

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q218 NIKE, Inc.**

*December 21, 2017*

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### **Operator:**

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2018 second 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 constant-dollar revenue. 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 second quarter results.

As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release which was issued about an hour ago, or at our website: [investors.nike.com](http://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

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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 Happy Holidays everyone.

In Q2, we delivered solid results...showing early progress against the long-term strategies we laid out in October.

Let's look at the numbers from the quarter:

- NIKE, Inc. second quarter revenues were up 5%, growing to \$8.6 billion. On a currency-neutral basis, NIKE, Inc. revenues grew 3%.
- Gross Margin was 43%, down 120 basis points to prior year.
- Earnings Per Share was \$0.46, down 8% to prior year.
- And we delivered ROIC of 32%.

While the athletic marketplace continues to shift...we're very confident in the factors of our business that we control. Through our Consumer Direct Offense, we're identifying which consumer opportunities have the most upside...and we're over-indexing in those areas to fuel growth.

As we outlined at Investor Day, we're focused on...

...unleashing a relentless flow of innovation...at a scale...that our industry has never seen...

...bringing Nike closer to the consumer in key cities and delivering with speed...

...and using the power of digital to go deep and broad -- by rewarding our most active Nike+

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members...while expanding that community to hundreds of millions

We're entering the second half of the year with a wave of new products and concepts. Consumers want fresh, innovative product...and they want choice. And right now, our innovation cycle is delivering against those demands.

Let's start with the three distinct platforms in our Running Revolution. They cover the spectrum of runners...and they're beginning to scale to create a significant commercial impact.

Nike React, for example is just a few weeks away from being available for runners for the first time with the Epic React. The early response to its combination of responsiveness and ride have been very positive. In a sport where every ounce matters, it's one of the lightest platforms we've ever created. And it's incredibly comfortable for people that want to wear it all day. As we move into summer, Nike React will quickly scale across all major price points...on its way to being Nike's next billion-dollar performance platform.

Zoom X has exceeded our expectations. I have been part of almost every major innovation at Nike...and I can confidently say the 4% is among the most significant performance advancements in our history. And this summer, Zoom X will be even more accessible through our celebrated Pegasus, with a new shoe called the Peg Turbo that will join the Zoom Pegasus 35.

We're also introducing the iconic look and feel of Zoom X into lifestyle through Sportswear. This is Nike at its best – delivering game changing innovation for the athlete...and bringing it to more people through new dimensions, including street and active wear.

The diversification of VaporMax is also well underway. We've introduced multiple silhouettes and added new material options at different price points. The energy is having a positive impact on our entire Air Max business. We'll carry that into March with one of our biggest brand investments in Air Max Day, where we celebrate with consumers around the world. This year, we'll build excitement with new mash-ups and re-issues like the Air Max 93 and the 98...along with the Air Max 270, a new lifestyle cushioning platform that we'll deliver at the key price point of \$150.

We know the running silhouette is connecting with consumers right now. And over the next

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several seasons, we feel very good about our complete running offense - across both performance and lifestyle.

In Basketball, we've created a lot of opportunities for creative storytelling around the game's greatest athletes. In the next several weeks alone...

...we'll deliver the next version of the industry's biggest signature shoe with the Kyrie 4,

...we'll build on the incredible first year of Paul George's shoe with the PG2

...we'll introduce an all-new Flyknit construction with Kobe's next performance design

...and Jordan Brand will launch its first signature shoe with reigning MVP, Russell Westbrook.

We're also thrilled to expand our relationship with Giannis Antetokounpo as we bring his unique personality to life through new signature product and storytelling next year.

In apparel, we're leveraging our complete portfolio to realize its massive potential...

...this spring and summer we'll push the edges in performance for the biggest sport moments like the NBA All-Star Game in LA, the Tennis Majors and World Cup 18

...we're designing more focused commercial collections with women's core items and sportswear

...and we're shortening the product creation process to get everything to the consumer faster

We also have platforms that are going to take the industry in a completely new direction.

We're bringing the energy we created through Adaptive Fit Technology to more people through a broader collection across performance categories, as well as sportswear.

We know amazing innovation is fundamental to commanding full price and creating a healthy pull marketplace. With the most robust line-up we've ever created, I'm confident we have the foundation in place to fuel Nike's next phase of long-term growth.

As part of our Consumer Direct Offense, we continue to transform the way we operate to get closer to the consumer. Through 2X Direct and 2X Speed, we're testing and learning...then sharing and scaling...throughout our key cities.

I was just in Europe and there's incredible excitement for what we're bringing to the consumer.

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We're creating differentiation in one of the more complex and competitive marketplaces by taking control of our brand and storytelling across more channels...while elevating consumer services. For example, across EMEA, we're taking friction out of the delivery and return process. In Berlin we offer same-day delivery, leveraging inventory within the city...with Paris and London following this summer.

In Shanghai, we've built a digital studio that will focus on creative selling opportunities and more fully leveraging real-time data with platforms like WeChat and Tmall.

And in North America, we're leveraging the Express Lane to sharpen our position in key markets. In New York, we've set up market design teams to create hyperlocal apparel for Nike SoHo. And early next month, we'll deliver the Nike Shox Gravity that was created in a greatly condensed timeline.

Through our focused investments, we're adding new capabilities and tremendous energy to the markets that matter most.

One of the biggest drivers of that plan is of course our strategic shift to digital. It's how we get to know and reward members with what they want. That includes investments in personalization that leverage machine learning to curate assortments to match individual member preferences.

For example, the Nike+ App's "Reserved for You" service is converting sales at a rate that's 40 times greater than traditional outreach. That's a tremendous return on investment.

What's exciting is that our apps have yet to arrive in all of our key markets. We launched the SNKRS app in China earlier this month and later this fiscal year...it will go live in Japan for some of the world's most obsessed sneaker fans.

Membership is opening up opportunities for new digital services partnerships as well. Next quarter, our Nike Plus personalized benefits will include special offers from services like Apple Music, Classpass, HeadSpace....and more to come.

And on the commerce side, our digital footprint continues to scale to hundreds of millions through new partnerships. Our strategy is to partner with platforms that advance our brand, as well as our business, through presentation, pricing and consumer data to support our

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membership efforts. Zalando and Tmall are great examples of partners who actively engage...and we're scaling those learnings to other platforms.

This Spring in the U.S., we'll run a pilot with Stitch Fix, the online personal styling service, to bring personalized Women's product to their expansive audience. And we're extending our pilot with Amazon. It's going well, and we remain focused on learning and elevating the consumer experience.

Another key piece of our digital strategy...is to continue to advance the role that product plays in unlocking experiences. You know about our first step with the NBA Connected jersey...and next year, we'll introduce the NikeConnect...Air Force 1.

We see massive potential in a future where more Nike products are connected – bringing consumers inspirational content and serving as the on-ramp for Nike membership.

And you can envision where that future goes. Where consumers seamlessly engage with us through digitally-connected products that continue to inform our design, manufacturing and distribution capabilities...creating new growth opportunities across each of our Triple Double pillars.

It should be clear...Nike is actively driving change in our business and throughout the industry. We're partnering...experimenting...and we're fast-tracking our greatest opportunities. We're off to a good start and we see a long runway of growth ahead.

Thanks, and now here's Trevor.

### **Trevor Edwards:**

Thank you, Mark. Happy Holidays, everyone.

Let's get right to the results. As always, my comments are on a constant-currency basis.

For the quarter:

- NIKE Brand revenue grew 4%.
- And revenue for NIKE Direct was up 15%, driven by online growth of 29%, comp store growth of 6% and new stores.

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Mark mentioned how we are identifying our biggest opportunities through our Consumer Direct Offense. We invest in these opportunities through a focused growth agenda: with a focus on 12 Key Cities shaping 10 Key Countries ... in service of our consumers.

It's through execution of the Category Offense that we drive brand heat and distinction, which in turn leads to growth in the marketplace.

Mark spoke about the great progress we have made in innovation, speed and digital and at our Investor Day in October, we also discussed how we drive brand heat. In Q2, we created new brand energy and strong demand around the world...

... from red-hot product launches like Air VaporMax and powerful collaborations like "The Ten" with Virgil Abloh... to creating completely new ways to engage ... such as new NikePlus Unlocks, our latest membership service.

When we create distinction for our brand and show up authentically, the consumer responds. That brand heat makes us even more confident that we will see continued international strength and underlying improvement in our domestic business. More on that later.

Now, through the Category Offense, we create brand and product concepts that generate heat. So, let's review some of the categories where our deeper consumer connections came to life in Q2... starting with Basketball.

Nike Basketball grew strong double-digits in Q2, as we energized basketball culture globally through performance and style. Our new NBA partnership is already energizing our apparel business, feeding innovation and growth. Both the NBA Connected Jersey and Showtime hoodie are generating strong demand in the marketplace through our NIKE Direct channels and through partners like Dick's Sporting Goods.

In footwear, consumers continue to respond to our deep roster of styles, across the spectrum of performance and lifestyle. Of note was the consumers' phenomenal response to the LeBron 15, making it one of the quarter's highlights.

And the Kyrie 3, which continues to be the #1 selling shoe in the market, is being fueled by his incredible season and growing global popularity. We will soon release a second version of Kyrie's signature shoe at the \$80 price-point. And we continue to see strong sell-through with

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the PG 1 and the KD 10.

Next, the Jordan Brand. Our key launches in Q2 proved yet again that the Jordan Brand is a powerful force, starting with the great results we saw from the AJ 32 and the AJ 11.

When we connect the right product with the strength of Jordan's story-telling, the results are incredible. For instance, the Air Jordan 1 was the most coveted product in "The Ten" Collection ... cementing its position as 2017's shoe of the year.

We also know we want to keep Jordan's icons coveted and special, which is why we are proactively managing the exclusivity of specific iconic styles and colorways in North America. At the same time, we are accelerating into new dimensions for the Jordan Brand across performance and lifestyle.

In fact, we are already seeing momentum in areas where we're dimensionalizing the brand ... from international ... to apparel ... to women's, where we're bringing new styles just for her.

For example, this quarter the Jordan's women's business saw success with The Heiress 11 ... a shoe designed specifically for women ... which sold out quickly across the marketplace.

Overall, the strength and breadth of the Jordan Brand continues to expand. It's clear in the excitement we see from consumers of all ages when Jordan partners with colleges, as we saw in Q2 with the Universities of Florida and Oklahoma coming on board, bringing new consumers into the Jordan Brand.

Ultimately, growth in Jordan will be driven by further dimensionalizing Jordan's iconic sneakers and the overall brand to create new growth opportunities. We are activating against these new dimensions, now and into the future.

In Running, we're seeing brand heat through the Running Revolution that Mark mentioned. The performance story of Q2 was the incredible impact of the Zoom VaporFly 4% had in the marketplace, as it dominated the podium at the top six marathons this fall.

The energy around the Vaporfly 4% – and ZoomX cushioning – has a real impact on the rest of our Running business. It shows how truly breakthrough performance product drives distinction and creates demand in the market.



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Next, our Women's business, which offers a huge opportunity, as we deliver with more focus in both sport and style in our new unified Women's line.

We continue to evolve and invest in our Women's business ... from concept to consumer ... with increased resources focused on serving her in the right way.

And as always it starts with innovation. We're driving that new innovation in the most important items for her workout: bras, pants and tights. Whilst we are already the #1 brand for performance bras globally, we expect to quadruple this business over the next five years.

We're also #1 globally in pants and tights, and we see more growth ahead as we introduce new styles across statement and core. Last month we launched our new Nike Pants Studio on nike.com and at thousands of doors worldwide. The studio launched with new and updated workout tights and pants, providing more choice in materials, finishes and lengths, driving stronger in-season sell-through.

And we're also focusing on the massive untapped opportunity in women's footwear. Consumers are responding to the rich storytelling and great product offerings at our Nike Sneaker Boutiques... led by Air Vapormax, the Air Max 97 and our "Force is Female" Air Force 1 collection. We have been rolling these out across the marketplace with our partners like Nordstrom.

Ultimately, Nike is the only brand that can bring all this together: footwear, apparel and deep storytelling to serve her complete active lifestyle.

Lastly, our momentum in Sportswear continued, with another quarter of double-digit growth. Our Sportswear apparel continued to lead the market with strong consumer response to our Tech Fleece and Basketball off-court apparel. At the same time, our high-heat collaborations ... like our celebration of the 35th anniversary of the Air Force 1 ... fueled momentum in our key cities and across the marketplace.

In Q2, our Power Franchise strategy helped make Air Max 97 one of the hottest sneakers of 2017. First, we re-launched the icon with limited pairs at the Milan Fashion Week last year, before growing it to where it stands today: close to a million pairs each season.

It is this kind of energy ... thanks to the right strategies and the power of the right product ...

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that continues to fuel growth in our categories.

Now let's discuss our geographies, where the Consumer Direct Offense offers strategic focus on how we drive brand heat and shape differentiated retail in our key cities.

In Greater China, we delivered strong double-digit growth as we continue to extend our leadership position. We're seeing great sell-through across our Power Franchises ... from the VaporMax ... to the LeBron 15 ... to the Air Force 1 and the Jordan 1.

While our growth in China is being led through digital, across both Nike.com and Tmall, we are also driving very strong comp store results. In fact, our overall Greater China Direct business was up over 30% in Q2.

This quarter, we also had Singles Day, which offered even more proof of our growth strategy. On the biggest shopping day in our fastest growing geography, we set records as Nike emerged the #1 overall brand for both footwear and apparel.

Throughout China, we see sports transcending and driving culture. For example, this quarter when we organized the Shanghai Marathon, which we have for the last six years, we had a record 120,000 people sign up to fill 38,000 available spots.

This growth, and the opportunities in front of us, keep us very excited about the results we see in Greater China.

Our EMEA geography had a great quarter, growing double-digits as we took share across the marketplace, fueled by very strong digital and comp store growth. Our latest door openings in EMEA ... with our partner JD Sports ... are seeing excellent results as we implement new capabilities such as inventory integration and a membership pilot to improve the consumer experience.

In Q2 we also piloted shoppable Instagram stories and our success there ... as well as our success with Zalando and Asos .... gives us incredible confidence in our digital commerce momentum going forward.... in EMEA and around the world.

Finally, there's North America, where our strategies are starting to pay off, as we reignite the U.S. marketplace.

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This quarter we upgraded the Nike.com and app experience with better search functionality, improved product presentation and faster checkout. At the same time, our NikePlus membership program is already showing results, including a significant uptick in new and buying members. Members also now have personal access to expert advice and recommendations through the Nike App.

All told, this improved consumer experience has led to increased engagement and overall conversion.

To be clear: we are aggressively making great progress building and scaling Nike Consumer Experiences throughout our Nike Direct retail. In addition, we are actively working with our key retail partners to help them transform the consumer experience as we accelerate the shift toward differentiated retail.

One example is the new Finish Line flagship door in LA, featuring a virtual product style wall that lets consumers dive deep on innovation and storytelling.

And our Sneakeasy pop-up in New York with Foot Locker delivered our best products in an environment targeting members with tailored experiences. These consumer experiences create strong energy across the marketplace and the initial consumer response has been very positive.

So, as we execute against our Consumer Direct Offense in the U.S., we're creating a healthier market as we...

- manage supply tightly to demand;
- deliver stronger full-price sell-through with new innovation;
- drive brand heat;
- and most importantly, make the investments that fuel long term growth.

In the end, all over the globe, we're seeing exciting successes in our greatest growth opportunities. But it's the momentum we're continuing to build that gives us tremendous confidence in the year ahead.

Thanks, now here's Andy.

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### **Andy Campion:**

Thanks Mark and Trevor, and happy holidays to everyone on the call.

As we said at our Investor Day in October: We are certainly operating in a dynamic environment on multiple dimensions: ranging from geopolitical volatility to the evolving retail landscape here in the US to rapidly shifting consumer expectations around the world. In dynamic times such as these, some will try to do everything they possibly can to change their circumstances in the short term. But, at Nike, we know that, in times like these, you don't need to do everything, you need to do the right things. And, the right things are a function of what matters most to our consumers.

Our new strategy, the Consumer Direct Offense, reflects our focus on what matters most to the consumers we serve around the world, with an emphasis on our top 12 cities and 10 key countries. They are telling us, and in fact showing us with their actions, that they want new innovative products, faster, and a through a more direct connection to Nike leveraging digital.

In Q2, our financial performance exceeded the expectations that we set 90 days ago, from the top line to the bottom line, but more importantly our results were amplified by our focus on what matters most.

As Mark and Trevor detailed, the launch of new innovative products drove brand heat and strong consumer demand. New versions of the Air VaporMax propelled it to the top selling Running shoe globally over \$100 and sparked demand for other icons within the Nike Air portfolio. The Zoom Vapor Fly 4% propelled runners to the top of the podium at the biggest marathon, and continues to sell out immediately as we bring new supply to market. And as Trevor mentioned, we saw incredible demand for the Virgil Abloh collaboration with respect to 10 of Nike's most iconic styles, ranging from the Jordan 1 to the Air Force 1 to the Presto to the Blazer. All of these launches of new, innovative products in Q2 were met with extraordinary demand, expanding and creating new energy within Nike's unrivaled portfolio of power franchises.

In Q2, we also increasingly served consumers more directly through digital. Once again, growth through Nike.com and our strategic digital partnerships outpaced growth in all other dimensions of the marketplace. Nike.com growth was catalyzed by our relaunch of the

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NikePlus membership program in November, with growth in NikePlus members and buying members both accelerating.

And, it is important to remember that our new offense is not only reigniting momentum in the US marketplace; innovation and digital are also fueling double-digit growth in aggregate across our international Geographies. Our international businesses now represent over 55% of our revenues today and, as we shared at our Investor Day, we project that they will contribute 75% of our incremental growth over the next 5 years.

While our focus on innovation, speed and digital helped deliver solid results in Q2, we are even more excited about what we will bring to market in the second half of FY18. Over the next several months, Nike will launch and scale more innovation than at any other time in our history. We will dimensionalize the Air VaporMax platform, expand the ZoomX platform, launch the Nike React and the Air Max 270 platforms, and reintroduce the Nike Shox platform. The second half of FY18 will showcase NIKE's unrivaled ability to deliver performance and sport style innovation at scale. And, we will also continue to enhance and scale our digital commerce offerings globally, serving consumers in increasingly engaging and frictionless ways.

While our new offense is first and foremost a growth strategy, innovation, speed and digital will also drive expanding profitability and returns on invested capital. As we exit the fiscal year and put FX headwinds behind us, the impact of the Triple Double on margin will become more evident. By scaling innovation we are enhancing the price-value relationship in an otherwise promotional environment. By leveraging digital to better sense and serve consumer demand, we are becoming a better retailer and beginning to drive stronger full price versus off price sell through.

Suffice it to say that we are accelerating execution against a strategy that is fueling stronger growth and a return to expanding profitability. But, before I go deeper into our outlook, let's reflect on our second quarter results in a bit more detail:

- Q2 reported Revenue grew 5% as international growth in the low-teens was partially offset by an expected decline in North America wholesale revenue.
- Second quarter Diluted EPS contracted 8% versus the prior year to \$0.46, as revenue

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growth and a lower effective tax rate were offset by gross margin contraction and higher SG&A.

- Gross Margin contracted 120 basis points in Q2 as higher average selling prices were offset primarily by foreign exchange and to a lesser extent higher average product costs.
- Total SG&A was up 10% in Q2 due primarily to a 15% increase in Demand Creation investments. The increase in Demand Creation was primarily driven by sports marketing, our new partnership with the NBA, and the launch of new digital and physical retail experiences in key cities. Operating Overhead increased 8% driven primarily by investments in our NIKE Direct businesses.
- The Effective Tax Rate was 12.7% in Q2 compared to 24.4% for the same period last year, reflecting the tax benefit of stock-based compensation in the current period under the new accounting standard, as well as an increase in the mix of earnings from operations outside the US, which are generally subject to a lower tax rate.
- As of November 30th, Inventories were up 6% driven by changes in foreign exchange rates and to a lesser extent an increase in NIKE Brand units.

Now, let's turn to the financial performance for our operating segments:

In the second quarter, North America revenue contracted 5% on both a reported and currency-neutral basis. While the marketplace continues to evolve and remains promotional in the short term, we see momentum and a pull market building beneath the surface of our aggregated results. Growth in our NIKE Direct business continues to well outpace growth in the consolidating wholesale marketplace. Looking ahead, we see NIKE Direct growth accelerating and the broader marketplace beginning to stabilize as partners like Dick's Sporting Goods and Foot Locker transform their consumer experiences. As such, we anticipate significantly less contraction in the second half of FY18 as compared to the first half. In line with the timing of new product launches coming to market late in Q3 and scaling over the course of Q4, we are positioning the North America marketplace for a return to sustainable, profitable growth.

For the quarter, EBIT was down 14% versus the prior year driven by investments in SG&A, including the launch of our new partnership with the NBA and our relaunch of the NikePlus

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membership program.

Next, let's turn to EMEA, where we continue to have strong momentum. In Q2, revenue in EMEA was up 14% on a currency-neutral basis fueled by double-digit growth across footwear and apparel as well as most categories and territories. Our growth was led by NIKE Direct digital momentum as well as double-digit comp store growth.

On a reported basis, revenue increased 19% and EBIT grew 8% as strong revenue growth and SG&A leverage were partially offset by lower gross margin, with gross margin contraction primarily driven by transactional FX headwinds.

In Greater China, revenue in Q2 was up 15% on a currency-neutral basis, with strong double-digit growth across footwear and apparel, in most categories and led by Nike Direct. Digital momentum in the quarter was fueled by Nike.com and our partnership with Tmall, with both being amplified by a record-shattering Singles Day for the Nike Brand. We continue to see tremendous growth

potential over the long term in China, but we are not taking that for granted. We will continue to invest in China to ensure that we exceed consumer expectations and extend our leadership.

On a reported basis, Q2 revenue grew 16% while EBIT was up 1% due to lower margins in NIKE Direct, significant transactional FX headwinds and higher SG&A.

Moving to APLA, a dynamic, globally diverse Geography, fueled by key cities including Tokyo, Seoul and Mexico City. In Q2, Revenue in APLA grew 8% on a currency-neutral basis driven by strong double-digit growth in NIKE Direct, Sportswear and Basketball and balanced growth across footwear and apparel. We are the leading Brand in the key cities and countries across this Geography, and we are increasingly capturing the strong demand for our Brand through the expansion of our digital ecosystem of apps as well as strategic partnerships with innovative digital retailers.

On a reported basis, Q2 revenue in APLA was up 6% and EBIT grew 9% driven by revenue growth and SG&A leverage.

And finally, at Converse, Q2 revenue declined 4% on a currency-neutral basis as international growth was more than offset by a decline in North America.

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On a reported basis, Converse revenue declined 2% and EBIT was down 38% due to gross margin contraction and Demand Creation investment to drive brand heat and reignite growth in the North America market.

I'll now move to our outlook for the balance of the year:

Our full-year guidance for FY18 remains consistent with the Guidance that we provided 90 days ago. We are targeting Revenue, Gross Margin, and SG&A all within the ranges we previously communicated. We are building momentum in the second half both in the US and internationally as we execute our new offense; however, there are some anomalies by quarter.

So, with that, the following is more specific guidance:

For the full year, we continue to expect reported Revenue growth in the mid-single digit range. In Q3 in particular, we expect reported Revenue growth at or slightly below the rate of reported revenue growth that we delivered in Q2 based on the timing of new product launches coming later in the quarter.

As for Gross Margin, for the full-year, we continue to expect contraction of 50 to as much as 100 basis points. We are seeing improvement in the underlying drivers of gross margin expansion.

That said, there are two factors that will weigh on our Q3 margin. First, FX remains a material headwind in Q3, but eases in Q4. Second, we will remain measured with respect to our targeted margin in Q3 based on the continued promotional environment across the broader US retail landscape. Thus, for Q3 we expect Gross Margin to contract by 125 to 175 basis points, followed by significant sequential improvement in gross margin in Q4.

As for SG&A, we continue to expect full year growth in the mid-single digits. While we remain disciplined in our spending, we are also identifying opportunities to accelerate investment that will fuel growth, for example, within Demand Creation to drive brand distinction and heat and within Operating Overhead to elevate our digital capabilities. Accordingly, we expect low-double digit SG&A growth in Q3.

We expect Other Income and Expense, net of Interest Expense to be approximately \$30 to \$40 million of expense in Q3 and roughly \$120 million of expense for the full year.



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Finally, we now expect our Effective Tax Rate to be between approximately 14 to 16 percent for the full year. Note that when US tax reform is enacted into law, our tax rate would be significantly higher in Q3 driven primarily by the one-time taxes on deemed repatriation of foreign earnings. That said, we expect US tax reform will have a net favorable financial impact on Nike taking into account the impact on taxes, access to capital, and capacity to invest within our value chain. Assuming enactment, we will update you with more specifics next quarter.

As we look ahead to the second half of the fiscal year and into FY19, we have an unprecedented wave of new innovative products coming to market, we have strong international momentum and we are building underlying momentum in the US. Our current momentum is the direct result of our focus on what matters most to consumers. Accordingly, we are increasingly confident that our new offense will ignite Nike's next horizon of strong, sustainable, profitable growth.

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