better and more personally. Most importantly, they provide a roadmap for the future. This is particularly true as we leverage this approach to reignite strong momentum in North America. And of course, as we surgically apply the blueprint in all markets, we look to accelerate our already strong, international growth as well.

Let's take a look at those geographies now.

In Q1, North America was down low single-digits, as we continue to proactively manage marketplace supply. However, the momentum in Sportswear continued, along with new innovations like the Vapor Max and the LEBRON 15 driving performance distinction for the NIKE Brand.

Women's had a powerful quarter with popular and premium executions, from Chrome Blush, a new collection of stylish workout gear that led to strong performance in the market, to membership accelerators like Air Society, a new network that serves to connect and empower creative-minded women.

For North America, as we manage the marketplace, we are scaling our new innovations to reignite strong momentum with our strategic partners, such as Dick's and Footlocker, as well as accelerating growth in our own Nike Direct business. At the same time, we still see a dynamic and promotional landscape, one that is having a pronounced impact on physical retail, especially in light of the continued consumer shifts toward digital.

That is exactly why we're focused on elevating those differentiated and better service experiences that consumers are voting for. For example, in our own digital business in North America, we have greater opportunity to accelerate growth by editing our assortments and delivering greater depth of the best product consumers covet.

And while we expect to see continued shifts in the broader U.S. marketplace, the solutions are clear. It's about leveraging the power of our brand – continuing to tell powerful stories that lift up the Nike Brand – and then using that brand strength to drive deeper relationships with consumers, as we connect more personally and more directly.

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Fundamentally, we are bullish about the long-term opportunity in North America as consumers continue to accelerate their pursuit of healthy and active lifestyles. We are confident in our ability to extend our leadership position over the long-term and reinvigorate growth in this region.

In our new EMEA geography, we saw results up single-digits, driven by Sportswear and Global Football, and with strong cross-categorical growth in apparel. We also saw strong energy in JD Sports and Zalando, two strategic partners who are leading the marketplace transformation. Digital, led by mobile, remains a key driver for us in this region – for example, Nike.com in London grew 60% over the past year.

Last quarter, we expanded our SNKRS app to Europe, adding 19 new markets and their performance is outpacing expectations. In EMEA, as in North America, we continue to grow the number of buying members in our ecosystem, fueled in part by the steady refresh of premium products like Air VaporMax colorways.

And perhaps most important to the region is our Global Football business. Along with our new Chelsea and Tottenham partnerships... the continued energy we see with top players like Neymar and Cristiano Ronaldo and the upcoming World Cup in Russia, this region is primed for continued strength.

Finally, in Greater China, we continue to see incredible results, with revenue growing double-digits for the quarter. The breadth and depth of our relationship with the Chinese consumer doesn't just continue our success in this geography – it accelerates it.

In Q1 we drove incredible sports energy in the market, particularly with our athlete tours. This summer, we brought real heat to this market, with visits from Cristiano Ronaldo, LeBron James, Kyrie Irving, Kevin Durant and NBA MVP Russell Westbrook. These tours drove deeper relationships between our athletes and their fans, throughout the country.

This energy can be felt by the 500 million daily users on Tmall, where Nike is the No. 1 sports brand. Just a few months ago, we opened a Jordan door on Tmall, which drove more than 2 million shoppers in just the first 10 days, highlighting the tremendous growth we see in this vital retail platform.

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To capitalize on this growing market, we are investing to serve our consumers where they shop. For example, in Beijing, celebrating two decades for the Jordan Brand in Greater China, we opened the largest Jordan door in Asia with our partner Pousheng.

Featuring hyperlocal customization, trialing, and services ... this retail experience celebrates the brand's legacy, the culture of the city and most importantly, inspires the future.

Our success in China also offers a reminder that, no matter what may be happening in U.S. retail, Nike is positioned for continued, sustainable growth. The power and consistency of our global portfolio gives us tremendous confidence for the NIKE Brand going forward.

In the end, at a time when consumers have elevated their expectations, we feel great about where we are. The worldwide strength of our brand, the power of our innovative products and the largest digital presence in our industry give us the opportunity to serve at a scale and a depth that is unmatched.

Thanks, now here's Andy.

Andy Champion:

Thanks Mark and Trevor, and hello to everyone on the call.

In the first quarter of FY18, we delivered revenue and profitability in line with the expectations we set for ourselves 90-days ago, despite an increasingly dynamic environment in the U.S. However, more important than our financial results in any individual quarter, are the actions we are taking to accelerate our Consumer Direct Offense and how those actions are igniting Nike's next horizon of long-term growth.

First, the Consumer Direct Offense is fueling strong momentum in our international geographies, which, as Mark noted, now represent over 55% of our total Revenue. In many of our developing markets, current marketplace structures are well suited to Nike serving consumers more personally, at scale, through our new offense. China is the best example. Today, over 90% of our business in China is already transacted through Nike-branded experiences, digital and physical, both owned and operated through partners. We are also leveraging close to market

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manufacturing to enable our Express Lane in China and in other markets across Asia. That is a tremendous platform upon which to accelerate both our Speed and Nike Direct initiatives. In many of our international markets, we are executing this new offense with tailwinds from strong growth in consumer spending, an emerging middle class and increasing participation in sport. While the current platform in a market like China is a great foundation, we nonetheless see tremendous opportunity to accelerate growth by expanding the reach of Nike branded experiences within key cities and increasingly leveraging digital to better serve consumers across all touchpoints. As Trevor highlighted, in Q1 we launched new digital platforms across many of our international markets, including a curated Jordan flagship experience on Tmall, which is China's largest digital commerce platform, and the launch of our SNKRS app in 19 new countries across EMEA. Initiatives such as these powered Nike.com growth of over 40% across our international geographies in Q1.

Second, over the past 90 days, it has become increasingly evident to all that the North America marketplace is undergoing significant transformation. Several quarters ago, we said that the U.S. retail landscape was not in a steady state, but rather would continue to be disrupted by the accelerating consumer shift to digital and more personal brand experiences. We anticipated those shifts and that served as the foundation for our 2X Direct strategy. That said, those shifts are now profoundly impacting the more undifferentiated dimensions of retail, resulting in store closures, bankruptcies and a promotional environment in the short-term. Amidst this unprecedented disruption in U.S retail, we have maintained to slightly increased our market share in the U.S. in aggregate across our NIKE Direct and wholesale businesses. Nonetheless, we are currently acting on Category-specific opportunities to better serve consumers. For example, as Trevor noted, in Q1 we created strong consumer demand at a premium price-point with the new Air VaporMax platform that crosses over from Running to Sportswear. We will continue attacking those opportunities with the launch and scaling of new innovative products over the balance of the year. And, we are transforming the retail landscape to grow the market and create even further separation long-term. In our NIKE Direct businesses, growth continues to far outpace the broader marketplace as we leverage digital to enhance the consumer experience. We look forward to sharing greater insight into our vision for the future of the North America marketplace, and how we are executing against that vision, at our Investor Day in October.

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Third, the Consumer Direct Offense is driving a more sharply-focused investment agenda. In Q1, we realigned our organization against this new offense and began accelerating the strategic investments required to deliver on our vision. We continue to increase investment in product innovation. And, to enhance our speed, we are investing in the Express Lane and new Demand and Supply Management capabilities. Finally, as we target doubling our direct connection to consumers, we are ramping up investment in digital capabilities ... ranging from data science and analytics ... to machine learning ... to augmented reality ... to image recognition ... and personalization. We will continue to use our unrivaled resources to ensure that Nike is built to win now and for the long-term.

Now let's discuss our first quarter results:

- NIKE, Inc. Q1 Revenue was flat on a reported and constant currency basis as strong momentum in our international geographies and in our NIKE Direct businesses globally was offset by a decline in North America wholesale revenue.
- First quarter Diluted EPS decreased 22% to \$0.57 driven by planned gross margin contraction, and a higher effective tax rate, which were partially offset by slight SG&A leverage and a lower average share count.
- Gross Margin contracted 180 basis points in Q1 primarily driven by 130 basis points of foreign exchange headwinds and, to a lesser extent, a higher mix of off-price sales. Those factors were partially offset by lower product costs.
- Total SG&A was down 1% in Q1 due primarily to an 18% decline in Demand Creation driven by prior year investment around key global sporting events, as well as phasing of Demand Creation spend in FY18. The decline in Demand Creation was mostly offset by an 8% increase in Operating Overhead due to costs associated with realigning our organization against the Consumer Direct Offense and continued strategic investments to fuel growth, including investment in mobile to expand our Nike and SNKRS apps globally.
- The Effective Tax Rate was 11.4% in Q1 compared to 2.5% for the same period last year, reflecting the tax benefit of stock-based compensation in the current period under the new

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September 26, 2017

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accounting standard as well as a one-time benefit related to the resolution with the IRS of a foreign tax credit matter in the prior year.

- As of August 31st, Inventories were up 6% driven by a higher average cost per unit primarily due to product mix and, to a lesser extent, changes in foreign currency exchange rates and growth in our NIKE Direct businesses.

Now, let's discuss the financial performance for a few of our operating segments:

In the first quarter, North America revenue declined 3% on both a reported and currency-neutral basis, in line with the expectations we shared last quarter. The decrease in revenue was a function of short-term promotional headwinds in the broader marketplace, which were partially offset by continued growth in our NIKE Direct businesses.

EBIT was flat to prior year as a short-term contraction in Gross Margin was offset by lower Demand Creation expense, primarily as a result of prior year comparisons. And inventories for the quarter were down 2% compared to prior year as we continue to manage supply and demand tightly.

In the short to medium-term, we will prudently manage risk as we focus on accelerating a shift in the composition of the market to experiences that consumers are increasingly telling us they love ... those being digitally-enabled experiences that bring together the best of Nike's brand, product and services. For Nike, that begins with Nike.com, mobile experiences such as our Nike and SNKRS apps, and Nike-owned stores. Our 2X Direct Strategy will extend into the broader marketplace through new experiences that we are creating with strategic partners, such as Foot Locker and Dick's Sporting Goods, that will bring the NIKE Brand closer to our consumer.

Turning to EMEA, Q1 revenue was up 5% on a currency-neutral basis, driven by growth in footwear and apparel and all key categories. We saw high double-digit growth in the U.K. marketplace and our NIKE Direct businesses, including double-digit comp growth. Normalizing for the comparison against prior year events and the impact of a cyber-attack on one of our European logistics providers, currency-neutral revenue growth would have been more in line with recent quarterly trends.

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On a reported basis, Q1 Revenue increased 4% and EBIT declined 7%, primarily driven by the impact of transactional FX headwinds on Gross Margin.

In Greater China, we delivered 12% currency-neutral revenue growth with double-digit growth across both footwear and apparel and fueled by our NIKE Direct businesses. We also continued to see strong growth in our Nike branded experiences with partners and in nearly all key categories. Again, we see continued momentum in China over the balance of FY18 as well as a tremendous opportunity to deliver long-term growth through our new offense.

On a reported basis, Q1 revenue grew 9% and EBIT expanded 6% as strong revenue growth was slightly offset by lower Gross Margin primarily due to significant transactional FX headwinds.

Revenue in our APLA geography, which essentially combines our former Emerging Markets and Japan geographies, grew 6% on a currency-neutral basis. We recorded multi-dimensional growth across footwear and apparel, NIKE Direct and wholesale, all key categories and most territories.

On a reported basis, Q1 revenue increased 5% and EBIT increased 24% driven by revenue growth and lower Demand Creation following significant investments in the prior year against the Olympics in Brazil.

And finally, Converse revenue declined 16% on both a reported and currency-neutral basis as high double-digit growth in China was more than offset by a purposeful tightening of supply in North America.

EBIT decreased 42% driven by declining revenue, gross margin contraction from higher closeout in North America and SG&A deleverage.

I'll now move to our outlook:

Looking ahead, our overall outlook is generally in line with the guidance we provided 90-days ago. We see continued strong momentum in our international geographies and we now expect slightly lesser headwinds from foreign exchange, net of hedging. We believe there will be short-term headwinds within the U.S. retail landscape that will dampen growth. NIKE's primary measure of success in North America in the near-term will be driving growth in our NIKE Direct businesses

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and through new Nike consumer experiences with our strategic partners.

As for specific guidance:

For Q2, we expect reported Revenue growth in the low-single digit range, with contraction in our North America geography and Converse to be more than offset by strong international growth. For the full-year, we continue to expect reported Revenue growth in the mid-single digit range.

In Q2, we expect Gross Margin to contract at approximately the same rate we saw in Q1 with FX continuing to be the single largest driver. For the full-year, we now believe the challenging dynamics in U.S. retail could result in our Gross Margin contracting between 50 and 100 basis points versus prior year.

For total SG&A, we expect Q2 to grow low-double digits. For the full-year, we continue to expect SG&A growth in the mid-single digit range. We will continue to manage operating overhead prudently while remaining on the offense investing to (1) drive Brand heat and distinction, (2) amplify our launch of new, innovative products, and (3) build the capabilities required to enable speed and direct connections with consumers.

We expect Other Income and Expense, net of Interest Expense to be approximately \$30 to \$40 million in expense in Q2 and \$80 million in expense for the full-year.

And finally, we now expect our Effective Tax Rate will be between approximately 15 and 17% for the full-year.

We have operated in dynamic circumstances before, and, in every instance, being on the offense and consumer focused has served us well. Our organization is now realigned against our new Consumer Direct Offense, and we are all energized by the opportunity to ignite yet another horizon of strong sustainable growth at Nike. We look forward to sharing deeper perspectives into our vision and long-term growth strategy at our Investor Day next month.

With that, we'll now open up the call for questions.