

# 2015 NIKE, INC. INVESTOR MEETING

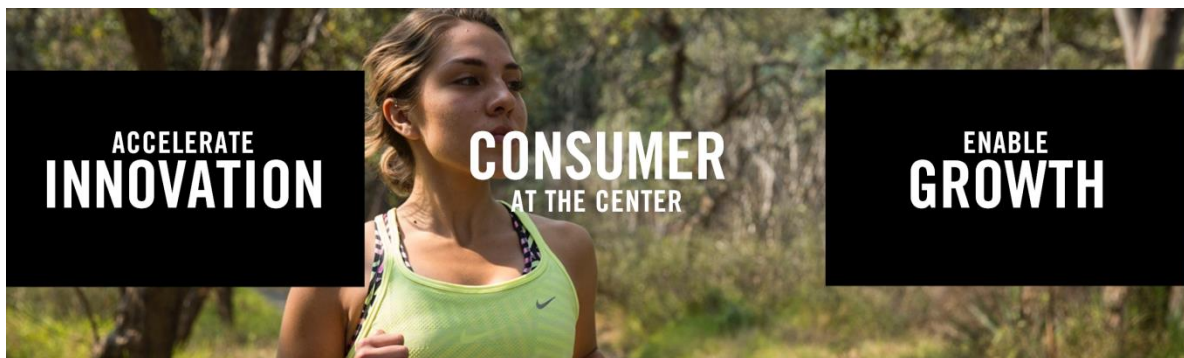


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## Eric Sprunk, Chief Operating Officer

Good afternoon. I'm Eric Sprunk and I am Nike's Chief Operating Officer. As you've heard consistently today, everything we do at Nike starts with the consumer and Nike's global operations are no different. We are a consumer centric company, with a commitment to creating a consumer responsive supply chain. In 2013, I spoke to you about the scale and complexity of Nike's supply chain.



Since then we have grown, and we've grown fast. And as we grow, so do our consumer's expectations and their eagerness for on demand, as Trevor stated earlier. This combination means we need to be focused on the supply chain of the future as we optimize the supply chain of today. Because it's still about right product, right place, right time, but now at a much more elevated level.

And so, with the consumer at the center we must accelerate innovation across our end to end supply chain, and at the same time, enable growth by mastering the fundamentals of how we operate today. So let me take a moment to refresh your memory on what the supply chain looks and feels like at Nike.

Last year, we shipped roughly 1.1 billion units through our supply chain. Getting product to the right place at the right time now involves approximately 700 contract factories, 58 distribution centers, delivering that product to approximately 20,000 accounts and 110,000 retail doors. Now operations at that scale are innately complex and becoming more so as we continue to accelerate our growth in areas like nike.com and our partnerships with the NFL and the NBA.



So when one of the Seahawks, passionate 12's, is inspired by what happens on the field on a Sunday afternoon, we have to have the agility and flexibility to be on the shelf by the next weekend, with depth, in the right name and the right number, or shipping the next day to their door after they order on nike.com. It's a challenge, but it's one we welcome because we're confident we can leverage our size to make responsiveness a competitive advantage.

To do that we are always working to reduce complexity in ways that are invisible to the consumer. We do this by driving simplification and standardization, where it makes sense across our business. A couple examples, we're migrating all of our distribution centers to one warehouse management system to more efficiently scale our business globally and we've made significant investments in a global end-to-end planning system that allows us to more dynamically match supply with demand to be more responsive to the consumer.

Just a few of the global platforms we are currently implementing to support scalable growth. By being simple and standard we can make meaningful impacts on the marketplace. You just heard Elliott talk about China. We quickly scaled our ability to plan the marketplace in China at a door level. It's been a key enabler of our incredible acceleration in that marketplace.



Now our efforts in this space are not limited to our use of technology. We're driving productivity improvements across our model mix. Average volume per SKU in footwear has increased almost 30% in the past 2 years. We've reduced the number of active materials in our material palette by over 30%, enhancing our purchasing power with suppliers. We continue to reduce and elevate the number of partners in our source base, particularly in Apparel, because fewer relationships mean those we have are deeper and more strategic.

We're also working to deliver more of our products directly to our retail partners. Less touches in our supply chain mean less cost and more speed. We've increased our direct ship percentage from 25% to 30%, and we expect that trend to continue. Our ability to reduce complexity invisibly to the consumer is instrumental to our ability to deliver tangible results to the bottom line.



In the past two years, we've challenged ourselves to more directly measure productivity, particularly in contract footwear manufacturing. Thanks to our lean manufacturing initiatives and the great work of our factory partners, we've seen an increase in labor productivity of 7-8% in each of the last 3 years. At the same time our product is more innovative than ever, as evidenced by our steady increase in average selling price.

Making that even more impressive has been our factories ability to produce and deliver product on schedule. We call it on time performance or OTP, and right now, it's at an all-time high. Higher OTP drives better service, fewer discounts and lower closeouts.



Global Operations plays a key role in supporting an integrated marketplace and we're deeply focused on optimizing our investment in inventory. Two years ago, you'll remember, I noted we were expecting our reported days in inventory, DII to decrease by 5 to 10 days. That hasn't happened. What has happened is we've driven accelerated growth in dimensions of our business that require a higher investment in inventory because we hold it closer to our consumer. Areas like, our Always Available Program, Nike Factory Stores, Nike In-line Stores and of course, nike.com. This investment has helped us drive growth, enhance profitability and be more responsive to the consumer. It's also helped us maintain extremely healthy inventory. At the end of fiscal year 2015, our percentage of closeout product was near historic lows.

So let's take our Always Available Program, where we allow our retail partners to pull longer life cycle product from our central inventory based on actual sell-through in the marketplace. For these products, we can more effectively manage inventory centrally than our accounts can individually. It also allows us to make sure product is available at retail where it is working best, which drives growth and market share.





As an example, in North America, we pulled more women's base layer inventory into our DC, to ensure higher levels of service versus pulling direct from the factories. It drove year over year growth of 40% and pushed our market share to 54%.

Let's talk about our Factory Stores as Christiana just got done speaking about. Factory stores clearly play a role beyond liquidating inventory. They represent a premium experience for our value consumers.

That being said, they are our preferred channel for clearing excess inventory, most notably because of the considerably higher gross margins compared to 3rd party liquidation channels. The growth in that dimension of our business has enhanced our profitability and marketplace health and is why we're very comfortable with the decision to hold that inventory on our books a little bit longer.



More generally, as we expand our DTC business faster than our wholesale business, our average DII will tend to increase due to the change in business model mix. That said, we will drive DII leverage across every dimension of our business with our ability to quickly sense and respond to demand, move product to the right place at the right time, and efficiently and productively manage liquidation.

We're proud of the progress we're, we're making to optimize our supply chain, and we're going to continue to focus everyday on mastering the fundamentals. But we also see tremendous opportunity to meet consumers' demands in new, unexpected ways, and that requires innovative, big-idea thinking.

In 2013, I introduced you to what we call Manufacturing Revolution. A transformative body of work that is not only helping us refine what product we make, but just as importantly, how we make the product. This notion of changing how we make product is important for a number of reasons, particularly our exposure to labor rate increases and our opportunity to reduce waste in our manufacturing process. At a high level, Manufacturing Revolution has 3 foundational pillars.

MANUFACTURING REVOLUTION

# LEAN MANUFACTURING — MANUFACTURING MODERNIZATION — MANUFACTURING INNOVATION

Lean Manufacturing Excellence, Manufacturing Modernization and Manufacturing Innovation. Now we spoke before a little bit about Lean Manufacturing Excellence and its impact on productivity, efficiency and factory on-time performance. But, our modernization efforts are also accelerating. By the end of fiscal year 2016, we will have deployed 11 projects across our source base.

These projects are reducing labor, improving quality and in some cases, enhancing the aesthetic of the product. We're currently deploying a project that automates, through robotics, the process of painting the midsole. I recognize that this isn't rocket science, but the old process literally required applying tape to ensure paint only goes where you want it, much like if you, you would do if you were painting your living room.

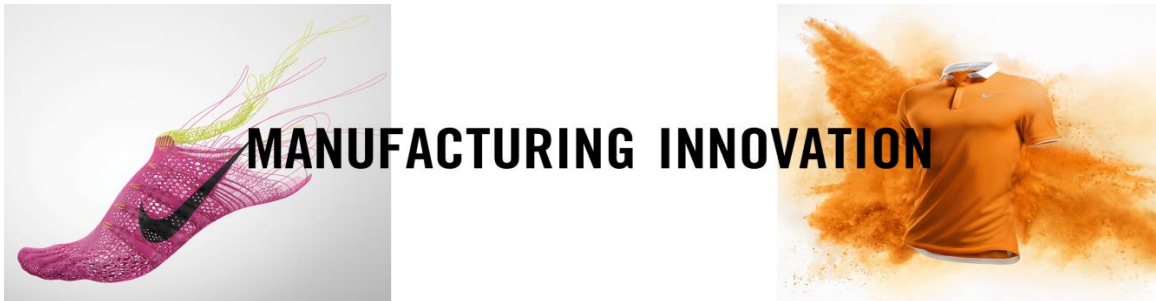
## MANUFACTURING MODERNIZATION

It's wasteful and it's slow. Our engineers have developed a robotics solution that can apply paint that requires no tape and also enables new aesthetic paint effects that cannot be achieved by hand like the fade effect you see on the midsole behind me.



Our modernization projects are beginning to make an impact on labor productivity and profitability. Opportunities like the one I just spoke about are countless, but changing an industry that has operated in the same way for 50 years, it's hard work.

We've only just scratched the surface and we're excited about the modernization opportunities that lay ahead. And while getting better at what we already do is pretty dang exciting, doing things no one has ever done before is what makes this place special. And our Manufacturing Innovation efforts have the potential to do just that.



Now, Flyknit and Color Dry are two new methods of make, innovations that you know well. Both have been very effective at reducing waste. Mark mentioned this earlier today. Since 2012, Flyknit technology has helped Nike reduce waste by nearly 2 million pounds. That's more than the weight of 3 Boeing 747s. And since we spoke, just 2 years ago, we scale our capacity of this exciting innovation by a factor of 8.

A different example of an early stage technology, using Dye Coo water-free dyeing machines, we produced 600,000 yards of fabric saving 20 million liters of water to make our Color Dry Polo's. That's the equivalent of 8 Olympic size swimming pools. And what's really exciting to me is these innovations both reduce waste and deliver tangible consumer benefits.

Speaking of consumer benefits, let's talk about innovation in performance cushioning. Over the last 4 decades, Nike has delivered unparalleled cushioning innovation. Nike Air changed the game. Zoom Air took it to a new level. Nike Free reinvented it and our Lunar Technology pushed the underfoot experience out of this world.

And as we continue to experiment with advanced manufacturing methods like 3D printing, we push the boundaries of how to use technology to deliver performance cushioning innovation and accelerate our work in personalization and speed to market for our consumers.



Over the past few years, we have used 3D printing to create high performance footwear worn by athletes in competition. Both the Vapor Laser Talon and the Vapor Hyper Agility cleats featured plates created using 3D printing. These products were incredibly lightweight and strong with enough flex to accelerate some of the world's fastest athletes. They were also only possible using 3D printing.

Very recently, we've made a series of design and manufacturing discoveries with 3D printing that we believe will allow us to deliver a completely new, personal, performance cushioning system. A



system not constrained by today's 3D laser sintering process. The potential with 3D printed cushioning is vast. And we believe it's going to allow us to better optimize and personalize cushioning for every athlete.

As importantly, it also opens up a world of design possibilities that do not exist today. Just as Flyknit has done with the upper, 3D printing will allow us to tune and engineer the midsole to deliver performance where each individual athlete needs it most. It's one example in a very exciting pipeline of new Manufacturing Innovation Programs. As I noted, we also have a complimentary portfolio of modernization projects.



But we don't think about Manufacturing Revolution as a collection of individual initiatives we're thinking much, much bigger than that. We think about the entire manufacturing ecosystem with the consumer in the center and the objectives of being more agile, more responsive, more efficient and more effective.

In the past, manufacturing was an enabler of product innovation and design. And we know our innovation and design teams will continue to push the envelope in terms of what is possible for the athlete. And now, so do our teams in manufacturing.

That is why the Advanced Product Creation Center that Mark introduced is such a critical enabler of our success. Reducing the time from concept to product. More collaboration between the teams working on the product.



Connecting the methods of make innovations with the design and innovation teams that work here on campus. Teams from across our company are excited to open this facility here on campus, this month, and begin to accelerate our work in these areas.

But we want to move so much faster than that. We already work with best in class footwear manufacturers. But to truly transform how we make product and proliferate innovation across our entire supply chain, we know we must work with a world-class source base. And today, we are very excited to announce a partnership with a world-class manufacturer, Flex. Many of you know

Flex, but for those you, who don't, they are a \$26 billion company working across 30 countries and almost as many industries, including electronics, medical devices and automotive.



They have proven expertise in design, engineering, manufacturing and supply chain management, and they make a perfect partner to help us create the future of manufacturing. Together, our teams will greatly increase the pace and speed at which we catalyze innovation across our global supply chain and revolutionize the way we manufacture our product. This will allow us to reach consumers more quickly, respond to the marketplace more dynamically, provide more customized solutions and deliver increased performance in our product.

And as we've worked with Flex over the past few months at their innovation center in Milpitas, California, we've been extremely impressed at how quickly they've learned the craft of footwear manufacturing, especially given the differences between manufacturing dimensionally stable objects like electronics compared to crafted goods like footwear.

We're also very excited by their ability to leverage expertise across a multitude of industries to bring new solutions and innovation to footwear manufacturing. In fact, Flex is already taking a fresh approach to footwear manufacturing in areas ranging from the methods of make deployed to cutting-edge digital systems that optimize production performance in real-time.

For example, the challenge of materials management for footwear is very complex given the materials, the number of colors and the number of sizes required. Flex has already developed an end-to-end integrated solution which combines automated material management with automated laser cutting. This proprietary solution can reduce material waste by up to 50%. And it's just one example of how the folks at Flex are helping us rethink the footwear manufacturing process.



At scale, these ideas provide obvious benefits and labor efficiency. And as importantly, they underpin our desire to run a more continuous and flexible manufacturing process. And remember, all of our work with Flex is being done with our global supply chain in mind, collaborating and sharing many of these learnings across our entire source base.



In operations, we're constantly challenging ourselves to answer the question of, "so what"? As much internally, as for our external stakeholders. And it can be sometimes daunting to simplify, "so what", with the ever mounting complexity and volume of our supply chain. And when I look at the landscape of today's operations as well as where we are headed, it couldn't be more clear to me.

For global operations to be not just an enabler of growth but an accelerator of growth and profitability, we have to balance flexibility with scalability and innovation with execution. And as you've heard throughout the day, it's really clear that the old adage is true, what got us here is not what will get us where we want to go. So we're driving simplicity and standardization in our supply chain that will enable us to scale to \$50 billion.

Our manufacturing revolution efforts will modernize our current source base and drive innovation and create new methods of make. The Advanced Product Creation Center will connect design, product, innovation and manufacturing teams in ways that frankly, are not feasible today. And our exciting new partnership with Flex will be a catalyst to move our product creation work forward unencumbered by the way things have been done in the past.



Last time you were here, I asked you to imagine a future of highly customized product, manufactured close to market, done profitably, at scale. I'm sure it is clear the actions we are taking are making that vision a reality. And if we keep our focus where it belongs, on the consumer, I am extremely confident in our ability to get there. Thank you for your time.

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