

**FY 2019 Q2 Earnings Release Conference Call Transcript
December 20, 2018**

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PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2019 Second Quarter Conference Call. For those who want 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, Vice President, Investor Relations and Treasurer:

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss NIKE Inc.'s fiscal 2019 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.

Joining us on today's call will be NIKE Inc.'s Chairman, President and CEO, Mark Parker; and our Chief Financial Officer, Andy Campion. Following their prepared remarks, we will take your questions. We'd 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.'s Chairman, President and CEO, Mark Parker.

Mark Parker, Chairman, Chief Executive Officer and President, NIKE, Inc.:

Thanks, Nitesh. Hello, and happy holidays, everyone. We've seen some amazing highlights in sports this past year. Eliud Kipchoge smashed the marathon world record, Simone Biles dominated the world championship, Kylian

Mbappe became a global star at the World Cup, and LeBron James continued to inspire on and off the court. It was a year of incredible achievements for NIKE as well and Q2 was another strong proof point on our journey. We continue to show progress against our key long-term objectives of driving innovation, direct connections and speed and agility around the world. Our teams are doing a fantastic job of delivering sustainable, profitable growth through the Consumer Direct Offense while aggressively pursuing our highest potential long-term opportunities. We set high goals and each success makes us hungry for more.

The marketplace in which we compete is highly dynamic. Consumer expectations are accelerating, and the macro economy is increasingly volatile. A key part of our strategy to win in this environment is to double-down on digital. Our digital transformation is taking hold through a series of positive disruptions across the business. For example, we're leading the industry through a retail revolution. We're creating sports first smart, adaptive footwear and we're investing in a global supply chain that delivers personal at scale. It's all incredibly energizing and we find that the more disruptive we are, the more we grow.

Our digital disruption is fueled by breaking old models, building new commerce partnerships and merging new talent with our years of industry experience. Our teams are driving change and it's yielding excellent results. For the quarter, NIKE, Inc. revenues grew 10%. On a currency-neutral basis, NIKE, Inc. revenue increased 14%. Gross Margin was up 80 basis points to prior year and earnings per Share was up 13% to prior year. Specific highlights include 9% growth in North America and nearly 20% constant currency growth in our international geographies. Digital growth of 41% on a constant currency basis and continued momentum in both sportswear and performance categories, including a return to growth in the Jordan business. The momentum we're driving is grounded in strong product innovation.

We're increasing the pace of new concepts and bringing a new discipline to how we manage the lifecycle of our innovation. We have a clear roadmap of how we stage our new platforms, giving each one the space to shine through high energy storytelling and then ramping upscale and choice to serve diverse consumer needs. Put simply, we're increasing the return on investment in innovation.

One of our great differentiators is, of course, NIKE Air. It's being energized through platforms like VaporMax and Air Max 270, two of the world's top-selling athletic footwear models. New interpretations of our icons led by the Air Max 95 and 97 and this spring we're excited to add a new distinct Air platform to the mix with the Air Max 720. The consumer is already anticipating its arrival and will keep the interest high through multiple iterations early in its product lifecycle.

NIKE React, too, will enter a new phase as we expand the platform beyond Running and Basketball into lifestyle product with the Element 55, and the shoe of the year, the Element 87. Both styles will scale significantly in 2019. Next year we'll also add NIKE React hybrids that combine multiple cushioning platforms along with a redesigned Epic React 2.0 coming in spring.

As we broaden platforms across categories, we're also broadening them across price-points to bring them to more people. As we mentioned on our call, last call, we see greater opportunities for moderately-priced footwear from NIKE right now. So, we're creating a more complete consumer offense for core footwear by creating performance and lifestyle icons and core-only innovations.

At NIKE, it's our mission to make athletes better, but perhaps no innovation delivers on that promise like ZoomX and the Vapor Fly 4%, which has dominated the world's marathons since 2017. We've started something special with the 4%, enabling a dramatic improvement for the world's best runners, and you can expect more exciting breakthroughs to come here.

That reputation has made its way to every day athletes, making 4% the most sought-after shoe on race day and it's created a halo effect for many of our NIKE fast footwear styles, especially the Peg 35 driving double-digit growth in the running category in Q2. I'm excited to announce that in the New Year, we'll launch a new adaptive performance platform in basketball at the \$350 price point. We have a smart shoe designed for the perfect fit and it's a major step in advancing and connecting our digital transformation to product. This is just one better-fit solution amongst many that we're working on, and we look forward to rolling them out throughout the year.

We have a full innovation pipeline ahead, including new cushioning platforms which will carry our strong product momentum into fiscal 2020 all the way to Tokyo Olympics and beyond. I've spent a lot of time with the Olympics team and the Tokyo 2020 collection is the boldest we've ever assembled across performance and lifestyle in footwear and apparel. We're growing our competitive advantages in many ways. Sustainability is one example where we're reducing waste at a scale that creates change for our entire industry.

NIKE Flyleather made a 50% reclaimed leather will scale to over 1 million pairs starting this summer. NIKE Flyknit represents a multibillion-dollar business and uses 60% less waste than traditional manufacturing and NIKE Air uses 50% recycled manufacturing waste in hundreds of millions of pairs. As a whole, we're making great progress to lower our environmental impact as a company driving greater efficiencies and fueling growth in our business.

Another area where our 2X Innovation agenda is making a dramatic impact is in apparel. As designers, there's no greater challenge than innovating for the body in motion. We think about many things, such as how to account for different environments through moisture management, creating breathability that adapts as needed or keeping a garment comfortable when it's twisting and turning. Through new materials and methods of make our apparel teams are continuing to push the limits in performance silhouettes and in the process, creating new style.

Our strategy starts with taking sports into new places. For example, in Basketball, our partnership with the NBA is fueling strong growth. Our NBA apparel accelerated in year two, especially with our City Editions jerseys led by Miami, Minnesota and Brooklyn, and to no one's surprise, LeBron's move to the Lakers also created opportunity. We already booked three times more NIKE Lakers gear this year. And our work with the NBA has also created a lift for NIKE in-line basketball apparel. We built on the success of our Showtime Hoodie and added Therma Flex pants, which have seen great sell-through. Overall, the traction we've gained for basketball in NIKE Direct and internationally led to strong global growth for the Basketball category this quarter.

In Sportswear, our biggest category, apparel grew over 20% this quarter. Sportswear Fleece and women's apparel were up double digits. In Sportswear, we're anchoring our communications around head-to-toe collections which makes it easier for consumers to shop the complete look and strengthens our presentation in storytelling. Apparel continues to be one of NIKE's greatest growth opportunities, and in the back half of the fiscal year, there's a lot to be excited about. We're launching new high-performance kits for the Women's World Cup in France. A Yoga collection that includes Men's Yoga apparel for the first time at NIKE. New tights innovation and expanded NIKE Tech Pack collection.

Two other areas of our business where we're accelerating, but we know we have much more opportunity ahead, is Women's and Jordan. There's incredible momentum for women in sport right now as athletes, elite and every day, lead a movement of health and wellness while driving a strong appetite for athletic footwear and apparel. This energy is manifesting in a number of ways. For example, footwear for women overall was up 20% for the quarter and sneakers for her are really taking off. The Sage Air Force 1 emerging as her favorite franchise owning the number one spot-on NIKE.com for five weeks running.

Our Edit to Amplify strategy to offer more color and material choices and fewer styles is also proving successful. NIKE has the top three selling Women's athletic footwear models above \$125 with the Air Max 270, VaporMax and Epic React. And in apparel, our bra business remains a strong growth opportunity up over 20% in Q2. Looking ahead to this summer's World Cup, NIKE will dominate on the pitch. A total of 14 of the 24 National Teams will compete in NIKE, including the favored U.S. National Team, and throughout the year, we'll continue to our Just Do It campaign that celebrates elite and every day female athletes around the world. We think 2019 is going to be a true tipping point for women in sport, with more participation, more coverage, and overall, more energy.

Meanwhile, with the Jordan Brand, we're seeing positive results from the strategic shifts that we're making. In Q2, Jordan grew double-digits and we've returned to healthy sustainable growth in North America. At the same time, we've continued our pace of double-digit growth internationally. We're making great progress in diversifying Jordan. Apparel had a very strong quarter, especially internationally. Sell-through of the Jordan and PSG collaboration exceeded expectations and will come back with a refreshed collection in January. Jordan's performance footwear is also contributing to solid growth led by the new Air Jordan 33 game shoe and the Max Aura that's doing well in China at the \$120 price point.

From a Sportswear perspective, we're elevating our storytelling with icons like the Air Jordan 1 which is more coveted than ever. At the start of Q3, our team executed an incredible effort with the most successful NIKE sneaker ever launched with the Air Jordan 11 Concord. It was a well-orchestrated plan complete with geotargeting that offered pre-heat pairs to our members, total integration across our business with partners like House of Hoops and Footaction and locally driven storytelling in our key cities. The Concord shows that the Jordan Brand yet again has the power to drive launches with incredible volume and create energy for the brand. We're bringing much greater balance to Jordan with much more opportunity ahead.

In 2X Direct, we're beginning to realize a multiplying effect as we scale our most innovative experiences. This quarter, you could feel the momentum swing in the conversation around Retail. We saw it over the Thanksgiving shopping week fueling more than 30% increase in our digital business in North America for the quarter.

In China, Singles Day once again broke records. NIKE earned the #1 Sport Brand on Tmall with our overall business for the day up over 40% from last year's Singles Day. It's clear that the consumer's craving experiences and the fastest way to meet that demand is to test, learn and scale new features. We know not every one of our new experiences will be successful and not all will be scalable but when we do find features that improve our services, NIKE's advantage is how quickly we deploy them across our global footprint.

In November, we opened our House of Innovation concept in both Shanghai and New York. The energy and performance at both locations has exceeded expectations. Both stores create the most personal and responsive retail environment in the industry. It's a digital experience, brought to life in a physical space and uses our most exciting features to-date such as the ability to scan bar codes, to check availability and buy the full look of mannequins, instant check out that requires no waiting at a register, expert studio that gives personal guidance, and special unlocks and notifications when members enter the store.

The gateway for consumers to get the most value out of these new experiences is membership. We want more doors to feel like a personal home for members where we can elevate one-to-one service and we want to leverage mobile apps to make sure NIKE is serving our consumers wherever they are. One way we do that with members is to create ways to be in their path more organically. For example, the LeBron watch, which will deliver 25% of the LeBron 16s in the marketplace this year, makes his on-court shoes available in the moment through SNKRS and our partner mobile apps.

In China this month, we gave early access to the KYRIE 5, through a QR code in a live streamed NBA game on WeChat, and users can now buy directly on our NIKE Run Club and NIKE Training Club apps personalized to the way they train.

Another key to making NIKE commerce a part of people's lives more seamlessly again and again, is to develop unique experiences with some of the world's most engaging and brand-friendly platforms. This quarter, we did that with a new feature on Instagram that allows NIKE product to be shopped directly from stories. On the Apple watch, where we continue to serve our most active and highly-valued NIKE Run Club members, and with Google, where consumers can now buy directly from NIKE through search and Google Assistant, and to further leverage partnerships that amplify our brand, we're making great strides with strategic partners like JD Sports, Foot Locker, Nordstrom and Dick's Sporting Goods where elevated experiences are driving outsized growth in the wholesale channel.

We know that to fully leverage or fully offer consumers what they want in the moment requires a high-level of agility in our business and through 2X Speed we're elevating the industry, creating an end-to-end value chain that's centered on the consumer. The pillars are demand sensing and insights, so we know our consumer. Responsive product creation and manufacturing to provide the best product. Delivery at speed, for product to arrive when they want it, and connected inventory so they're never disappointed. And starts with better demand sensing and insights. In Q2 our express line business grew double-digits supporting key cities with hyper local product and faster fulfillment to drive higher full-price sell-through.

Responsive product creation and manufacturing has many components. Digital product creation allows for greater precision and creativity and design. Planning and staging materials drastically reduces lead times, and automation increases speed and quality in manufacturing. To date, more than half of our total footwear production has been

modernized through initiatives started in the Modernization Centers of our top six manufacturing partners, and our Advanced Product Creation Center at our World Headquarters.

We're also investing in delivery at speed. Take Singles Day as an example. To deliver against this massive opportunity, we had coordinated fulfillment strategy across our 12 Greater China distribution centers and we shipped direct from over 50 retail doors to consumers on the day. Overall, we've fulfilled over 5 million units in five days. Finally, our connected inventory strategy with partners like Zalando and JD will help us realize many of our speed initiatives. In support of that initiative, we'll introduce RFID into footwear and all licensed apparel in 2019.

This will lead to vastly improved product visibility and accuracy across the supply chain from product creation to point of sale, and it further opens up the possibility to integrate more widely with our wholesale partners, contract factories and distribution centers. Each of these work streams is a building block for NIKE to become more personal at scale and as a system they demand enterprise-wide coordination and innovation.

NIKE's ambitious digital transformation is driving the strong results you see today. We're staying competitive and opportunistic with every shift in the marketplace. As a leader NIKE has high expectations, and as good as this quarter was, we know we have the ability to do much more. We're going to continue to use our scale, speed and agility to grow sport and our business around the world.

Thanks, and now here is Andy.

Andy Campion, Executive Vice President & Chief Financial Officer:

Thank you, Mark, and happy holidays, everyone. Our Q2 financial performance was exceptionally strong across nearly all dimensions. 14% currency-neutral revenue growth, 80 basis points of gross margin expansion, 13% EPS growth versus prior-year. Our strong growth was also broad-based across all four of our Geographies as well as across Footwear, Apparel, Men's, Women's and most Categories. This broad-based momentum is not happening by accident but rather is being fueled by our focus on what matters most to consumers globally. The common theme across our portfolio is the Consumer Direct Offense. More specifically, we are bringing the Triple Double of 2X Innovation, 2X Direct and 2X Speed to life in our 12 key cities and 10 key countries around the world.

Take Innovation for example. We've said we expect new innovation platforms to drive over 50% of our incremental growth over the next five years. In fact, year-to-date, new innovation platforms, including VaporMax, Air Max 270, React and ZoomX have driven over 80% of our incremental growth. Another significant contributor to our growth from a product perspective are our Power Franchises. By leveraging an approach that Mark calls Editing to Amplify we're bringing new dimension and driving the growth of iconic franchises like the Air Force 1 and the Air Jordan 1. We do that, for example, through fresh new designs and collaborations for both men and women, as well as color and material updates, through our Express Lane.

Our broad-based growth is also being fueled by new experiences that more directly connect NIKE to our consumers globally. We expect NIKE Direct and partnered NIKE experiences, physical and digital, will contribute over 50% of our incremental growth and outpace undifferentiated retail over the next five years. Leading the way once again in Q2 was NIKE Digital. Our NIKE Digital ecosystem continues to grow faster than all other channels, growing 41% on a currency-neutral basis, and, as we drive deeper, more organic one-to-one engagement with consumers, mobile now represents well over 50% of our Digital commerce revenue.

Our 2X Speed initiative is also driving our momentum. Cutting our time-to-market in half is not an all-or-nothing proposition. We're already infusing greater speed and agility into our product creation and supply chain processes, allowing us to amplify what's working with the consumer closer to real-time. For example, product updated and fulfilled through our Express Lane is growing double-digits and now represents a double-digit percentage of our total business. This is significant as Express Lane product also largely sells through at full-price, favorably impacting margins.

2X Speed also includes initiatives ranging from leveraging automation to a more focused materials palette and materials staging. These initiatives also reduce product cost and enhance inventory efficiency through greater labor

productivity and less waste. In short, we are very pleased with our strategic execution and the strong performance we have delivered to-date. That said, more importantly, we are confident in the sustainability of our growth going forward. While FX headwinds have intensified, we now expect stronger currency-neutral revenue growth in fiscal year 2019 than previously planned, and as we're beginning to gain greater insight into fiscal year 2020, we're seeing continued strong demand.

Our positive outlook is not nearly optimism but rather is founded on fundamental changes in how we operate at NIKE. One fundamental change is in how we bring innovation to market. In addition to driving faster innovation cycles, we're also focused on innovation platforms that have greater potential to scale across geographies. Accordingly, as Mark detailed, we have an extraordinary pipeline of innovation to come over the balance of fiscal year 2019 and throughout fiscal year 2020. That begins in spring with the launch of the Air Max 720 and HyperAdapt in Basketball and extends to innovation platforms launching in early fiscal year 2020 and through and beyond the Tokyo Olympics.

We're also digitally transforming NIKE and driving positive disruption in our industry, unlocking new opportunities for growth long-term. While we already have extraordinary digital momentum, we're still in the early-stages of this transformation. We're executing against a three-year roadmap of new digital capabilities that will enable us to continually serve consumers better. We're aggressively building those capabilities in-house and accelerating our development of those capabilities through acquisition.

Our 3-year roadmap also includes the global expansion of our digital ecosystem. In the key cities and countries where we see the greatest opportunity for growth. For example, just last month, we launched the NIKE App in Japan where it immediately became the number #1 rated shopping app.

Over the next five years, we see the Consumer Direct Offense delivering on the financial model and measures of success we communicated at our Investor Day back in October 2017, but we are already setting our sights even higher longer-term. We see the opportunity to expand the definition of sport, to be even more inclusive, including competition and training as well as movement and play. By using this broader lens to inspire and enable a more active lifestyle, we will grow the market for athletic Footwear and Apparel. There are four areas where this purpose-driven approach to growth is creating outsized opportunities for us. International, Digital, Apparel and Women's.

The overall Footwear and Apparel industries in our international markets are already significantly larger in aggregate than in the U.S. That said, in international markets, the athletic segment of the overall Footwear and Apparel market has historically been less penetrated than in the U.S. but that is changing fast. Sport participation and culture continue to accelerate in international markets, and when sport grows, NIKE grows. China is perhaps the best current example of this phenomenon.

Second, we said at our Investor Day that Digital, owned and partnered, would comprise 30% of our business by 2023 as compared to roughly 15% of our business today. Frankly, we're already thinking bigger as we look longer-term. Our industry has lagged many other industries in terms of digital penetration. Many consumer products industries are already at 50% digital penetration and projected to be well over 80% digital by 2030. We all know that disruptive new consumer centric digital experiences have catalyzed the shift to digital in those industries. So, as we increasingly innovate and lead with digital, we are intentionally disrupting our industry. We see this as positive disruption that widens the aperture for growth long-term. We now see 30% digital penetration as just a mile post on our path to the majority of our business being digital.

Third, Apparel is another extraordinary opportunity for growth at NIKE. Apparel is a larger market than Footwear globally and at the same time, athletic Apparel accounts for a smaller percentage of overall Apparel than athletic accounts for within overall Footwear. That dynamic is also changing fast. Consumers are increasingly choosing performance and sportswear apparel for more occasions, as it better serves their more active and expressive lifestyle.

Finally, as we aim to redefine and expand the definition of sport, that is with a sharp focus on women. Similar to the strong returns we're seeing from having doubled our investment in innovation, we see the potential for asymmetrical returns, by editing and more aggressively shifting resources towards our Women's business. The Women's footwear and apparel markets are larger than Men's, yet today Women's represents less than a quarter of

NIKE's total Revenue and we're already on this journey as our Women's business grew double-digits in Q2, but we see step change growth opportunities ahead, by serving women more deeply within classifications and across more occasions for her.

In short, we have strong current momentum and we have extraordinary growth potential long-term, but before I share more specifics regarding our outlook, let's reflect on the drivers of our current momentum. NIKE Inc. Q2 Revenue increased 10% up 14% on a currency-neutral basis. This exceptional growth reflects double-digit currency-neutral momentum internationally and strong high-single-digit growth in North America. NIKE Digital was the fastest-growing channel in each geography with 41% growth in aggregate on a currency-neutral basis, again led by mobile. That said, FX headwinds had a slightly larger impact on our reported revenue growth than the roughly 3 points we anticipated 90 days ago.

We also delivered strong gross margin expansion of 80 basis points across NIKE Inc. fueled by NIKE Direct growth and a higher mix of full-price sales. Demand creation grew 4% in the quarter with our focus being on increasingly connecting with consumers through digital experiences and platforms. Operating overhead increased 18% reflecting strategic investments that are accelerating NIKE's digital transformation and will fuel long-term growth. Our Effective Tax Rate for the quarter was 15%.

Second quarter diluted earnings per share were \$0.52 up 13% versus prior-year and as of November 30, Inventories were up just 1% reflecting a healthy pull market for NIKE and a lower mix of close-out across all geographies. Now let's turn to the financial performance for our reported operating segments.

In North America, Q2 revenue grew 9% on a reported and currency-neutral basis. NIKE Direct grew high-single digits with NIKE Digital up well over 30% in North America. As Mark mentioned, we're now turning our vision for the next generation of retail into a reality. In our NIKE Live concept on Melrose, we're aligning data-driven, biweekly flows of product to the store, with digital storytelling and one-to-one connections between the store team and local consumers. As a result, the store is driving strong digital member acquisition, engagement, and buying, and we're seeing even more impressive early results at our new House of Innovation in New York.

While the overall retail marketplace in North America is still going through consolidation and we do expect that to continue, our NIKE wholesale business in aggregate has returned to strong growth, with improving profitability led by our strategic retail partners such as Foot Locker and increasingly JD. In Q2, we also reignited brand heat in North America through the Just Do It campaign that was launched in early September, and by amplifying key moments in the sport by the launch in NBA season. We see our Brand heat across both NIKE and Jordan, our strong pipeline of innovative product and digitally-led consumer experiences continuing to fuel strong growth in North America.

In EMEA, Q2 revenue grew 14% on a currency-neutral basis, driven by strong growth across Sportswear, Running, Training, and Jordan. NIKE Digital led all dimensions of the marketplace growing over 30% versus prior year. We have extraordinary momentum in this Geography as we're taking significant share and we're growing the market. We are mindful of the geopolitical dynamics in Europe. That said, we have a long track record of delivering growth and profitability amidst a wide range of macroeconomic circumstances.

As we look ahead, we expect our momentum to continue in Europe. In all five of our key cities in EMEA, consumers rate us as the #1 cool and #1 favorite brand and in fact those ratings strengthened even further in Q2. We're connecting more directly and deeply with consumers locally through our key city focus and we're seeing impact globally. For example, through the PSG Jordan partnership we connected authentically with consumers in Paris, while the product sold out at launch around the world.

We also recently introduced the NIKE App at Retail in Niketown London as well as the SNKRS Pass experience in Paris, allowing consumers to reserve shoes from high-heat launches and pickup in-store. Those services are removing friction and personalizing the shopping experience, driving significant new member acquisition in two of our key global cities.

Next, let's turn to Greater China, where yet again, we delivered double-digit revenue growth in Q2. This marks the 18th consecutive quarter of double-digit revenue growth in China.

In Q2, growth accelerated to 31% on a currency-neutral basis with Digital growing over 40%. As evidence of the scale and digital nature of this important market, as well as the strength of the NIKE Brand, our SNKRS App community in China, and recall that the SNKRS app was launched just last year, is already the same size as our SNKRS community in North America.

In Q2 with the opening of House of Innovation in Shanghai, we also began to more fully leverage digital in this largely NIKE-branded physical retail environment. It's still early days, but the results have been extraordinary. While there has been uncertainty of late regarding U.S. China relations, we have not seen any impact on our business. NIKE continues to win with the consumer in China. For over three decades, NIKE has been a Brand of China, for China. We've connected deeply with the consumer here through our key city focus on Shanghai and Beijing. Through partnerships with sports federations, teams and athletes, and by partnering with China's Ministry of Sport to fuel greater sport participation in schools across the country.

In fact, just last month, leading up to the Shanghai marathon we took Eliud Kipchoge on a tour of Shanghai and other key cities and on Marathon Day we launched the Shanghai-focus Just Do It campaign. In just the first 24 hours the campaign was watched more than 16 million times. We are bullish about our potential to continue delivering strong sustainable and very profitable growth in this important Geography.

In APLA, Q2 revenue grew 15% on a currency-neutral basis with balanced double-digit growth across footwear and apparel as well as double-digit growth in Sportswear, Jordan and NIKE Basketball. NIKE Digital is also accelerating in APLA, with revenue growing over 75%. We also continued to expand our digital connectivity to consumers across this region, through commerce partnerships such as those Zozotown, Flipkart and others.

APLA is a market in which we are extremely entrepreneurial testing new concepts that leverage digital to enhance the consumer experience at retail. As we mentioned on our last call, we'll be opening a NIKE Live experience in Tokyo in Q3 and in Seoul, we're testing our "Connected Inventory" strategy. We've connected the inventory across 19 NIKE-branded doors including doors owned by two of our strategic partners. This connected inventory pilot has yielded very promising early results, serving thousands of consumers whose demand would otherwise have been unmet due to product being out-of-stock in a particular store.

Finally, at Converse, revenue increased 6% on a currency-neutral basis in Q2. Growth was driven by strong double-digit growth in Asia, and a sharp accelerate in owned Digital growth globally approaching triple digits. While Converse wholesale in the U.S. and UK remain challenged in Q2, Digital also accelerated in those markets. We see significant opportunity to grow Converse by expanding the product portfolio, including within Basketball, as well as launching a new digital platform.

And with that, let's turn to our outlook. There is increasing volatility and uncertainty of late on a macro level. That said, what is certain is that NIKE's execution of the Consumer Direct Offense is driving consistently strong and sustainable broad-based growth across our diverse global portfolio. That is because we are focused on what matters most to consumers and they are responding globally with strong demand for NIKE. Accordingly, our full year guidance for fiscal year 2019 reflects stronger currency-neutral revenue growth, stronger gross margin expansion, and accelerated strategic investment. For the full year, we now expect currency-neutral revenue growth to be in the high-single-digit range potentially approaching low double-digits. Based on current foreign exchange rates, we expect reported full year revenue growth to be over 3 points lower than our currency-neutral revenue growth.

In other words, at the low-end of the high-single-digit range. For gross margin, our outlook is also improved. We expect our full year gross margin expansion to be roughly in-line with the gross margin expansion of 70 basis points that we delivered over the first half of fiscal year 2019. We expect SG&A for the full year to grow in the high-single-digits as we continue to invest in new digital capabilities that will differentiate NIKE and fuel our long-term growth.

We project Other Expense, net of Interest Expense, to be between \$50 million and \$75 million for the full year and we continue to expect our Effective Tax Rate to be in the mid-teens for fiscal year 2019. That said, the finalization of regulations related to U.S. tax reform may result in discrete adjustments that impact our tax rate. While our focus is on sustaining profitable growth over the course of fiscal year 2019 and for the long-term, I will provide a bit of context on Q3 considering the current macroeconomic.

In Q3, we expect strong currency-neutral Revenue growth, squarely within the high-single-digit range. Based on FX dynamics, our reported real dollar revenue growth will likely be roughly 4 points lower than our currency neutral revenue growth in Q3. For gross margin, we expect Q3 expansion to be roughly in-line with our full year guidance. As for SG&A, we expect growth in the low double-digit range in Q3 as we continue to prioritize strategic investment, and finally, we expect our Effective Tax Rate in Q3 to be between 16% and 18%.

Our execution of the Consumer Direct Offense is driving consistently strong performance, yet we are still in the early-stages. As we continue to execute, we're not only building current momentum, we're also gaining greater insight into NIKE's potential to transform the industry, drive sustainable growth, and create extraordinary value for shareholders long-term.

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

QUESTION AND ANSWER SECTION

[Operator Instructions]

Operator:

Your first question is from Lauren Cassel with Morgan Stanley.

<Q – Lauren Cassel>: Great. Thanks so much, and really nice quarter. I just want to ask about gross margin. So, 70 basis points for the full year and in the third quarter. I think previously you were expecting second-half gross margin to be a little bit better than the first half. Is there anything that's changed or maybe just being a little bit more conservative given the macro backdrop? That's my first question. And then maybe just talk to us a little bit about how much of the 9% growth in North America is being driven by ASP versus units and perhaps given the robust innovation pipeline that you guys have if there's an opportunity for that region to potentially grow a little bit faster than three to four over the long-term. Thank you.

<A – Andy Campion>: All right. Thanks for the question, Lauren. As for gross margin, I'll touch on that question first. We are expecting our gross Margin to be better in the second-half of the year and as you note in our reported results it was slightly better than we expected in Q2. We're seeing structural benefits to our margin from our over-indexing growth in Direct which has had very strong momentum and momentum that's exceeded our expectations specifically in Digital, as well as a greater mix of premium innovative product and stronger full price sell-through.

We're also benefiting from a clean marketplace particularly for NIKE, so as noted, in my remarks, we do have an improved outlook for 2019, with our expansion being roughly in-line with the year-to-date margin expansion of 70 basis points and as we noted when we entered the year, we expected the second-half margin to be stronger than the first half and in the first quarter, our margin expansion was lesser than in the second quarter.

I would note that in any given quarter, there can be anomalies that impact margin and finally I'd note that Q2 is a quarter in which our margin is historically lower. Q3 and Q4, we have higher margin and so the expansion we expect in the third and fourth quarters is actually strong expansion on an already relatively higher quarterly margin.

Then you asked about ASP and Units. What I would note is that ASPs were up across our portfolio in both Footwear and Apparel. Again, new innovation, strong full-price sell-through, our ship to direct, clean marketplace, are impacting ASPs. We see continued ASP expansion in our order book going forward, so very balanced. Again single-digit rates of increase in Footwear, and in Apparel with apparel ASPs even expanding a little bit stronger than Footwear but both strong and then like I said balanced with strong unit expansion in both Footwear and Apparel.

<Q – Lauren Cassel>: Great. Thanks very much.

Nitesh Sharan>: Thank you, Lauren. Operator, we'll take the next question, please.

Operator:

Your next question is from Kate McShane with Citigroup. Your line is open.

<Q – Kate McShane >: Hi. Thanks for taking my question. My question today was on Jordan. I know you don't talk or guide the magnitude that you expect for a particular line or brand, but I wonder if you could talk generally the direction of what you expect for Jordan for the rest of fiscal year 2019 and what are the key drivers that's going to be accelerating that growth?

<A – Mark Parker>: Yeah, as we said, the growth for Q2 was exceptional and we got a great start for Q3 with the largest product launch that we've ever had in our history, so that's a good signal right there. I think the great story in Jordan is that we're managing the business more holistically between performance, product and retro. It's a clean

market, a healthy market particularly in North America so we're in a good pull market situation now. We've got great brand heat I think and that's really driven by strong product and storytelling.

I mentioned the Concord of late, the PSG collaboration was a great source of energy that was kind of unexpected, but incredible sell-through and energy, not just in Europe but around the world, so I think the potential in Jordan is the return to growth in North America and in the energy and the enthusiasm for the brand and the product around the world, including and maybe I'll especially call out China there and then we have more potential as we diversify the portfolio product particularly around the Women's offense in both Footwear and in Apparel, so again, we're actually quite bullish on the future opportunities and continued growth for Jordan in the second-half and beyond as we move into fiscal 2020.

<A – Andy Campion>: And just to emphasize the point that Mark made, Kate, Jordan's growth was stronger in the quarter and it was based on growth across all geographies. We had strong growth in North America as well as Mark said, very strong double-digit growth internationally.

Nitesh Sharan>: Operator, we'll take the next question, please.

Operator:

The next question comes from Bob Drbul with Guggenheim. Your line is open.

<Q – Bob Drbul>: Hi. Good evening. I guess just if we could stay on North America for a minute. I think you highlighted I think athletic specialty a little bit. Is the growth in the other channels having an outsized impact on this high-single-digit and this very strong outlook? Can you talk to maybe some of the chain store sales and how you're doing in that area, please?

<A – Mark Parker>: Yeah, I think the growth is, I mean, we feel really great about the growth in Digital as we've stressed continuously in our prepared remarks, but we also mentioned the increase on the wholesale side beyond expectations there and I think that's driven by the elevation of the experience of the doors with particularly with Foot Locker and Dick's for example. We're seeing where we have invested in elevating and differentiating the Retail experience for the consumer that we're seeing tremendous response. Obviously the backbone of that demand and that response is great product, so we feel really good about that in terms of where we've been this first half and then obviously, with what's coming, but the strategic relationships with our bigger partners who are really investing in the consumer experience is what we're seeing paying off and we're bullish on that as we move forward, but again, the big driver here is the combination of wholesale including in addition to our direct Digital.

<Q – Bob Drbul>: Got it. And I'm just curious, if in the Jordan business, there's some momentum there. Has the Michael Jordan and Malik Monk little exchange did that help the business coming out of the quarter or has it had no impact

<A – Mark Parker>: Well, any news is good news in the way a little bit energy is always good. So, we will take it.

Bob Drbul>: Happy holidays, guys.

Nitesh Sharan>: Thanks, Bob. Happy holidays. We'll take the next question, please.

Operator:

Your next question comes from Paul Trussell with Deutsche Bank. Your line is open.

<Q – Paul Trussell >: Congrats on the great results. Could you just give a little bit more detail on your confident outlook outside of North America? Certainly we see it in the Retail but certainly there have also been other companies that have maybe flagged incremental discounting or concerns around a slowdown in sneaker sales both in Europe and in China so if you can just speak in more detail to your success there, and then second, if you can just go back and maybe talk a bit more about the opportunity for more moderately priced point products. I think you

mentioned earlier in your comments just elaborate on where you see that opportunity from a geography or channel or style opportunity. Thanks.

<A – Andy Campion>: Yeah, sure. I'll touch on the first part of your question related to the momentum in China and Europe in contrast to what you referred to as what some others may be saying in those markets. We're seeing extraordinary momentum in both markets. I'd say the headline in China is our growth continues to accelerate. We are the #1 brand with consumers in China. We are a brand of China deeply connected with teams, Federations, athletes and again, even with the government to some extent, the Ministry of Sport in terms of our joint venture to fuel sport participation. We're seeing incredibly strong demand for our product, the innovation that we're launching, our Basketball product, our Jordan product and then as we've noted our digital business, both our NIKE Digital ecosystem and through our partnership with Tmall is fueling extremely strong growth.

We have not seen any impact from our business from some of the U.S. China dynamics that we're all reading about. We're mindful of those, but in the context of being mindful of those we continue to see very strong signs of momentum in China. As for Europe very similar. Europe, we have great momentum in both geographies, ASPs are strong, comp store sales are strong, closeout mix is low, inventory is healthy, and in EMEA in particular we're taking significant share. That's also amplifying our growth.

<A – Mark Parker>: And the core footwear let me touch on that briefly. We see basically our approach to Complete Offense. One of the things we look at is where are other opportunities on the offense to actually grow the business even further than what we see today and core footwear, more access overly priced product in that core Footwear zone particularly in North America but really around the world is a big opportunity for us. We're doing well with the business, but we think there's more upside opportunity. One to leverage some of the platforms that we've introduced more completely with more accessible versions of those products or those products within those platforms, as well as actually creating unique innovation that is targeted toward that core more accessible price point, and actually, amp up our storytelling around that product. We think that there's a tremendous opportunity for us as well there.

Nitesh Sharan>: Thank you, Paul. Operator, we'll take the next question, please.

Operator: Your next question comes from Jamie Merriman with Bernstein. Your line is open.

<Q – Jamie Merriman>: Thank you very much. The first question is, Andy, you talked about that 30% digital target that you laid out at the Investor Day last year as maybe more of a mile marker, so I guess can you talk about whether you think you will achieve that faster than what you had laid out and then what you think that ultimate opportunity is and you sort of referenced 50% or 80% in other categories and how you get there, and then the second piece is Mark, you mentioned that you're introducing RFID into Footwear in non-licensed Apparel. How will that work with your wholesale partners who may, or may not all have RFID capabilities and what do you think that will enable NIKE to do? Thanks.

<A – Andy Campion>: All right. Jamie, I'll touch on your question regarding our long-term vision for digital. Frankly, we're not taking a year-over-year incremental rate of growth approach to Digital. Looking out longer-term, we do see the potential to have digital be the majority of our business and as I noted, when we look to other industries, which you referenced, other industries, consumer products industries not just digital content industries but other industries ranging from toys to electronics, books, et cetera, we see that in each of those industries, there was positive disruption that catalyzed that shift and as the leader in our industry, we're going to continue to invest in this digital transformation of NIKE and even more importantly, consumer centric digital transformation of the industry.

Some examples of that are the services that we're providing within our NIKE App, the SNKRS App which really has been a source of explosive growth, our membership program which we believe is a uniquely compelling proposition within this industry in terms of the friction that it removes for consumers and the personalization that it gives our consumers, and then as Mark touched upon, on the call, we think driving digital penetration in our industry has us also has quite a bit to do with leveraging the power of digital in the physical retail environment and again, as we always have as NIKE, we tend to catalyze that change by putting innovative new experiences into the market that then catalyze the change not only within our owned store base because that's something within our control, but it

sets an example for those strategic wholesale partners that we've referenced in terms of the experience we would like to see them continue to evolve.

So, we're very ambitious but we see the goals as very achievable when you look at benchmarks and other industries, so again, it's less about when we would get to the 30%. It's more about our extreme confidence that we're going to go well beyond that number over the long-term.

<A – Mark Parker>: And quickly on RFID, it's connected inventory is a way that will enable us to meet demand, consumer demand, much more effectively, more efficiently. We're going to be scaling RFID and product as I mentioned throughout 2019. We'll be working closely with our Retail partners obviously and obviously all of NIKE Direct so that when consumers really are looking for product, we're in a position to provide it, if it's not in the store they're looking for, so we think that this as Andy pointed out with the example in Korea, that we think that the opportunity here to affect satisfying consumer demand is going to be actually pretty significant here throughout the year and that's just going to grow across 2019 so we're very bullish on that.

Nitesh Sharan>: Operator, we'll take one last question.

Operator: Certainly. Your last question comes from the line of Jim Duffy with Stifel. Your line is open.

<Q – Jim Duffy >: Thank you. Happy holidays, everyone. Great to see the innovation being rewarded with building momentum. I wanted to talk a little bit about the Women's business and the context of the size of the opportunity that's very encouraging. What's been the big unlock with the recent success? I'm sure there's more to it than just the Edit to Amplify. Are you speaking to female consumers in a different way or is there some sort of structural or cultural tailwind that's strengthened recently?

<A – Mark Parker>: Well, as we mentioned Women's is outpacing Men's growth for the quarter and we see that continuing as we move forward through the fiscal year and beyond. I think there's a number of factors. I think women are embracing sneaker culture, we're seeing that, some of the iconic franchises that we've had like the Air Force 1 that are actually designed specifically for women with deeper insights that I think resonate and that's one example, but that's true across the product offering. Using the insights that we gain in that connection that we have with the female consumer, we're creating better product and we're seeing that reflected in the demand. The capsule collections that we've introduced in apparel, Metallic Sheen was one, Terra Perma was another capsule collection great response to those. I think it's relevant product in the end, compelling relevant product is the foundation of that demand and then I think the brand is actually speaking to women more directly and personally, and as I said in my remarks, that's going to be amped up throughout this 2019 as we head toward World Cup. We're going to see Just Do It with a big emphasis on Women's.

Then sports is affecting lifestyle and fashion in a way that we're seeing a dramatic impact around the world. There's a real appetite for a more active lifestyle and that's affecting fashion and the product that we're creating is more sensitive to that and we're seeing response from that work.

<Q – Jim Duffy >: And you mentioned Women's 25% of the business globally. Can you speak about how that across the regions?

<A – Andy Campion>: Sure. It's relatively evenly distributed across the regions and from a categorical perspective it's largely comprised Sportswear, Running and Training, which is in part why it's relatively well distributed across the regions. In terms of the rate of growth, it's outpacing in all geos outpacing the Men's business. Now in terms of where opportunity is as Mark touched on, we've got tremendous momentum and that momentum is opening the aperture in terms of our vision in terms of where incremental growth is longer-term.

The women's Footwear and Apparel market is one-and-a-half times the men's footwear market globally and as you noted it's less than a quarter of our revenue, so we see extraordinary potential to drive continued strong growth and even step change growth as we really do two things. Open the aperture in terms of the definition of sport, again that's with a sharp focus on women and movement and activity, and then second, editing and more aggressively shifting resources within NIKE towards the Women's opportunity, so in short, we've got great momentum in the Women's business but we're chasing something much bigger.

Nitesh Sharan>: Thank you, Jim. Okay, that's all the time we have for today. Thank you all for joining us. Happy holidays. We'll speak with you next quarter.

Operator

This concludes today's conference call. You may now disconnect.