

# NIKE Investor Day 2017



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## **Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Good morning, everyone. Welcome to NIKE and to our 2017 Investor Day. I'm Nitesh Sharan, Vice President of Investor Relations and Treasurer.

I'd like to first start by apologizing for the slight delay, but I do want to say that we are excited to have you here. Thank you to all of you joining at our world headquarters, and thank you to everyone joining on our webcast.

We have a full day planned for you. On your tables, you can see the agenda and speaker lineup, so you can see where we're headed. Our goal for today is to showcase how we're accelerating a consumer-led transformation to ignite our next phase of long-term growth, profitability and return for shareholders. You'll hear about the strategies underpinning this, and you'll get an opportunity to immerse yourselves in some of them throughout the day. Here's our safe harbor. As always, our discussions will stay within the guidelines expressed on the slide behind me. So please read it carefully and quickly, because we have a lot to cover. With that, let's get started. Enjoy the day.

## **Mark Parker, Chairman, President & Chief Executive Officer, NIKE, Inc.**

Good morning. Good morning, everybody. It's really great to have you here. I'm really glad you could join us this morning.

From the beginning, our mission at NIKE has been to bring inspiration and innovation to every athlete in the world. And the importance of that mission and our relentless drive to serve our consumers are as resolute today as ever. At the same time, we are driving change throughout our business to take advantage of all the big shifts in the athletic landscape. Where others see disruption to old models, we see opportunities for new growth. And that's why we are so excited to share our approach.

And whether that's redefining the North America retail landscape or accelerating our international momentum, we've mobilized against our priorities, and we're driving growth in new ways. And we expect that over the next 5 years, over 50% of our growth will originate from new innovation concepts that will scale across multiple categories. We expect that digital revenue, both owned and through partners, will increase from nearly 15% today to over 30%; and nearly 3/4 of our growth will come from outside the U.S.

We will deliver the sustainable, profitable growth you expect from NIKE with new dimensions to match today's dynamic marketplace. And that's what today is really all about, is helping you all, our investors, better understand the aggressive shifts that we're making in service of our athletes and our mission. So we will detail how the Consumer Direct Offense and our Triple Double strategy will lead this transformation and how we'll ignite our next phase of long-term, sustainable, profitable growth. We are very confident that executing this strategy will drive high single-digit revenue growth and mid-teens EPS growth over the next 5 years. Later in the day, Andy will share more detail on the drivers of our projected growth, both across the near-term and the long-term.

So how will we fuel this growth? We're really driven by 3 core beliefs. We believe in the growing popularity of sports and active lifestyles. We believe in the powered consumer who has

unprecedented options, and we believe that the global demographic shifts are really tailwinds for our business.

So let's start with the truth that most people want to lead healthier lives. As they increasingly embrace wellness and fitness, sport is becoming their lifestyle. And as a result, NIKE is becoming more meaningful for more moments in a consumer's life. For example, 40% of Americans participate at least once a week in high-calorie-burning activity. In a developing market like China, the scale of sport is staggering. Over 400 million people are active at least once a week.

And the ways we consume sport content is also changing dramatically. Today, sports fans have new ways to feel connected to their favorite teams and athletes. The NBA, for example, has over 1.3 billion social media followers across the league, teams and player pages. And while some say that sport viewership is slowing, it's actually taking on new life through streaming and social media. In the U.S., for example, live sports makes up less than 2% of traditional TV programming but generate 50% of Twitter's TV-related conversations.

It's also clear that we operate in an age of empowered consumers. They set a new expectations from brands. In their mobile-led world, their options are really limitless. They are infinitely informed. As an example, more than 80% of shoppers consult their phones for price comparisons and availability before they shop in brick-and-mortar. And that's why we're so focused on building a seamless marketplace. A point of contact should never be a point of friction.

They also have limitless or infinite choices. Within seconds, anyone can quickly shop tens of thousands of NIKE styles. And when they buy, they're voting for products that are measurably better and distinctive, which is why we lead, and we always have, with innovation.

And their world is infinitely faster. Most consumers believe orders placed by noon should be delivered on the same day. In response, smart supply chains have redefined convenience. We're turning NIKE's scale and our vertically integrated assets into a speed advantage.

Even more energizing is that this empowered consumer is about to explode in population. Over 2 billion digital natives in markets like China, India or Latin America will join the middle class by 2030. In North America, NIKE's primary consumer base is 50 million people. If population trends in China continue at the expected rate, our projected consumer based in that market is more than 10x larger.

NIKE is on the right side of change, and we're incredibly excited about these new opportunities to connect our brand and products with consumers in new and powerful ways. And that's why we've sharpened our approach. We've aligned, as you know, against the Consumer Direct Offense to serve athletes faster and more personally at scale. And for our teams, it's creating end-to-end alignment and more focus on the opportunities with the greatest returns. It's adding resources against 3 core areas of our business through our Triple Double. That's 2X Innovation, 2X Speed and 2X Direct. You'll hear a lot more about this today.

In 2X Innovation, we will lead with more distinct platforms, moving from seeding to scaling a lot faster. We'll edit to amplify to give consumers better choices to match their preferences. And we'll set a new expectation for style, creating a new aesthetic to wear in all moments of their lives. To the consumer, there is no trade-off between sport and style. We know that more than half of the athletic footwear and apparel is bought for non-sport activities, and we have even more room to grow in this market.

In 2X Speed, we're investing in digital end to end to serve this insatiable consumer demand for new and fresh products. To use a sports analogy, you can't run an uptempo offense if only half your plays are designed for speed. So we're building new capabilities and analytics to deliver personalized products in real time, and we're engaging with more partners, company-wide, to move faster against our goals. In our supply chain, we've joined forces with leading robotics and automation companies, and we're serving millions of athletes and sports fans faster through manufacturing bases that are

closer to our North American consumer. 2X Speed is really all about delivering the right product in the moment, 100% of the time.

In 2X Direct, we have a lot to share today. We never ever take the strength of our brand and premium product for granted. They are indeed our most valuable assets. With 2X Direct, we want as many NIKE touch points as possible to live up to those expectations, and that's why we are investing heavily in our own channel and leading with digital. And with our strategic partners, we'll move resources away from undifferentiated retail and towards environments where we can better control with distinct consumer experiences.

And that is, in fact, how we've organized the day for you, in alignment with the Triple Double, so you will understand in more depth and detail how we're moving forward.

Today, I'm excited -- I'm a product geek, and I'm very excited that we're going to lift the curtain, not completely, but a lot more on the future of innovation. Innovation that will truly benefit the athlete, will create more value in the marketplace and it will extend our leadership.

As I've said before, growth starts with great product, and that growth comes from the scale of our powerful portfolio, where we deliver across key categories through powerful brands, up and down price points in footwear and apparel and for men and women. And that diversity means we have the flexibility to shift investments to the biggest opportunities to reach the right market at the right time. This is one of NIKE's greatest competitive advantages, especially in a very shifting landscape.

You'll hear a lot more about this throughout the day, but let me hit on just a few dimensions of our portfolio. Michael Jordan is the embodiment of the competitive spirit and greatness, and the Jordan brand continues to inspire new generations through new sports in new countries. Our high-growth innovation opportunities in Jordan are building off the momentum we see in performance basketball and supercharging new apparel franchises and developing women-specific products and experiences.

Converse, our iconic youth culture brand, is creating a new foundation for growth. Converse will renew its focus on its authentic sports legacy and then combine that with NIKE's innovative platforms; tremendous opportunity to get that leverage. We already have the world's most popular shoe in the Chuck Taylor, as you know, and we're well on our way to accelerating growth through a more diversified portfolio of product: products like the Chuck '70, the Jack Purcell, the One Star and a few more surprises to come over this next year. Converse is also driving a speed agenda for their most in-demand products, including activating their own Express Lane.

Through our categories, we turn specific insights into commercial opportunities. And one of the most important changes of our Consumer Direct Offense was the creation of our standalone NIKE Women's business that goes beyond training to encompass running, sportswear and training together. And this alignment really puts us in a better position to drive consistent and holistic point of view for NIKE Women. We'll deliver more innovation in women's product with a focus on new platforms that are just for her and more choices for women sneakers; a huge opportunity, we believe. We'll continue to expand our audience with more versatile sizing options in bras and tops and bottoms, like we did this past Spring with an extended plus-size line of over 90 styles.

Running has always been the lifeblood of NIKE. When we build momentum there, it carries really to all parts of the company. You can feel it with our strong innovation, with the marathon podium sweeps you've seen over the last year and the communities of runners we're mobilizing around the world. Let's take a quick look.

[Video In Room]

As someone who got the running bug back in high school, I've finished my share of marathons. I'd love to see the sort of resurgence, this new landscape of running emerging.

As we all know, the running silhouette across performance and lifestyle is really fueling considerable growth in the athletic industry right now. And over the last several months, our teams have created a running revolution of sorts for NIKE and really the whole industry. We're delivering more innovation and more choice for runners than in any time in our history. We have 3 distinct platforms that cover a full spectrum of sensation. Each is really at a different stage of their adoption cycle from early launch to scaling with impact.

To deliver pure speed and energy return, we have the amazing ZoomX. In fact, the ZoomX system is capable of delivering up to 85% energy return, by far the most responsive cushioning system we've ever developed. I'm incredibly proud of this product. So you should look for ZoomX to begin to scale with the new versions of our celebrated Pegasus shoe, the most popular running shoe from NIKE.

The cushioning platform, I believe, that has the greatest potential to benefit the widest range of people is NIKE React. It delivers an incredible combination of comfort and resilience, and it's lightweight, responsive. NIKE React will scale from basketball, this season, to running to training and to sportswear.

First up is running in a -- with a new shoe we are unveiling today, the Epic React. This is the first React running shoe. It's a shoe that's both soft and responsive. It's light and durable. The React foam, like so many of our innovations, was developed in-house. And it gives us more control over the quality of its performance, and it makes it more profitable for us in the long-term.

Another enduring intellectual property for NIKE is that of NIKE Air, and we continue to add new dimensions of NIKE Air. As a platform, it's a several billion-dollar business and growing. In fact, if Air was a standalone athletic company, it would be the third-largest in the world. VaporMax, along with the other Air Max innovations in our pipeline, over the next 5 years, will drive several billion dollars of incremental growth. And today you will see some the new VaporMax hybrids that are driving that expansion, featuring new silhouettes that cross over both performance and into sportswear.

Air is connecting deeply with consumers. It has for a long time, and driving new demand for classics, classics like the Air Max 97, the Max 95 and Tuned Air, popular favorites. And today, we have an all-new platform that will join the NIKE Air Max family, and that's the Air Max 270. The Air Max 270 is NIKE's first lifestyle-specific Air unit. The large airbag allows for significant displacement, which gives the shoe a trampoline-like feel.

And when we talk about distinction in product, Air really gives that to NIKE, both visually and the function and the sensation. We're really going to push the edges of Air over the next several seasons, so stay tuned.

Another way to leverage the portfolio is by sharing the advancements in design, technology and new ways of thinking and new ways of making. Today, we're combining digital tools like computational design with digital knitting so we can make, test and refine very quickly. NIKE has entered the age where we create the machines to match our imagination, not the other way around. Take the LeBron 15 for example. Its high performance and striking style were made possible by Battle Knit, which is a first in our industry. It moves beyond a single layer into a new multidimensional knit for a more provocative look and obviously more performance and support.

In apparel, we have new ways of making that are creating exciting possibilities. You know about the Flyknit Bra, and later, you will see a full range of tops and tights. And with our leading clubs and teams, we're using digital design to create single-layer jerseys that combine complex datasets like range of motion and temperature with body maps for sweat and cling.

Later today, Eric will provide detail on a new footwear production process that uses robotics to create a pair of uppers in 30 seconds. It's amazing the advancements that are happening in the manufacturing side of our business.

And last month, our materials team introduced a super material called Flyleather, which is made up of at least 50% leather. It's 40% lighter. It's 5x more abrasion-resistant and, I'm happy to say, has an 80% lower carbon footprint than traditional full-grain leather manufacturing. So we can have high performance and we can have sustainability and profitability built into one. So innovations like Flyleather contribute to our commitment to science-based targets that will reduce our footprint as a company. Very important.

Another new major innovation you'll see today, incredibly exciting, is [Performance Fit]. You know about the HyperAdapt 1.0, which move product from static to adaptive. In the future, we believe product will be predictive. It will move at the speed of sport, really shaping to our feet in real time. We will now offer the HyperAdapt technology at a lower, more accessible price point, including non-powered adaptive footwear systems that will greatly improve overall fit.

I opened our conversation with the changing landscape in both sport and with the consumer. So new ways have created a different way to win. And throughout the day, our team is going to show you how NIKE's driving focused growth in the areas with the most potential, how we're delivering speed at scale and creating new consumer value to build a healthier marketplace. So I hope you enjoy the day.

But before I go, we thought the best way to close out a talk about growth and innovation and our connection to the athlete would be to hear directly from one of the most competitive and successful athletes ever to play the game. And I've had the privilege of working with him for about 15 years, seeing firsthand how the athlete and our company can evolve together. So let's just take a quick look at some of his highlights.

[Video In Room]

**Mark Parker:**

So there he is, the man. Hey, Kobe. How are you doing, buddy?

**Kobe Bryant:**

Good to see you.

**Mark Parker:**

Thank you. Yes.

**Kobe Bryant:**

Hello. Hello, everyone.

**Mark Parker:**

All right. Welcome. Kobe's been traveling a lot lately.

**Kobe Bryant:**

Well, it's good to be in Portland. In L.A. right now, it's like 150 degrees, so it feels good to get like some cool, crisp air.

**Mark Parker:**

Yes, really. You just got back from Europe, I mean, literally, yesterday.

**Kobe Bryant:**

Yes.

**Mark Parker:**

So -- and Kobe was recently in China. In fact, you've been going to China for about 20 years, right?

**Kobe Bryant:**

Pretty much every year, yes.

**Mark Parker:**

Yes. Kobe was -- I mean, you are an innovator in many ways. Obviously, as an athlete, but beyond -- off the court, too. I see that when we sit down to create product, pretty amazing. But being one of the first athletes to go to China and really immerse yourself in that country, in that culture, it's been phenomenal to watch that. And obviously, other athletes have followed. What have you learned from all that?

**Kobe Bryant:**

Well, I mean, there's such a passion for the game, right, such a curiosity to learn more. And I think what we'll continue to do is continue not only to teach the game but also to inspire them through the game, which I actually -- which I think is more important, right? You teach the game of basketball. You teach why sport is important. And then, through that sport, they'll learn more about how to better themselves, how to push themselves beyond what they thought was capable. And the potential is limitless.

**Mark Parker:**

Yes. Well, it's been great to see how you -- when you travel, you really get into it. I mean, you speak the language. You speak many languages.

**Kobe Bryant:**

I try.

**Mark Parker:**

You try. And people know that, and they appreciate it. But you've been a big part, I think, of actually helping to grow basketball in China and just the interest in sport. Kobe continues to be one of the most popular athletes in all of China. It's like going -- imagining anyway, going back to the Beatles when they were on tour, the fan base is incredible.

So another aspect of you personally is your engagement with technology and digital. Since you've stopped playing, you've immersed yourself more and more into digital media. But you've always been kind of on the forefront of connecting with consumers or your fans through digital and social. So how important is that, do you think? And where are we going?

**Kobe Bryant:**

Well, I mean, it's extremely important. I mean, it's -- like I said before, it goes beyond sport. How do you make a connection with the consumer so that you help inspire the consumer? And I think, in this day and age, beyond what we can do from a social media perspective, is actually creating portals through the product, right? The jersey connect. Not only are you purchasing a product, but you're

also giving the consumer insight into the world of the athlete. We can actually just see the stories, updated stories, time and time again that can bring consumers into that world and inspire them. So the -- we're continuing to figure out new ways to connect.

**Mark Parker:**

Yes. Well, you've always been big on storytelling. Kobe has been involved, obviously, with many signature shoes through the years and apparel. He's one of -- I have to just say, he's one of the most intense athletes, obviously, on the court. But off the court, he's equally intense. He's got a million ideas.

**Kobe Bryant:**

And I'm a pain in the butt to work with.

**Mark Parker:**

Yes, some people might say pain in the butt. You know what though, NIKE really gets better with athletes who are demanding, that really have a point of view, that are -- that know what they need to perform better. That's what makes us better. So rising to meet your expectations, to exceed them really has made us better. But you are -- he is one of the most amazing athletes I've had the privilege to work with, and I've worked with many in product design, because you get into it.

**Kobe Bryant:**

I do. Well, it's -- I always fall back on the core of the entire company, which is listen to the voice of the athlete, right? That's what we all -- and so I think that's the big separator, because you guys really stick to that. I mean, you guys really believe in that. And I think the value of that is immense. Because the product that comes out of it, the stories that come out of that are true. And it's something that you can't find anywhere else, because it comes from the athlete.

**Mark Parker:**

Well, that's what makes us better. I mean it's -- and that's why we're here. We exist to serve the athlete. That's not just a nice saying. It's really the heart and soul of the company and the culture.

**Kobe Bryant:**

No matter how big of a pain in the butt they can be when...

**Mark Parker:**

Yes. Well -- and they can be a big pain in the butt. But the other thing about creativity, you go beyond too, you look at nature, you look at art, you look at science in different ways and you bring that into your point of view on the product. I think that's fascinating.

**Kobe Bryant:**

Thank you. Our conversations are really -- get really weird when we sit down and start talking about like great white sharks and leopards and we're talking about Picasso and all these other things and how it relates to human nature. It's not necessarily a discipline, but it's more so the meaning or the truth behind those things that we can then relate to the product.

**Mark Parker:**

Yes. Well, you've been and continue to be tremendous. In fact, there is a new product, our latest collaboration with Kobe, that we're not going to completely unveil today here. You might see it a little bit later. But I thought maybe you could give -- help give a tease.

**Kobe Bryant:**

Yes.

**Mark Parker:**

It's actually -- I'll just say, it's called the Kobe 360. And as Kobe continues to push us, this product represents a breakthrough in how shoes are designed and made. Why don't you...

**Kobe Bryant:**

It's really -- I'll try not to give away the whole thing, but it's really a challenge in duality. How can you create something that is so lightweight, so minimal without compromising stability, without compromising the performance of it? How can you do that? And then, from an emotional perspective, how it relates to myself as an athlete, is how do you have this balance between love and fear, right? When you're playing the game, you're playing the game that you love, right, but you also have that fear that you just may miss that game-winning shot. And it's about balancing those 2 things that gives an athlete great perspective or helps you reach your fullest potential. So how can we bring that through product? How do we -- can we create something that is so minimal, I mean like feather light, right, but gives you great strength and great stability? How can we do that? And with the 360, we managed to pull it off.

**Mark Parker:**

Good teaser.

**Kobe Bryant:**

I geek out about this stuff.. So you know...

**Mark Parker:**

We -- believe me, he really geeks out, and I -- we love that. I mean we're both geeks in that sense.

By the way, the Kobe 360 is one of many things that you'll see today. I think it's perhaps going to be one of the big highlights of the day, I hope. It is for me. So you'll see lots of products, Kobe 360 included. This is the most impactful portfolio of innovation we've ever had. You've heard me get excited about product in the past, but I think you'll get a taste.

And I should remind you that there's a few things that aren't in there, but you're going to see some incredible things nonetheless. So I just want to take a second and thank Kobe for -- I mean, he's -- this is continuing. This is not an end to our relationship. But it's a point in time, and I want to just say thank you again for -- personally and from NIKE, the engagement that you've had, been inspiring as an athlete but also as a collaborator, an amazing person to work with on and off the court. So thank you, Kobe.

**Kobe Bryant:**

Thank you.

**Mark Parker:**

And thank you all.

**Kobe Bryant:**

Appreciate it.

**Mark Parker:**

So that's it for this. We'll -- I'll see you later on in the day. But I hope you enjoy the rest of the day in between now and then. So cheers.

[Video In Room]

**Trevor Edwards, President, NIKE Brand:**

Good morning. Good morning, everybody, and welcome. That was a perfect introduction, because everything we do starts with the consumer. And today, you will see just how laser-focused we are on serving the powered consumer. It doesn't really matter how high the consumer's expectations continue to rise, but we aim not just to meet them but to surpass them.

Over the next hour or so, we will give you a peak into our playbook. We will show you how we lead with digital to drive the consumer relationship through membership. And we will lay out the key shifts that we're making to deliver long-term sustainable growth. And we'll show you our new marketplace framework that opens up incredible opportunity.

So let's get started. At NIKE, we exceed consumers' expectations for the simple reason, because we know them. We know they love sports and they want to be inspired. And they respond to brands that serve them in their way, at their pace and in their lives. And we connect to athletes by creating innovative products and powerful storytelling that creates an emotional connection with consumers, and that's why they gravitate to us.

From the greatest athletes ever to the 12-year-old lacing up her running shoes for the very first time, we support their drive to be the best and, personally, we give our best in that journey.

Now to be very clear, the NIKE Brand is strong. Year-after-year, in any environment, the NIKE brand continues to connect with consumers all over the world. And we know that, because we have third-party tracking studies that we've done for many, many years. And the consumers tell us that we are the #1 cool brand and the #1 favorite footwear and apparel brand for today's youth.

But brand strength like this is not just handed to us. We have to earn it every single day by serving the needs and aspirations of athletes and consumers. Let's take a look.

[Video In Room]

So we take that energy and that electricity and we connect to consumers around the globe. Today, we live in a connected world with everything on demand, a constant world of screens with the next cool thing at our fingertips and each of us swiping, tapping to make sure that we're not missing out. And for youth, it's even more acute. As the world becomes more digital, they yearn to be more active. And they have a desire to feel alive, and that's why the power of sport is so important.

That universal desire to be stronger and healthier is not going away. And as our consumers seek out healthier and active lifestyles, it naturally keeps them close to the world's leader in sport, NIKE. That touches on what I love most about the NIKE brand. Consumers choose to be a part of it. We don't purchase community. We grow our communities organically with those who love the NIKE, the products we make, the services we create and the experiences we dream up. And as consumers' expectations continue to skyrocket, we have an opportunity to bring the power of our brand to more people in more meaningful and personal ways.

Today, you'll hear more about our strategies that we're putting in place to turn that winning formula into an accelerated growth. Let's start with focused growth approach where we amplify the opportunities with the greatest returns. And we begin with our key categories, where our teams keep the pulse on the consumer through the sports they play, the activities they do and how they express themselves and style themselves. And we create connections -- consumer connections through key cities and countries, where the full offense really comes full force to the entire ecosystem -- the NIKE ecosystem, right on the ground.

Overall, our focused growth strategy between categories and cities will generate more than 80% of our projected growth over the next 5 years. That's the power of sharpening our focus around the best and largest growth drivers.

Let's take a look at our key categories. You'll hear from Michael how the categories [obsess] the needs of specific consumers to create innovative products and experiences to attack opportunities and also marketplace gaps. Our key categories are focused on performance, sportswear and new growth opportunities. The first group is our foundation. It's where the NIKE Brand is anchored: performance.

Let's start with Running. The world's most democratic sport is also the driver of NIKE's biggest performance platforms. Today, running is a \$5 billion business plus for us. And despite for our success, we are currently underpenetrated at many key point -- many key price points. And this gives us tremendous runway for growth. And as Mark mentioned, we've seen opportunity here to drive and fuel a new running revolution.

Next, Global Football, where we continue to lead the world's most popular sport. And we have more players in the 5 major leagues around the world wearing NIKE more than any other brand. In fact, in the English Premier League, we have double the share of players versus the nearest competitor. And we complement this with the #1 football boot franchise in the game, the Mercurial. And we're excited to introduce a new franchise next fall, which will continue to grow our share of market. Football also offers us plenty of other growth opportunities like new segments. For example, the football training apparel, which is growing north of 20% every year, and we don't see it slowing down. And then, there is Nike Basketball, where we have built the sport globally. And we continue to grow the overall marketplace, most notably in China. With the launch of the NBA partnership, we're seeing tremendous momentum in our NBA products, and that same momentum could be seen with the launch of the LeBron 15, which sold out immediately in all digital channels, and we just launched.

Next, we're serving the lifestyle of sports by amplifying the performance categories. Nike Sportswear represents the best of sports style innovation. In footwear, no one has a deeper roster of iconic styles across all sports. And we continue to bring new energy to those styles through new materials, through advanced constructions or by collaborating with today's leading designers from many other industries. And as always, we lead with our own innovation. A great example, as Mark just announced in sportswear we're introducing, is actually the new Air bag for the first time -- which we're introducing for the first time, is the Air Max 270

In apparel, our teams are constantly remixing performance and style to create a modern sport aesthetic. Today, NIKE has the largest sportswear business, not only in footwear, but also in apparel, where we have registered 13 straight quarters of double-digit growth, leading to an overall category of more than \$8.5 billion in annual revenue.

What's most exciting is that we're just getting started with sportswear, as markets all over the world begin to embrace sport as a new lifestyle. And finally, there are those opportunities with significant growth ahead. Certainly, one of those is -- one of those businesses is actually Nike Women's, which has incredible outlook, and as we continue to grow the market. This \$7 billion business will continue to be fueled by more women engaging in sport, wellness and activity. In fact, our growth in -- our women's business is outpacing our men's business and will continue to do so.

Another great opportunity is Young Athletes, where the next phenom will be born, which is where we serve both kids and their parents, who all demand more from us. And as we serve the digital natives, we are growing our Nike.com business at a rate well into the double digits, faster than any other dimension. And we see significant growth ahead. As we think about this space, it remains underpenetrated.

And of course, there is the Jordan Brand, fueled as always by premium performance plus style, as Jordan expands into new categories and new segments. At the same time, international growth for Jordan is surging as we expand the marketplace with an annual growth rate in the teens. We are opening up new ways for consumers in developing markets to access the brand with new digital and physical stores in Greater China and APLA.

We know when we go deeper with consumers by category, it results in product that hits the mark. The opportunity then is to make sure that nothing stands in the way of getting that consumer the exact product they want at the exact moment they want it, which leads us to the marketplace. The most powerful way to serve consumers today means making it easy, frictionless and personal for them, no matter where they shop. Unfortunately, that's not happening enough right now.

So our solution is the Nike Consumer Experience, or as we call it, the NCX. The NCX is a unified vision aimed at giving the consumer a better NIKE experience anywhere they shop across the landscape from NIKE Direct and partner stores in what we will call the NIKE Network. It features curated product assortments, exclusive services and elevated environments and user experiences, all tailored to the consumer.

So let me frame up how we think about the marketplace by how the consumer shops. They either shop digitally or physically, and they either shop NIKE Brand or multi-brand, making it very simple. This is how we're framing the marketplace. And within this framing, we have 6 distinct areas, and let me walk through them right now.

First, we create demand for our brand, and many consumers already know what they want. They want NIKE. Let's say they want a pair of Air VaporMaxes. So if they want to shop on the move, they can come to us digitally where we serve them through Nike.com or Nike APP or on SNKRS. We tell them a clear powerful story, and we get them the Air VaporMax with a few clicks. Or they might want -- they might prefer to come to a physical store where they can get expert advice, where they can get product trial, or they can get the product immediately. So we serve them personally in store in a fast and seamless way.

A second area is where the consumer might want choice across other brands. In other words, they shop a multi-brand experience. They want to explore and compare for themselves either through dot-com experience or in person at a store. For both dimensions, NIKE is committed to developing deeper and better direct experiences with the right strategic retail partners. We know, when we are differentiated, we have a powerful home field advantage. Branded spaces, led by NCX, drive more than double the revenue of conventional wholesale retail for us. And so we're working even harder to drive that advantage everywhere.

In the third area, we have retail that doesn't offer quality service or powerful storytelling. This is undifferentiated retail. And over the years, we will be shifting away from this. It lacks superior consumer experiences in either physical or digital, makes -- and that makes it less profitable over time as the consumers migrate away. So we will increase our focus on the first 2 areas by driving our investments on the NCX, fueled by digital, as we serve the consumer to create a marketplace of our own design.

Now that we've defined how the consumer shops, let's discuss the where. We are focused on creating this marketplace in 12 key cities and 10 key countries. These cities are the sharp points of our strategy, because they're the center points of change. This is where change is most accelerated.

Everything comes together in the city. It's where the shift starts and the expectations continue to elevate. Today, our cities are driving such accelerated growth, they're outpacing the rest of our business. In other words, NIKE has created a local business on a global scale.

Let's now take any look at how we're driving focused growth internationally. And because I'm the one on the stage, we picked London. And I've personally seen London change quite a bit over the decades. One thing that has never changed is that it's a city of very passionate and discerning consumers across the spectrum of sports and lifestyle. Today in London, we have our key city offense still in its earliest days, and we're already seeing strong results. For one, we are seeing significant growth, both on Nike.com and digital sales, with our partners as we activated the NIKE Network. The opportunity to serve the female consumer in London is massive. So we activated a women's boutique that brings the whole women's experience in one door through Running, Training and Sportswear. And we've seen tremendous growth here, and we're already scaling the concept. We're also testing new services in London, such as shoppable Instagram posts that lets you buy immediately on Nike.com. All in all, London is a great example of a city where we've gone deep on the consumer opportunity to transform retail.

Speaking of retail transformation, in North America, this topic has clearly been front of mind for all of us. So let me walk through how we will drive a more full-price activity in this critical geography. First and foremost, our job is to create demand for our brand. The consumer wants more freshness, it wants newness and they want more excitement and they want it now in the marketplace. That's what allows us to command a premium price. As Mark showed you and you'll see later on today, we will bring more innovation and we're truly excited about that. We will tell more powerful stories as we invest against our brand. And we will continue to deliver stronger consumer concepts in the market. We know, if we're doing justice by our brand in service of the consumer, full price will come.

But innovation at retail is everyone's opportunity. And so while we are creating more distinctive and coveted experiences for consumers through the NCX. That's really important for us, because we know that undifferentiated, mediocre retail won't survive. Undifferentiated retail once served the purpose of providing broad access in the marketplace. But today, with digital, it offers unlimited distribution more efficiently with services that are more compelling for consumers. Elliott, Heidi and Adam will give you a deeper perspective into the magnitude of the shifts we're driving across the network. Ultimately, we see an incredible vibrant future for distinctive retail as we reach consumers in ways we've aspired to achieve.

Now finally, one of the greatest opportunities in this shift is about digital, which lets us serve our consumers more personally. And while some might be scared or see this as a moment of apprehension, we see this opportunity to serve the powered consumer as a tremendous opportunity. Nothing is more exciting to us. Because brands that listen and connect, win, and we are well served in that journey. How about this? Nearly 3 out in 4 consumers say they expect brands to proactively understand their unique needs and their expectations. And if you're too slow, there's a downside. Half of consumers say they will likely switch brands if someone doesn't anticipate their needs. Note what I said, it's not about meeting their needs, it's about anticipating them. So how do we accomplish that for consumers? One word: speed. We drive growth amidst a new consumer landscape by injecting speed across our entire organization from design to manufacturing, to merchandising, to retail. And there is nothing that serves speed like digital.

With our consumers and their pace in mind, we have focused in the past few years our investments against digital and mobile, and those efforts are paying off. Take, for instance, our work in transforming Nike.com. The redesigned Nike.com is amazing, with rich and personal experiences, where consumers -- we know consumers are going to love. And the energy is further brought to them through the apps -- the portfolio of apps that we have, which is amazing. You don't have to take my word for it. The Nike APP is the #1 mono-brand retail app in the United States, and we're just getting started.

Adam and Heidi will walk you through this digital ecosystem and the Nike.com redesign. But with a business greater than \$2 billion, our digital foundation is the strongest in the industry. And as we accelerate how we create personal relationships, we continue to invest in membership. Membership is critical. Through membership, we close the gap between that emotional connection and getting you exactly what you want. And here's the proof: members in our apps spend 3x more than guests on Nike.com. That's opportunity. So we're dialing deep using data science and machine learning to get the consumers what they want quicker and easier. And when we create more personal and tailored experiences, it increases retention and spending. By knowing you better, we can serve you better.

The end goal is simple. We want to build lifelong connections with our members by giving them value as we inspire them, as we help them and as we serve them in their journey.

So today, I'm excited to announce that we're taking NIKE membership to the next level with a new program called NikePlus membership. It will, like nothing we've done before, deliver targeted value to our members. It's an exciting leap forward for membership on how athletes around the world can join the NIKE Brand. And I can't wait for consumers to try this out. Heidi and Adam will walk you through it. But let me just say this, we see tremendous growth with our ability to let consumers do more, achieve more, and ultimately, buy more. And yes, we are proud of our apps, but we're even more excited about paving the way for redefining the consumer experience all over the globe. With membership and the rest of our digital efforts, we are pushing forward the future of retail, actively and aggressively.

In the end, over just the last decade, our consumers have transformed from a small network of passionate fans into a thriving culture of millions demanding everything all at once. And throughout that change, NIKE delivers. We deliver, because we have the foundation in place for growth and the focused offense to get us there.

NIKE began by serving athletes personally out of a van, one-by-one. Today, what's amazing is technology has made it possible for us to serve that vision at a massive scale all across the globe. That's the shift and that's the spirit of the Consumer Direct Offense. It's about envisioning a future where we can and we will serve consumers in only the way we know how, as individual people, no matter where they live. Thank you.

[Video In Room]

### **Michael Spillane – President, Product & Categories**

Good morning, and thank you for joining us today. I'm Michael Spillane, President of Categories and Product here. And it's great to welcome you to NIKE World Headquarters during such an amazing time for sport.

As the college football and the NFL seasons are heating up, the Premier League and the Champions Leagues are underway in Global Football. The NBA just kicked off, powered by the great new NIKE gear. And of course, the World Series just began last night. Unfortunately, the Red Sox aren't in it, but fortunately, neither are the Yankees.

So it's a great time to be in sport as well. And more than ever, sport is shaping our culture. And no company is better positioned to capitalize on that opportunity than NIKE. We run a really powerful portfolio. And as Trevor said, we're really focused. We're focused on 7 priority categories and the Jordan Brand. No one else in our industry has the portfolio as broad or as deep as NIKE. And our portfolio is what makes us a truly global brand, allowing us to serve consumers however they engage in sport in their lives.

As you know, we're now focused on 4 geographies: North America, EMEA, Asia Pacific, Latin America and my former home, Greater China. Our international business is now over 55% of our

revenue. And we see great opportunity not only in the developed markets, but the developing markets. You'll hear more about that from Elliott.

Powering our portfolio is best-in-class footwear, apparel, and equipment. We make the best, most innovative product in the world at every price point we compete in. We build platforms within and across categories and anchored in pinnacle innovation, and we always hit key price points with distinct choices for different consumers from performance to lifestyle. You'll see examples of this when Jayme and Tom walk you through the product room.

We deepen consumer relationships by dimensionalizing platforms across women's, men's and young athletes at an unparalleled global scale. We know athletes, and in particular, we know women athletes. Women's is no longer just an opportunity. It's driving growth, and it's consistently outpaced men's here at NIKE. Supercharging this portfolio is our unmatched scale, which amplifies everything that we do.

When we talk about scale, here are some examples of what I mean. We're the world's largest footwear brand at \$21 billion. We're also the largest athletic apparel brand at \$9.6 billion. And in footwear, we hold the #1 market share in all markets and all major categories. So why does that matter? Because we have a proven track record of growing platforms like React into billion dollar businesses. And it means we can amplify our brand message into a global conversation.

So here is the bottom line. We're really big, but we're going to get much bigger, because we're getting much better. And now, across all these dimensions, we're adding speed to dramatically reduce the time it takes to get to market. We're creating the space to be fast by being great editors.

Starting this January, we're putting 25% fewer styles into the marketplace. Editing down to fewer styles creates the space to amplify. Amplifying means more choices of the products that consumers already love. This strategy comes to life through our power franchises, our most premium products that define our brand right now and in the future with defined expectations for sell-through and consumer perception.

Editing out the noise amplifies our greatest strengths. And as you'll see later from Tom and Jayme, our innovation pipeline has never been more promising. Our best-in-class design team is also further accelerating our speed, armed with the latest technology, allowing us to bring innovation to consumers faster than ever. Digital tools grounded in computational design are shortening the lead time to commercialized innovation and creating the new NIKE aesthetic signatures in both apparel and footwear with more control, higher resolution and unlimited imagination.

In apparel, the FE/NOM bra is a great example of the capabilities that we're unlocking. Leveraging Flyknit technology, we digitally engineered every stitch for performance benefits. Engineers and designers put in over 600 hours of rigorous biometric testing, including motion capture and atlas maps, which translated that into 2 single-layer fabric panels that optimize for both encapsulation and compression. The result is a bra that's 30% lighter than any other bra in NIKE history and still delivers maximum support and style.

On the footwear side, we use digital design tools to create the Epic React, one of the cornerstones of our running revolution launching this spring. React delivers a better combination of energy return and durability than anything else in the marketplace. React was digitally fine-tuned through thousands of iterations using Gigabytes of proprietary athletic data to create an entirely new platform. And we did this in a 1/3 less time. It all comes together through what we call Quantum Craft.

So let's take it closer look at what that means.

[Video In Room]

So pretty amazing. Quantum Craft is really about unlocking innovation, new anesthetics and, above all, speed. And there's no better way – no better example of how we're accelerating speed than our Express Lane. Express Lane is where we are building the muscle to maximize consumer demand in real-time through 3 capabilities.

The first is Create. Delivering new products and moving from design to shelf in less than 6 months. Express Lane's second capability is Update. Through Update, we're adding and amplifying dimensions of our product line through new materials, colors, prints on popular existing models and styles based on real-time consumer insights, shrinking the process down to less than 90 days. And the final capability is Fulfill, which is about being in stock on the product that our consumers love when they want it, whether it's the ability to scale new innovations faster or always being in stock on our favorites, we're accelerating this model to be as fast as 2 days.

Express Lane comes to life with teams embedded in the geographies, providing real-time insights from consumers and athletes in New York, London and Shanghai, fueled by continuous preseason and in-season insights, cross-functional teams make decisions acting as one. They create, they update and they fulfill; and this is how we do business now.

Here's all that all leads to disruption at scale. This is the new Shox. It's a great example of how Express Lane can transform our ability to respond to consumer insights faster than ever. We know the consumers today are looking for high-energy return and in style together. So we're bringing back the Shox, a model with unmatched propulsive feel and a striking aesthetic. Launching in the holiday season, Shox -- the new Shox shows the power of our edit to amplify strategy as one model, one consistent feel amplified across 11 distinct characters and 25 colorways. As you can see on the screen behind me, each Shox colorway reflects a different unique inspiration. At one end of the spectrum, you're going to have pure performance, and at the other, amplified style. No matter what the situation, Shox is engineered for the exact specifications of the athlete from the track to the street and everywhere in between.

Perhaps even more impressive is how Express Lane brought this Shox imagine to life. We used 3D modeling to rapidly visualize and design the product in just a few weeks. We went from design, to prototyping, to manufacturing, to delivery in less than 6 months, and now we're doing it at scale. This is what disruption looks like. We've got a great consumer insight telling us what they wanted, propulsion with style. We reimagined the concept and moved it from idea to shelf in just 6 months. And now we're scaling speed across our portfolio.

First, the complete value chain will start soon to be all digital, starting with design and development. In footwear, for example, we're deploying digital across every aspect of the business. It's giving us the ability to instantly visualize the future of our top franchises, such as the Air Force 1. And in apparel, these types of capabilities allowed us to create the lightest, highest performance uniforms the NBA has ever seen and scale from licensed to branded to performance to style faster. Similar to how we amplified the NFL, our investment in new capabilities is just one of the many ways we're elevating the NBA partnership. Powered by one of the fastest-growing sports in the world, we'll grow the NBA apparel opportunity on a global scale.

In addition, we're investing in rapid prototyping to accelerate one of the most time-intensive parts of the product creation process, the design and development stage. We can now produce more than twice as many high-quality prototypes with -- than traditional creation. Our goal is to rapid prototype 100% of the new innovations right here in Portland, Oregon.

So while you're waiting for your prototype, you can go out, grab a kale salad, maybe a bacon donut, a local craft beer. And when you come back, you have your shoe. At the same time, digital rapid prototyping enabling a multi-track game plan for everything we make, cutting our average product time from -- almost in half. Some of our best-selling items like T shirts were speeding from 90 weeks to 90 days.

So here is what speed gets us. Getting closer to the consumer allows us to generate a more reliable demand signal, which has 2 major benefits. It leads to better full-price sell-through, which leads to fewer markdowns, returns and higher gross margins as well as optimized inventory. All this adds up to consistent quality, long-term growth. The difference between getting the demand signal right versus wrong, as you know, can be hundreds and millions of dollars in revenue and significant margin upside. So let me highlight 2 examples of how we're delivering innovation and newness across the portfolio.

For the first example, I want to come back to React. Launching this spring, Epic React sits at the heart of our running revolution. The best innovations come from listening to the voice of the athlete. And when athletes were asked what they wanted improved in footwear, their answer was really simple: Everything. They want long-lasting softer cushioning with even better energy return. And they need shoes to be lightweight. A tall order, but our design teams were up to the challenge. And the Epic React is their answer. We've tested it with runners of all ability levels, logging more than 17,000 miles in the lab and on the track. And from both elite and everyday runners, the response is equally powerful. The Epic React feels like instant go.

So next, I want to spend on our most iconic platform, Air. New technologies are pushing the limits of Nike Air. And the consumer demand is growing right along with it. We anticipate growing the entire Air business by several billion dollars over the next couple of years. Our pipeline is strong with new innovations like VaporMax, Air 270, along the unmatched breadth and the heritage offerings like Air Max 97. We're also seeding and scaling faster than ever before. For the VaporMax, we're launching seasonal refreshes with new Flyknit uppers for the -- in the next 2 years. And we've already accelerated the next version forward by a full year. Increasingly, you'll see our product brought to life through Nike.com.

Nike.com not only serves as a source of revenue for us, but it's a place to drive deep consumer connections. It also acts as a seasonless testing ground to get the right products in front of the consumer. In a seasonless model, you're no longer waiting to get to market. You're there instantly and on demand. It's part of our shift away from the outdated futures model, pivoting to real-time sell-through with the added benefit of bypassing conventional market gates, allowing us to scale faster. And later today, Adam and Heidi will explain to you how we're transforming that seasonless model into powerful membership experiences.

So when we talk about the power of our portfolio, it means our growth isn't reliant on just one platform or one sport or one trend. It's our scale and diversity that sets us apart. And that's why we'll be driving sustainable long-term growth with incredible balance across performance and lifestyle, with a sharp focus on editing and amplifying the products people love most like our Power Franchises. And across all dimensions, we're adding speed powered by digital. Now the only way this works is complete coordination from consumers' signal to the final shipment. And so to discuss that further, here's our Chief Operating Officer, Eric Sprunk. Thank you.

**Eric Sprunk, Chief Operating Officer:**

Hi, everyone. I'm Eric Sprunk, NIKE's Chief Operating Officer. I'm always happy to have the privilege of sharing with you the great work happening in operations at NIKE. As you heard this morning, our goal at NIKE is to keep the consumer at the center of everything we do. And our operations offense achieves that by building capabilities across the complete value chain to deliver against the Triple Double with a special emphasis on delivering 2X speed. We've been talking to you about innovation and manufacturing for the past 4 years now, and we've told you we'll do it at scale. Consumers demand it. We're proud we're able to tell you what we're going to do and then do it.

We're leading with innovation in 2 ways: Continuing to develop new methods of manufacturing and relentlessly driving automation in our traditional methods of make. We do it by both expanding these capabilities with our existing strategic partners and by bringing new manufacturers into the industry, like Flex and Tegra. And I'll talk about all of these strategies this morning.

As a reminder, let me share some specifics on what the complete value chain at NIKE delivers today. We will ship 1.3 billion units in fiscal year '18. These units will be manufactured in 566 factories, employing more than 1 million workers. And we'll ship them through 75 distribution centers to more than 30,000 retailers in more than 190 countries. We are transforming the sophisticated global supply chain from one where a futures order was historically our signal to start supplying the market into one, where consumer demand is our signal to anticipate and respond. To make this shift, we're digitizing our end-to-end supply chain and creating a model with shorter lead times to deliver what consumers want, when they want it, where they want it. Much of this has been made possible by our investment in the Advanced Product Creation Center, or APCC. When you were here 2 years ago, we announced we were building this new innovation center. We completed it, and many of you will get the chance to see it later this afternoon. The 125,000-square-foot APCC is where we dream, create, innovate and deliver on the future for NIKE. In a few minutes, I'll share several new innovations that were conceived of and created in the APCC.

Now this strategic shift also requires transformation across our business model. We appropriately focus a lot of our attention on the manufacturing of our product, but we're also building exciting new capabilities through our logistics networks and forging new relationships that allow us to serve consumers better and faster than anybody in our industry. You've heard from Trevor already about the importance of our key cities to the Consumer Direct Offense. To serve them, we've created a distribution network that provides same-day delivery in many of these cities already and next-day service to many more. Our goal is to provide same-day service in all of our key cities around the world.

Just like manufacturing gets a lot of our attention, so too does footwear, where we've always invested in innovation in our apparel business. And we are both digitizing and vertically integrating our apparel supply chain. In collaboration with Tegra, we are creating a vertically integrated and responsive on-shore and nearshore network, enabling closer-to-market manufacturing, embellishment and responsiveness capabilities. This will allow us to serve our largest geography, North America, with what is arguably our most important performance product, Promo, Team and Licensed. This is product worn by elite athletes on the biggest stages of sport. This new relationship will give us the ability to reach millions of NBA, NFL and college athletes and fans with their favorite gear on short lead times. We are in the early stages of what is a tremendous shift within our supply chain and shows our strong commitment to consumers, speed and innovation in apparel.

Now, I want to talk to you about manufacturing innovation in footwear. Since we last met, we've created several new groundbreaking innovations that directly drive speed to market. We now have a portfolio of innovation and automation that impacts the entire spectrum of our footwear manufacturing process. A great example of one of these new innovations developed in the APCC is our work in digital printing. We're now scaling the printing of high-quality graphics, like the one you see here behind me, on a large portion of our materials. In many applications, digital printing is faster, higher quality, more flexible than traditional dyeing processes. We've reduced the amount of processing steps, freed ourselves of design limitations and reduced water consumption and CO2 emissions. But more importantly than that, this new innovation allows us to stage greige goods or blank materials, to delay color and print decisions to the last possible moment, delivering on our goal of closer to the end-market decision-making. We'll continue to innovate across to our entire manufacturing process.

But we're now also relentlessly focused on connecting these innovations together to make scalable, impactful changes to how we manufacture our product. These efforts have led to an entirely new revolutionary method of make that transforms how we make footwear uppers, an innovation we first created in the APCC. It challenges traditional methods of manufacturing by using advanced robotics and digitization to deliver a continuous, automated sequential flow of upper-making production. With 30% fewer steps and up to 50% less labor, we can produce a complete pair of uppers in just 30 seconds at scale with less waste.

Now let me give you a little preview of how we brought the future of manufacturing innovation to life today.

[Video In Room]

As I said, what you just saw represents the future of manufacturing innovation. So much potential here. As we talk about our focus on connecting all of our manufacturing innovations to drive scale, let me shift gears a little bit and talk more about a material innovation Mark mentioned earlier, NIKE Flyleather. NIKE Flyleather is a new recycled leather with at least 50% leather fiber made on a roll versus leather coming from a hide. Mark already told you this, but I think it's worth repeating. NIKE Flyleather is 40% lighter and 5x more abrasion-resistant than traditional full grain leather manufacturing. What we're most energized about with this new material is that it dramatically improves the way we make leather footwear. Because NIKE Flyleather is produced as a traditional rolled good instead of an imperfect hide, we're able to make shoes much faster with more flexibility and reduce our material costs. NIKE Flyleather is another example of our ability to innovate across the entire supply chain.

Now 2 years ago, I introduced you to our strategic relationship with Flex. Many of these game-changing innovations are being brought to market and scaled faster than ever before through this strategic partnership. We've just moved into a new nearshore purpose-built footwear factory with Flex that will deliver over 3 million pairs to North America in fiscal year '18 alone. By 2023, together with Flex, we plan to produce tens of millions of pairs nearshore with more than 25% of those volumes delivered through NIKE Direct on a short lead time responsive model. This strategic relationship allows us to take our standard time from just manufacturing to market from about 60 days to 10 days or less. And Flex isn't just another contract manufacturer. We're inventing new manufacturing capabilities at scale together. We collaborate, innovate, and when appropriate, we bring these capabilities across to our entire source base. With Flex, we're already commercializing Flyknit, end to end, 12 weeks faster than through our traditional manufacturing process. And we're now also delivering responsive capabilities to North America consumers through experiences like our Flyknit iD pilot. You can go to NIKE iD today, design your own customized Free Run Flyknit shoes and literally have them knitted to order. We promise to deliver them to you in under 10 days, but we're hearing from consumers that many of them are getting them in 3 or 4. This is real speed in creating shoes on demand.

At the same time, we continue to drive manufacturing innovation across our entire source base by elevating our world-class Asian-based strategic partners. We have modernized manufacturing for more than 1,500 models of footwear across every NIKE category. With a focus on just 4 core technologies, cutting, cementing, assembly and bottom-making, we will have deployed more than 1,200 new automated machines by the end of this fiscal year. This is not about making one model in one factory. For us, this is about scaling digitization, automation and robotics across our entire source base and across our entire product line. In fact, we currently make 13 of our iconic Air Jordan retro products with these technologies.

So let me show you the new journey of the Air Jordan XIII with our strategic contract manufacturer, Feng Tay.

[Video In Room]

Okay. What you just saw, with some really snazzy music, I know, was 5 of 11 new automated technologies used in the Air Jordan XIII that drive approximately 30% less labor and 50% increase in pairs per hour. And most importantly, better product. More consistent and more precise. In addition to the 5 processes you see here, we also used UV spray, oscillating knife, laser-cut, laser-trim, phylon mold transfer and computerized stitching. It's a perfect example of our commitment to driving automation and productivity across the entire product line and throughout our entire source base. We know a significant unlock exists in our ability to connect multiple manufacturing innovations and automation together, like you just saw in the Jordan video and with our new method of make you

saw a few minutes ago. Much of the work we have shared with you today and over the years, frankly, is about the upper. Flyknit is another great example of upper manufacturing innovation. We haven't spent a lot of time talking about the bottom of the shoe because it's challenging work. It requires different tools, different innovation and very unique manufacturing. But we've recently had some great breakthroughs in innovation for the bottom, too. Today, we are building a scalable solution capable of delivering a pair of midsoles and outsoles, the bottom, on average, in 2.5 minutes, compared to more than 50 in the past. Our new process uses 75% less energy, 50% less tooling cost and has a 60% reduction in labor. This is incredible progress and is just one of the great innovation projects in flight for manufacturing bottoms. As you can see, we now have manufacturing innovation across the entire footwear process.

Let me recap the great game-changing work that's happening at NIKE in global operations. Our whole strategy is around speed and scale, getting faster in the creation of our product, getting faster in the manufacturing of our product and getting our product more quickly to our consumers. We're laser-focused on getting faster, and we know one of the best ways to do that is to digitize as much of the process as we can, as quickly as we can. We're making it smarter, more connected and more automated to get closer to consumers more quickly. We've been on this journey for a few years now. We've made great progress, including the work Michael showed you, in digitizing our product creation process and in rapid prototyping. But we all know there is so much more we can do.

So I want to ask you to think about the future. Our consumer can place an order on Nike.com or through our SNKRS app and have it delivered the same day in key cities around the world. Your favorite team wins a championship. And in a few days, we have designed, manufactured and delivered brand-distinctive, innovative product to your doorstep. Not just for certain products, not just in certain colors. For all of our products. No other brand in our industry can do what NIKE does to inspire and engage millions of consumers around the world. The innovation and re-imagining of our end-to-end value chain allows us to serve these consumers in an unparalleled way. We have changed the paradigm in our industry from driving a strategy focused on where we make our product to how we make our product. So we can decide to make it anywhere we want. And what I talked about today is just the start, and that's probably what I'm most excited about. I look forward to seeing many of you later today at the APCC.

And now, you're going to hear from Heidi and Adam and then Elliott about how we bring all of this together in the marketplace. Thank you.

**Heidi O'Neill, President, NIKE Direct:**

Good morning, everyone. I'm Heidi O'Neill, President of NIKE Direct.

**Adam Sussman, Chief Digital Officer:**

And I'm Adam Sussman, Chief Digital Officer.

**Heidi O'Neill, President, NIKE Direct:**

As you've heard throughout the day, our consumers have incredible expectations. They expect us to serve them on their terms with personal and premium experiences we know they love. What you've also heard today is that NIKE Direct is in the perfect position to serve those consumers, thanks to the strength and distinction of our NIKE Brand combined with our deep digital expertise. We bring our brand, our assets and our experiences to life across the breadth of the NIKE network. Elliott will speak to our strategic partners. But through our NIKE Direct channels alone, this network combines our industry-leading digital portfolio with over 7,000 NIKE-branded doors. That's owned and partnered around the world, serving more than 2.8 billion consumer visits every day. That's a lot of love for the NIKE Brand.

Across this massive digital and physical footprint, NIKE Direct will consistently deliver the best expression of the NCX, the Nike Consumer Experience, as the truest expression of the NIKE Brand. And as Trevor mentioned earlier, the NCX focuses on 3 key areas: Product, service and environment. We are going to spend the next 15 minutes sharing more insights into how we are bringing this strategy to life, why it will serve consumers better and how it will drive growth.

**Adam Sussman, Chief Digital Officer:**

A key part of this growth will be driving consumer connections with our new NikePlus membership program across the entire NCX. We are really excited about the power of this program and its ability to drive growth. Over the last 2 years alone, we grew membership at nearly 30% per year. We currently have over 100 million members. And those are people, 100 million consumers who want to be connected with our brand. And our NikePlus membership program will more than triple that over the next 5 years. We also know that membership drives significant value. NikePlus members who shop via our mobile apps spend 3x the amount that guests spend on Nike.com. We're going to give you much more on membership in a few minutes.

**Heidi O'Neill, President, NIKE Direct:**

So as we explore NCX, let's start with product. NIKE's footwear and apparel are coveted by consumers everywhere they shop. Whether that be in digital channels or through our stores, we hear and feel our consumers' passion every day. Going forward, NIKE Direct will create new member-only access to product they love so much, matched with their individual preferences and buying patterns. This unique access to NIKE's greatest innovations and hottest styles is about 3 key features that serve consumers on their terms.

First, exclusive and reserved. Imagine being the very first to buy and wear LeBron's new shoe or the next VaporMax hot colorway or being able to get your hands on a member-only exclusive of the Cristiano Ronaldo Mercurial, or knowing a Jordan Retro is about to drop, but knowing that you have already been able to guarantee your size and reserve a pair. That concept of exclusivity will be built-to-scale to serve the specific needs of members. And when we get it really right, we might just give our members the confidence to run their first mile or run their fastest. We might inspire them to try out for the team or reach for the MVP, or we might just make them feel great because we know when you look good, you feel good.

We're also redefining the merchandising process, so we can offer an increasingly differentiated assortment not found anywhere else in the marketplace. This creates incredible opportunities. More than 1/3 of our offering will be distinct to Nike.com and exclusive to members, and an aggressive shift towards this vision is already underway. At the same time, we're injecting the energy and freshness consumers crave through the Express Lane that Michael talked about earlier. This enables Nike.com to introduce new styles each week and create product based on analytics and local insights faster and more directly. NIKE Direct already has 3 speed pilots activating this year. And in the next 5 years, we expect 50% of seasonal styles to be delivered in less than 90 days through our Express Lane. The strategic shifts towards the new models of access, exclusives and Express Lane are all part of a member-first, member-centric vision for NIKE Direct. Powering this vision are the investments we're making in personalization capabilities. These include a single member profile, proprietary algorithms and machine learning. These capabilities enable us to better understand the needs of each individual member and build assortments and buys that meet those needs. It's a virtuous circle. As more members generate more data, we're positioned to serve up even smarter and more personalized experiences for each and every member.

**Adam Sussman, Chief Digital Officer:**

So the payoff may be product, but we have to make sure we deliver it through great consumer experiences.

Let's take a look at the strength and potential of our 5 world-class digital experiences. That's the Nike APP, SNKRS app, NIKE Run Club, NIKE Training Club, and of course, Nike.com.

Starting with the Nike APP. It has 5 stars across 25,000 reviews, and it offers the best of NIKE personalized for you. It's a hub for your membership experience, powered by curated content that is based on your interests and a personal storefront that is driven by proprietary algorithms. We've already said that the Nike APP member spends 3x more than a guest. Now we're accelerating the adoption of this app to allow us to tap into that revenue potential.

Then there's the SNKRS app. It's the ultimate source for sneakers, fueling the passion of over 4 million sneaker fans. SNKRS has the highest annual spend per buying member, but it isn't just about an indispensable way to access the hottest kicks. It's about reinventing the sneaker game. In the past 6 months, we've launched a number of breakthrough features that have delivered great results, growing installs by over 100% and monthly active users by over 50%. Now we are disrupting the sneaker game even further with new social and gamification features such as augmented reality and geo-fence treasure hunts that bring magic and fun to sneaker launches. And we're actually going to show you some of this in the breakout room later.

Then there's NIKE Training Club. That's the #1 workout app in U.S. and Europe, leading an incredible 1.8 million workouts per month. And NIKE Run Club, the #1 running app in the world, guiding almost 50 million miles of running each month. That's the equivalent of running around the earth nearly 2,000 times. And now we're adding audio-guided runs to this experience, a great innovation that helps athletes either run their first race or get ready for their next big race. These apps will continue to help members achieve their goals but will also start to organically put product in the path of that consumer as we integrate seamless commerce into these experiences by next summer.

Together with Nike.com, all of these apps are linked by one single membership profile. That profile also extends to physical retail that makes sure we can deliver that consistent consumer journey that inspires, motivates you and brings you back for more. These apps are already becoming the consumers' preferred way to shop with us digitally. And this focus on mobile is actually a crucial part of our future growth. Already this year, more than 50% of our NIKE Direct digital revenue comes via mobile experiences in the U.S. And we're well positioned to capture even more with this portfolio. We now know that when consumers engage with us across multiple touch points, we're able to serve them more completely. They run with us. They train with us. And then they buy with us. And the retention for those consumers more than doubles as a result. And our most engaged experiences drive our highest revenue per member.

**Heidi O'Neill, President, NIKE Direct:**

And it's important to note that we're scaling these app experiences globally. We already have Nike.com in more than 40 countries and in every region of the world. And the Nike APP and the SNKRS app are in more than 20 countries across North America and Europe. We're also incredibly excited to be expanding to Greater China and Japan later this fiscal year, broadening the reach of our apps to almost 700 million new consumers. With this rollout plan, we will have our complete portfolio of apps in 8 of the 10 key countries that drive 80% of our growth by the middle of next calendar year.

**Adam Sussman, Chief Digital Officer:**

As the same time as we expand globally, we are also transforming the fundamental nature of our digital experiences by continuing to migrate our platform and services into the cloud. Make no mistake. This is a dramatic shift for us, but it will significantly increase our speed and ability to exceed consumers' expectations while removing friction on their path to purchase.

Meanwhile, as Trevor said, we're also delivering a complete refresh of these digital experiences globally. Let's take a look at 3 major UX enhancements launching later this month. Our consumers expect to be able to purchase quickly and easily. Even a small delay at any point is enough to deter

some consumers, so we've elevated some of the most common entryways into the NIKE shopping experience. That means better visual navigation, more logical shopping by gender and predictive and personal search results.

Next, we know consumers are looking for great product information. And not just the facts, like size and fit, but a true emotional connection. That's why we're working hard to make sure Nike.com and our apps are full of the most premium information and styling, bringing that movement and energy through powerful imagery and video. We will be the best destination for product information, storytelling and premium content.

And finally, checkout. Across the world of digital commerce, too many consumers get to this final stage only to abandon their virtual shopping cart. That's why we've streamlined the checkout process, removing friction on the way to purchase and remembering your preferences by creating a 2-click checkout. By the way, this streamlined approach is already part of the SNKRS experience, and we know our consumers love it. We can't wait to see the response from our consumers when all this goes live this fall.

**Heidi O'Neill, President, NIKE Direct:**

We'll also serve members better by connecting the physical and digital experience across the NIKE network. Today, I'm going to share with you 4 launches that you'll see from NIKE over the next 12 months.

Let's start with NIKE Connect. NIKE Connect will close the space between the moment you see that NIKE product that you absolutely covet, whether in a store, on the street or in media, and the moment of purchase. Through NIKE Connect, the world will become your high street window, and the Nike APP camera will become your store. Later today, you will see NIKE Connect snap and buy in real life.

Another example of connecting physical and digital experiences is our Nike APP at retail. This will go live this spring and scale through North America and Europe by the end of next year. Nike APP at retail enables us to serve consumers more personally through a deeper digital connection in-store. It will instantly recognize you when you walk in the store. And since you pushed notifications based on your preferences and your profile or allow you to scan a shoe on the footwear wall and have instant access to see colors or availability in your size, or skip the line and instantly purchase in the store through a seamless digital checkout on the app. Nike APP at retail creates a personal curated experience. You'll see more of this in the breakout later as well.

We're also really excited today to talk about a new concept, a small format retail concept called NIKE Hyperlive. Hyperlive extends our digital experience to serve members in stores that are powered by the Nike APP and staffed exclusively by Nike Experts. Locations are chosen by leveraging Nike.com data on buying patterns. That data also ensures that we stock the right products for consumers in that ZIP Code and that our assortments are fast and agile based on local market analytics. Features include a personalized speed locker for easy pickup and returns, along with a sneaker bar for style advice and consultations. We'll be launching our first Hyperlive door in L.A. early this summer.

As we work to always exceed our consumers' expectations, both Hyperlive and Nike APP at retail will play a really important role in the digitally led transformation of the marketplace.

Personalized service is at the core of NIKE Direct, whether on the physical or on the digital high street. Now I'd like to introduce you to Nike Experts on demand. This service gives you one-to-one access to a NIKE expert who can help you with anything you need, gearing you up, getting you styled or motivating your whole athletic life. This can be via a simple tap on the screen or an exclusive one-to-one session in-store. Results from our pilots of these in-store sessions have been staggering. We've already seen conversion of 80% for these one-to-one sessions as well as a 300% increase in

average order value. This represents real opportunity. We'll roll out our Nike Experts on demand and the Nike APP next month into more than 50 stores by the end of the fiscal year.

**Adam Sussman, Chief Digital Officer:**

So let's talk now about NikePlus membership. As you know, NIKE's role is to inspire, help and guide our consumers on the journey to being a better athlete. We believe our greatest opportunity to do this is to convert our consumers into NikePlus members. After all, NikePlus membership creates a personal and indispensable relationship. And like any relationship, it gets better over time and it deepens our emotional connection with that consumer. We'll be launching the NikePlus membership program next month, but first, we want to show you a video of how this is going to come to life for consumers. So let's take a look together, okay?

[Video In Room]

So I want to briefly unpack some of the elements that you saw in that video. First, we're going to build on the tremendous success we've already seen with our reserved-for-you service that is currently live in the Nike APP. What that service does is it sets aside products that we think you're going to love, and it reserves them in your size. It currently uses machine learning-powered algorithms that actually result up to 40x the conversion of what our average conversion rates are today.

But we also have another concept we're calling reserved-by-you. That's the shoe that you absolutely must have. You can raise your hand for it and reserved-by-you, we're going to give you guaranteed access to that shoe. It's a groundbreaking service, and we can't wait to scale it on the first half of next year.

Alongside product, we're also going to accelerate invitations to personalized events and experiences. Imagine receiving early access to those impossible to get race bibs, unlocked by what we call your Sweat Equity and achievements in NIKE Run Club, or getting an invitation to participate in a Q&A session with LeBron James because you bought his Cavs Jersey. We're also extending amazing benefits and offers from NikePlus partners like Apple Music, Headspace and Class Pass. And let's not forget, the VIP member-only offers that will surprise and delight you like only NIKE can.

The Nike APP will be the central hub of membership for our consumers. We'll be taking our amazing inventory of products, events and experiences and bringing the magic to our members with the launch of NikePlus Unlocks. These unlocks will be delivered regularly at least one time per month per member. And they will play a powerful role in driving increases in new, active and buying members.

Membership also has a powerful amplifier in the form of footwear and apparel. Imagine the possibility when hundreds of millions of our products are connected, each one providing a unique content or service and driving that on-ramp to membership. We've already started that journey with NBA Connect, where a simple tap of the phone on the jock tag of the jersey unlocks a world of curated content and personalized offers based on your favorite team or player. And now we're excited to be piloting this in footwear for the first time with the Air Force 1 connected product this spring. Stay tuned for more.

**Heidi O'Neill, President, NIKE Direct:**

So we know that our business is successful when our members are happy and our members are served. We are in the perfect position to realize our potential. We have over 100 million members today, and we'll use the strength of our NIKE brand, the NIKE network and connected product to take that to 300 million members over the next 5 years. We also have the largest number of buying members in the industry and we will 4x that over the same time frame. Ultimately, our NIKE Direct vision is about serving members personally. We are using this vision to lead the future of retail, a future that serves members with new models of access to the products they love, a future that

strengthens digital and physical by uniting them in a shared experience, a future that defines each and every member as unique individuals with the highest of demands, and a future that will power NIKE's growth.

Now we're going to turn it over to Elliott. Thank you.

**Adam Sussman, Chief Digital Officer:**

Thank you.

**Elliott Hill – President, Geographies & Integrated Marketplace:**

Good morning. I'm Elliott Hill. I'm the President of the Integrated Marketplace and our geographies. Today, I'm going to go deeper on 2 aspects of our Consumer Direct Offense. First, how we're serving consumers through Nike Consumer Experiences with our strategic partners and then, where we're serving consumers, leading with the cities and the countries that move the world. Let's get started.

In a marketplace that is transforming quickly, we have the ability and the agility to evolve. What remains constant? Our passion for sport and our ability to know our consumers better than anyone. Our goal of doubling our consumer connections across the integrated marketplace is a big one. We know that. But we have a competitive advantage. It doesn't matter if you're talking NIKE Direct or our strategic partners, the core of our service model is a relationship with our consumers. Our investments in NIKE Direct have produced powerful learnings about our consumers and ourselves. We leverage all of this with our strategic partners to serve consumers wherever they shop with purpose and with energy.

Nike Consumer Experiences will transform the marketplace. These curated experiences will serve our consumers on the field, off the court or on the run, and allow us to segment and differentiate the marketplace while driving profitable growth for our NIKE strategic partners -- for NIKE and our strategic partners.

The NIKE network is a powerful portfolio of touch points. With NIKE Direct and through our strategic partners, we exceed the tailored needs of a diverse world of consumers with speed and scale. The NIKE Brand can create undeniable value for consumers when multiplied by the reach of the NIKE network.

For our future, focus is more important than ever: Focus on consumers; focus on digital at every touch point; and focus on our most strategic partners, long-standing and new, to deliver Nike Consumer Experiences at scale.

Last year, NIKE did business with 30,000 retailers around the world across 110,000 points of distribution. To shift to highly productive retail, we will execute our 2X direct strategy with about 40 partners. And over time, nearly 2/3 of our strategic partner business will be differentiated. We will serve -- we will drive long-term sustainable growth for ourselves and our strategic partners by creating a marketplace of our own design.

So let's discuss the Nike Consumer Experiences we're creating with our long-standing partners. As you know, one of NIKE's greatest strengths is that we serve many consumers. And today, there are consumer-led NIKE retail concepts around the world. In the future, we will leverage digital and membership to better serve our consumers.

Now let's review 4 examples. Starting with the basketball-obsessed, who live, eat and breathe the game and the culture of the game. The future of basketball already exists, and it's in Beijing. Here, we have the biggest brand Jordan store in Asia operated by Pousheng. This monobrand experience is one of our most connected physical doors, with services like digitally enabled product trialing on a

full-sized basketball court. Since it opened in July, it has welcomed thousands of consumers daily and become one of our top-performing doors.

In the U.S., we're partnering with Nordstrom to serve the style and fit-obsessed consumers, who train to look and feel good and are making athletic wear part of their everyday wardrobe. Nordstrom by NIKE is helping drive sneaker culture for women by merchandising sneakers and fashion together. The digitally led experience is generating double-digit growth for both NIKE and for Nordstrom. We are partnering with the JD Group to cocreate the authentic destination for the lifestyle of sport. This consumer experience will serve consumers with head-to-toe assortments, digitally led storytelling, expert service and NIKE Direct connected inventory. This is the future of sport retail, which we will accelerate in the new year.

Our last consumer example is the sneaker-obsessed, who were all about the latest sneaker drop and the culture of sneakers. They want access to NIKE's best styles and the stories that make them special. Foot Locker sees the opportunity to partner with us to serve the sneaker-obsessed at scale. The NIKE at Foot Locker experience will offer curated and coveted assortments, NIKE-trained store experts, NIKE dedicated and elevated spaces and extensions of our Nike APP and SNKRS experiences.

Today, I'm excited to announce Sneakeasy, a window into what's next in the sneaker world. Sneakeasy will unlock the magic of the sneaker hunt across digital and physical Foot Locker destinations. You'll see Sneakeasy and the NIKE at Foot Locker experience start to come to life at Foot Locker doors in the United States this holiday season.

In all, Nike Consumer Experiences will be defined by fast, easy, personal and premium. They will drive growth for NIKE and our strategic partners as we connect more directly with our consumers all over the globe.

We all know that the marketplace of tomorrow will look very different than it does today. And as the shift to digital accelerates, so are we. When it comes to strategic wholesale digital, we think holistically about our biggest opportunities. We think about the digital businesses of our strategic wholesale partners. Online marketplaces like Tmall and Zalando and new commerce models that put us in the path of the consumer with tremendous growth potential.

Let's dive into some of our online marketplace partnerships. China's Tmall is the world's largest digital retail platform. The NIKE digital store is Tmall's top-performing sports brand, reaching an incredible 500 million consumers. Based on NIKE's success, we recently launched a Jordan digital store with Tmall, and the results are strong. As we look to the future, we will deepen our consumer data partnership with Tmall to bring members personal services and experiences.

In EMEA, we have a robust partnership with Zalando, an online marketplace that offers Europe's largest selection of footwear and apparel. We serve the style and fit-obsessed with curated assortments, elevated and dedicated brand storytelling and a connected inventory program. Our partnership with Zalando is creating growth and shaping the digital marketplace in and beyond Europe.

We believe the best way to understand online marketplaces is through pilots that give us rapid consumer insights. As an example, we recently launched a small pilot with Amazon focused on elevating the consumer experience. This pilot continues to provide us key learnings that will inform our next steps. In the coming months, we'll be launching more pilots with online marketplaces around the world. One that I am excited to share with you is a new collaboration with Farfetch. Through this partnership, we will provide online access to many of our influential global boutiques. Starting today, Farfetch is providing online access to our NIKE Lab spaces in Chicago and New York with local buy online, pickup in-store, and soon, same-day delivery service. This is the kind of new retail we're creating for consumers. It's fast. It's easy. It's premium. And it unites the digital and physical all to serve consumers more personally.

I'm also excited to share with you 2 new commerce partnerships created with the most innovative digital companies in the world, Instagram and WeChat. These new commerce partnerships allow us to put NIKE in the path of the consumers, experiment with new shopping experiences that exceed consumer expectations while accelerating new opportunities for growth.

Earlier this year, we launched a pilot with Instagram to enable users to discover, shop and buy. We are very impressed with the strong consumer engagement on the NIKE Women's and NIKE SB accounts. We will continue to partner with Instagram to create faster, easier way for consumers to discover, to shop and buy.

WeChat is a force in everyday Chinese life, with close to 1 billion monthly active users, who spend more than half of their day on the platform. I laughed on that one too, all right? Today, we are integrating with WeChat to give users the best of NIKE products, services and events. In the spring of 2018, we will integrate NikePlus membership into WeChat to be even more personal with our offerings. Because as you've heard from Heidi and from Adam, one thing is crystal clear: members drive more value for NIKE. And as we leverage our new membership program with our strategic partners, it has significant potential to add to our growth. These are just 2 of the many ways we're meeting consumers where they are and ensuring the best of NIKE is never more than a click away.

Now let's review where we will serve consumers. We've talked a lot today about focus. With the Consumer Direct Offense, we have focused our resources in 12 cities and 10 countries that will drive 80% of our growth over the next 5 years. We have the most experienced and diverse teams in the industry. Our city teams are committed to elevating and deepening consumer connections 365 days a year, creating and catalyzing growth for NIKE Direct and our strategic partners and incubating the future with consumer insights that drive our 2X innovation and 2X speed opportunities. The shifts will be powerful, and more importantly, they will bring us closer to the consumer.

When we win in our 12 cities, we win in our 10 countries. And when we win in our 10 countries, we drive growth and distinction in our 4 geographies.

In Asia Pacific, Latin America, we serve the youngest average consumer of all of our geographies. Our biggest opportunity is women's. It will be APLA's fastest-growing category as we inspire a new generation to love sport, fitness and the lifestyle of sport. In APLA, we are prioritizing our investments to serve her with elevated and curated points of distribution, unleash digital innovation in Japan and Korea, where consumers are hyper-connected, and accelerate growth in Tokyo, Seoul and Mexico City.

In EMEA, we're winning a fierce battle for market share in a healthy and growing marketplace. Our biggest opportunities are performance of innovation, sneaker culture, women's and creating the future marketplace with partners like JD and Zalando. We're investing heavily in Nike Consumer Experiences and connecting the marketplace in EMEA's 5 key countries and 5 key cities. They will drive more than 2/3 of EMEA's future growth.

During Investor Day in 2015, we shared how we reset Greater China for growth. The results are continuing to pay off. We've driven more than \$1 billion of revenue and 38% growth since 2015 in our most profitable geography. This is the kind of growth a direct marketplace can drive. But Greater China is just getting started. NIKE is growing Greater China -- the Greater China market by fueling a sports revolution. We are inviting more consumers into sport while building deeper relationships with the athletes that we already serve. We're doubling down on our digital investments to create the most personalized and integrated digital ecosystem in the world and creating unbelievable distinction in a marketplace that will be almost entirely direct. With partners like Pousheng, Belle, Tmall and WeChat, we are confident overall growth will accelerate.

Trevor spoke earlier about the North America marketplace. Even though it's changing dramatically, our responsibility remains. That's to serve the most diverse athletes in the world, to inspire them with

industry-leading product and stories and to create a marketplace that's more direct, and as a result, closer to the consumer. It can be challenging to focus in a marketplace as diverse as North America's, but that's exactly what we'll do. And our focus will aggressively reshape NIKE's business.

Let me show you what it looks like. As a result of the Triple Double and our Consumer Direct Offense, number one, Nike.com and NIKE stores will be the fastest-growing part of our business. As we develop our strategic wholesale digital business, it will grow significantly. And as we create digitally led consumer experiences with our strategic partners, we will transform the retail landscape. As a result, NIKE will shift from 40% differentiated retail today to 80% differentiated retail over the next 5 years. We will elevate retail to a premium experience, reestablishing the price-value relationship and reducing the heavily promotional conditions we see today.

The most strategic of our current retail partners share this vision and want to be a part of it by creating a platform for a Nike Consumer Experience. We have an aggressive retail plan, and we will begin rolling out new Nike Consumer Experience concepts in the second half of this fiscal year. We are confident in our teams and our strategies. Growth will shift, and the total NIKE network will grow.

Ultimately, we will drive balanced sustainable growth across our 4 geographies, and Andy will share more about the financial implications of this strategy later today.

And I'd like to close by returning to our 12 key cities. Nowhere is the NIKE Brand stronger. Nowhere is our ability to serve, inspire and create more meaningful. Take a look.

[Video In Room]

**Andy Champion, EVP & Chief Financial Officer:**

Good afternoon, everyone. I'm Andy Champion, and thank you all for joining us today.

Mark opened today by sharing NIKE's mission: to bring innovation and inspiration to every athlete in the world. It is a great place to start, because at NIKE, our mission is truly how we define winning, more so than any other metric. And our authentic and relentless pursuit of that mission is why consumers want NIKE to win. That's one of the most extraordinary competitive advantages that we have. As Trevor shared, consumers in every major market around the world rate NIKE as, by far, their #1 favorite brand. Those consumers have helped us, helped us build the unrivaled global portfolio of businesses that we have today. And in the process, they've developed a deep love for the NIKE brand, and they're always looking forward with great anticipation for the amazing new innovation that we're going to bring to market. And as you've seen today, we're bringing it.

I'd like to do 2 things this afternoon. First, I'll summarize some of the key takeaways from all that you've heard over the course of the day. And then, I'll share deeper perspectives into our new long-term financial model.

One of your key takeaways will probably be that all of us said just a few words almost incessantly over the course of the day: the athlete, the consumer, innovation, speed, direct and digital. And I want to take just a few moments to explain why we're so focused. As we all know, growth is never linear in any industry. There are periods of time when it seems that everything is working and the momentum is almost self-sustaining. And those periods are always followed by more dynamic times. And during dynamic times, there are many that feel as if they need to do everything and anything possible to change the circumstances. But at NIKE, we've learned over time that in the more dynamic times, you don't actually need to do everything. You need to do the right things. And doing the right things is about knowing your values, and it's a function of knowing what matters most. That is how leaders deliver growth over the long term.

So you may be asking, how do we know what matters most. One of the best aspects of our relationship with consumers is that they never hesitate to tell us exactly what they want, either

through their words or their actions. When we exceed their expectations, they tell us they want more. And when we fall short of their expectations, they make it very clear where we missed. Today, consumers are telling us that what matters most to them is evolving. First, they want to be even more directly connected to sport and the athletes that inspire them.

As Mark and Kobe noted, well over 1 billion consumers have chosen to connect directly through social media with NIKE and the athletes and teams with whom we partner.

Second, consumers are telling us that they want even more innovation and they want it faster. The timeline from seeding innovation to scaling innovation has collapsed. Consumer's access to information about new innovative products is real-time and global. Take the NIKE Air VaporMax, for example, which went from launch to the top-selling running shoe over \$150 around the world in just months.

And finally, consumers don't want to have to look any further than the palm of their hand to both find and get what they want. Everything from discovery to purchase is becoming increasingly easier, leveraging digital technology.

NIKE's new Consumer Direct Offense reflects our focus on what matters most to consumers. And it also reflects a very deliberate shift away from operating models of the past and acceleration toward the operating models of the future that leverage digital to serve consumers more personally at scale.

The Triple Double concisely summarizes the impact of these shifts we're making. We will double the cadence and impact of innovation on our revenue. We will double our speed, cutting our time-to-market in half. And we will double our direct connection to the consumers in the marketplace.

And driving change of this magnitude can often be easier said than done. We know that. So today, our objective was not just to tell you about the plans that we have but rather to show you actions that we are already taking.

In the 2X innovation breakout space, Tom and Jamie showed you our incredible pipeline of innovative product. And we've started to bringing some of that to market in fiscal year '18. Most notably, the 3 platforms that we believe will revolutionize running: Air VaporMax, ZoomX and React.

They also gave you a glimpse into some other game-changing innovation already in development. With Heidi and Adam, you were able to experience the new features and services that will fuel 2X direct, and many of those will be coming to life with our relaunch of Nike.com and NikePlus membership in November.

You also saw, in that room, some of the new services that we're creating that leverage the power of digital in the physical retail environment in a way that only NIKE can. And later today, Eric and Heidi will host you over at the Advanced Product Creation Center, and there you'll see some of the amazing innovation and digital product creation as well as manufacturing innovations that will enable 2X speed.

We're also confident that now is the right time to drive transformational change in our industry. We've implemented new consumer focused strategy several times in our company's history. And in each instance, they've ignited NIKE's next horizon of long-term growth. For example, in the late 1980s, we were just scratching the surface in international markets. So we implemented a new global expansion strategy and that strategy focused on more deeply connecting with sport and the diverse cultures in key international markets. The result was over 20% compound annual growth over the next decade. In the late '90s, distribution had become stagnant, particularly in the U.S. As a result, retailers and brands were becoming promotional, fighting for share within a low-growth environment. Sound familiar? What followed was NIKE's consumer focused channel segmentation and differentiation strategy. That strategy significantly expanded the capacity for our brand in the U.S.

through athletic specialty, sporting goods, department stores and even the early stages of NIKE digital commerce. The result was a doubling of our business from \$9 billion to over \$19 billion.

And most recently, in 2007, we implemented the category offense, an even more consumer-focused approach to segmentation and differentiation, serving consumers through the lens of the sports they love. The category offense led to yet another area of extraordinary growth from \$19 billion to over \$34 billion and counting.

About 1 year ago, we saw the earliest signs of consumer-led disruption in our industry. And that disruption was, of course, digital. We told you that we didn't believe retail was in a steady -- or we did believe that retail was not in a steady state, rather retail would continue to be challenged. However, at NIKE, we view digital disruption as a tremendous opportunity, a tremendous opportunity to once again connect more deeply and directly serving consumers and ultimately igniting NIKE's next horizon of growth. So we developed the Consumer Direct Offense, we realigned our organization against that offense and we're now accelerating our execution.

It's been proven that when performance is measured, the rate of improvement accelerates. So we established what we've been referring to internally as operational key measures of success. We've actually already shared many of those with you today, but I'd like to highlight just 5 of them. Five that we believe are most critical to fueling financial goals that I'll share in a few minutes.

First, we will double the cadence and impact of innovation with new innovation platforms comprising over 50% of our incremental revenue growth over the next 5 years. We've already doubled the investment that we make in innovation, and our projections now reflect the return that we expected on that investment. Those returns will be fueled by perhaps the most robust pipeline of innovation that we have ever had at one time in NIKE's history.

Second, we'll grow our digital commerce business, both owned and partnered, from less than 15% of our revenue in fiscal year '18 to over 30% over the next 5 years. As a result, digital commerce will drive over 50% of NIKE's incremental revenue growth over the same horizon. Now over the longer term, we actually envisioned digital comprising the vast majority of our business in the market fueled by the broader application of new digital technologies that we are starting to see today, including, for example, artificial intelligence, voice command, augmented reality and image recognition.

NIKE's digital commerce expansion will also increasingly be driven by NikePlus membership. As NIKE's ability to both acquire members and engage them is actually unrivaled. NIKE's organic touch points with consumers range from the 2.8 billion visits to our stores each year to the billions of consumers that we engage with on social media, to the well over 1 billion products that we ship each year. And those products will increasingly be connected serving as a seamless on-ramp to membership services. And again, when consumers give us the opportunity to serve them as members, they spend 3x more per year on NIKE.

So third, we will double our speed to market, reducing our average product creation timelines by 50%. Through the Express Lane initiatives specifically, we've already begun to: one, create products in less than 6 months, from design to delivery to the consumer; two, update products in less than 3 months, from demand signal to delivery to the consumer; and three, fulfill or replenish sold-out product in just a matter of days. We're building these capabilities with the view that will ultimately leverage these shorter timelines across our entire business; fourth, we will leverage the Triple Double to drive higher, more consistent full price sell-through in season. We're targeting 65% full price sell-through in season with 25% surgical markdowns in season. And that results in less than 10% of products needing to be sold out of season. Each percentage point of improvement in full price sell-through over a year for NIKE could deliver as much as \$100 million in margin benefit.

The closer we are to market, the stronger the demand signal. The stronger the demand signal, the better the assortment and the tighter the supply that we put in front of the consumer. And that's what drives full price sell-through. Fifth, everything you've heard from us today is about ensuring that NIKE

is the #1 favorite brand as rated by consumers in each of the 12 key cities and 10 key countries that we see fueling over 80% of our projected revenue growth. We will continue to track consumer's perception of our brand and increasingly how they engage with us digitally and obsess over those insights.

These key measures of success and the others that you heard over the course of today are already impacting everything we do at NIKE, from where and how much product we allocate within the marketplace, to our investment prioritization, to the athletes and teams with whom we choose to partner, to brand marketing and our demand creation mix to talent acquisition and development.

So with that, I will turn over to our new long-term financial model.

As Mark said this morning, we expect high single-digit revenue growth and mid-teens EPS growth over the next 5 years. As I provide deeper perspective into each of our growth, profitability, investment and returns, there will be one important thread running throughout: digital. Our growth will be amplified by digital. Our profitability will expand based upon the impact of digital. And our investment will over-index toward digital. So with that, I'll share a bit more detail on the dimensions of our growth. I'll begin by describing how we develop our projections for each of the 12 key cities and 10 key countries that ultimately roll up into the 4 geographies.

First, we build our own internal projections as to athletic footwear and apparel market growth. While external productions are a valuable input, we know that as the leader, we can impact the trajectory of the market based upon the products that we're bringing to market.

Second, we identify opportunities within each category, where we can better serve the consumer than we have to date and gain share. It's worth noting that we assess share dynamics based upon all of the information available to us. That's across all channels and including NIKE Direct sales.

Third, we take into account how our business model shifts will impact our reported revenue growth. As both Trevor and Elliott shared, we're leveraging a new marketplace framework that will drive the transformation of the marketplace and create Nike Consumer Experiences. That same framework also helps sharpen our growth algorithm. Within that framework, we see growth in our NIKE Direct businesses continuing to outpace third-party wholesale.

That over-indexing growth in NIKE Direct drives an inflection in our reported revenue and gross margin as we capture the full retail price at which NIKE Direct sells to consumers.

And finally, reconsider risk or potential discontinuities in each market, ranging from macro risk in developing markets to industry risk such as retail disruption right here in the U.S.

So with that, let's turn to North America. We have the leading brand and a roughly \$15 billion business in North America that we expect to grow in the mid-single-digit range over the next 5 years. As Elliott said, over 60% of our North America business today is transacted through undifferentiated multibrand wholesale.

Now while that distribution has created capacity to serve strong consumer demand to date, we see that component of distribution contracting over the next 5 years. Over the same horizon, we project that Nike Consumer Experiences, digital and physical, owned and partnered, will expand to over 80% of the business.

Our projected rate of growth for North America does take into account the risk of further retail disruption. While we can't predict, with precise timing, potential store closures, we have quantified the aggregate risk. And if the aggregate risk were to materialized in fiscal year '19, for example, with no in-year recapture of that demand, our targeted rate of revenue growth for NIKE overall could be impacted by about a couple points. We view that as a discrete, short-term impact. What's more important is fueling the Nike Consumer Experiences that will recapture that demand and drive long-

term growth. We will provide you with our initial guidance for fiscal year '19 later this fiscal year, taking into account all of the factors in play at that time.

So let's turn to our international markets. We project low double-digit revenue growth in our international geographies in aggregate over the next 5 years. Now today, international represents roughly 55% of our business, and we see that expanding.

Leading the way will be Greater China. In Greater China, we will target low to mid-teens revenue growth. As Mark highlighted earlier, there are incredibly strong macro and consumer tailwinds supporting NIKE's growth in China. And sport participation and the culture of sport are also expanding. Finally, distribution in China is already very well-suited to our Offense. China has leapfrogged many of the stages of physical and digital retail development that we've undergone here in the U.S. So we are incredibly bullish about China.

Now let's transition to EMEA. We have very strong momentum across this newly constructed geography, which largely comprises our former Western Europe and CEE geographies. And NIKE is currently the #1 favorite brand in all 5 key cities across this region. For EMEA, we project mid to high single digit revenue growth over the next 5 years.

To serve this very strong demand that we see for the NIKE brand in EMEA, we're aggressively rolling out Nike.com and our mobile apps across this diverse geography while also investing in enhanced local digital capabilities.

Finally, we have another newly constituted geography, Asia-Pacific and Latin America. APLA combines the countries previously included in our emerging markets geography with Japan. In APLA, we expect high single digit to low double-digit revenue growth over the next 5 years. And growth in this dynamic region benefits from an emerging middle class as well as an incredible passion for sport, most notably, the sport of football. The influence of key cities will also drive extraordinary growth in APLA. 3 of our 12 key cities are in this diverse geography: Tokyo, Mexico City and Seoul. And today, NIKE is already the #1 favorite brand with the over 85 million consumers in just those 3 cities alone. But that said, from a business perspective, we still have tremendous untapped opportunity to grow in those cities and in the geography more broadly. We see opportunities not only in football and sportswear but also in women, running, basketball and Jordan.

So while the Consumer Direct Offense is, first and foremost, a growth strategy, our new offense will also drive expanding profitability. We expect strong gross margin expansion over the next 5 years, as much as 50 basis points annually on average.

Going forward, there are 4 primary drivers of our gross margin expansion. The first driver is the faster rate of growth in our NIKE Direct businesses as compared to third-party wholesale. Our NIKE Direct businesses in aggregate are significantly higher margin than our third-party wholesale business. As a result, the shift in mix has a favorable impact on gross margin. Second, we see the opportunity to continually enhance the price-value relationship for the consumer.

That will be a function of doubling the impact of innovation within our product mix and editing our assortments to amplify the products that consumers love most, including through our approach to the Power Franchises which Michael referenced earlier today.

Third, product cost optimization initiatives will yield significant benefits in terms of margin. Flyleather is a great example of a product innovation that improves performance while also significantly reducing the cost of materials to NIKE by reducing waste. The new method of make that Eric shared earlier today is an example of greater automation and speed, which reduces our reliance on labor.

Fourth, the combination of 2X Speed and 2X Direct will bring us closer to consumers than ever, leading to tighter demand and supply management and stronger, more consistent full price sell-

through. As I shared earlier, the impact of stronger full price sell-through on margin can be very significant, and especially in comparison to today's promotional environment in the U.S.

Next, let's turn to the investments that we will make to fuel our strong projected growth and profitability.

For SG&A, we're targeting straight -- we're targeting slight leverage. We'll expand investment in areas that will differentiate NIKE as the leader long term, while gaining productivity through only modest investment in other important but less differentiating dimensions of the business.

It's worth noting, while we're targeting slight leverage in our total SG&A, our actual levels in investments may vary year-over-year. We'll always prioritize and never hesitate to make the investments in the short term that we believe are required to fuel long-term growth.

Now as for capital expenditures, we expect to reinvest about 3% to 4% of our revenue over the next 5 years. The specific areas in which we're investing most significantly in terms of both SG&A and CapEx are the following: product innovation, product creation more broadly, including the Express Lane; brand marketing, that drives true brand distinction; and perhaps, most notably over the next 5 years, the digital technologies and talent required to enable more personal service of the consumer at scale.

While many of our direct investments will be around building capabilities in-house, we will also be increasing our investment in the acquisition of capabilities or co-investing with partners in the capabilities required to accelerate our strategies. For example, we're co-investing with Flex to revolutionize manufacturing. We also acquired and are continuing to invest in a talented digital team in New York City, some of whom you met in the breakout room. They're creating new consumer experiences like those you experienced for our sneakers app. Additionally, we're currently pursuing opportunities to invest through acquisition or partnership in areas such as data science and analytics, machine learning, augmented reality, artificial intelligence and digital product creation.

Now finally, I want to touch on our projected returns to you, our shareholders. Our target range for return on invested capital will be slightly higher than the range we shared with you 2 years ago. We now expect ROIC to average in the low 30s over the next 5 years. Our expectations in terms of ROIC are driven by continued efficiencies within working capital as well as a higher return potential associated with the types of incremental investments that we're making in innovation and digital. Those are the types of investments that we see as having asymmetrical returns.

Now over the past 5 years, we have consistently increased our returns to shareholders through dividends and share repurchases, and we will continue to do so. Accordingly, we expect to maintain a 25% to 35% dividend payout ratio, coupled with continued share repurchases.

So I started this session speaking to how we define winning at NIKE. And I want you to make no mistake about it, we are absolutely determined to win.

I want to thank you all for joining us today. We have packed a ton into the day from content to experiences, and we hope you're all enjoying it.

We really appreciate you being here. Thank you.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Okay. Well, thank you, guys. As we get ready for the Q&A session, just some quick brief remarks from me. I think you saw today at NIKE we push limits, and I know in some cases for those of you guys in the room, that may we could push the limits of your hunger a little bit today, so appreciate your working with us on the schedule. As we get set up, a few housekeeping remarks. So we have

a couple of people walking around with microphones. If you have a question, please raise your hand, we'll have members of the IR team coming to you so that you can use a microphone.

When you get it, please introduce yourself, so we know who we're speaking with, and we ask that you limit your questions to one to allow as many of you can speak as possible. Okay, we'll start in a second.

## **QUESTION AND ANSWER SECTION**

### **Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Okay. Guys, want to come on up? Why don't we take the first question over here from Matt?

### **Matthew J. McClintock - Barclays PLC:**

Matt McClintock, Barclays. So just on gross margin, Andy, you talked about up to 50 basis points per year going forward. Historically, you have annually guided a 30 to 50 basis points gross margin expansion. This year specifically, you said greater than that range, 30 to 50 basis points. Can you talk about what's driving that? Because it would seem like you're increasing that mix shift towards DTC. You are going back towards more full-price selling. So it would seem like there's lot of pressures that would be -- or not pressures, benefits, tailwinds that would be driving up better than what we're seeing this year in terms of gross margin expansion. What's offsetting that and getting to that up to 50 basis points?

### **Andy Campion, EVP & Chief Financial Officer:**

Yes, it's a great question, Matt. The other thing that was different this year were the primary drivers of gross margin expansion, and you touched on a couple of them. Most notably, I started with the shift in our business towards more direct, and that is more impactful tailwind going forward than it has been. We've obviously grown that dimension of our business at a faster rate, but in certain geographies we see that business shifting more materially. The real theme is digital. Digital is a potentially much more profitable dimension, both owned and partnered, from a margin perspective. There are several other drivers that we see as potentially significant opportunities going forward. I'll tell you on the other end of the spectrum, as you know, FX has been a significant headwind for us particularly over the last couple of years based on where rates are today and the strategies that we have in place. We certainly see that having moderated or being less material, if not a slight tailwind going forward. And so on that end of the spectrum, we are fortunately, as we emerge from fiscal year '18, putting that headwind behind us.

### **Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Why don't we take one on the other side of the room?

### **Jamie Susan Merriman - Sanford C. Bernstein & Co., LLC:**

Jamie Merriman from Bernstein. You gave the goal in terms of full-priced sell-through of 65%. Can you just tell us where you are today and how you think you get there?

### **Andy Campion, EVP & Chief Financial Officer:**

I can start on that one. It is -- it does vary by season and by market. We are not at that number today, so we do see that as an opportunity for improvement. We don't report on that number externally. But what we will be reporting on externally, as we continue to do, is how our business is doing from a supply and demand management perspective, how we're managing inventory and where we see consumer demand strongest. We often refer to it is a pull market. That's more of an internal measure of success, but it's certainly measure of success that will be increasingly giving you some dimension

and, at a minimum, some qualitative perspective into. But it does vary by market, by season. That was an overall for the annual period metric.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Let's go back on this side. Can we grab one over here? Bob?

**Robert Scott Drbul - Guggenheim Securities, LLC:**

It's Bob Drbul from Guggenheim Securities. Eric, you have the coolest shoes up on the stage.

**Elliott Hill, President Geographies and Integrated Marketplace:**

A lot of debate the last couple of nights, who is wearing what up on stage.

**Eric Sprunk, Chief Operating Officer:**

For us that's a big deal and I am going to celebrate that comment.

**Robert Scott Drbul - Guggenheim Securities, LLC:**

Doesn't it match his jacket very nicely?

**Robert Scott Drbul - Guggenheim Securities, LLC:**

I'm just glad you don't have toning shoes on.

**Eric Sprunk, Chief Operating Officer:**

Thank you for your question, Bob.

**Robert Scott Drbul - Guggenheim Securities, LLC:**

I was just wondering if you could address the industry pricing paradigm that's going on today. A lot of new shoes that you have coming out in the pipeline the next 12 to 24 months, just wondering if you could just walk through some of the price points on the -- was it the Epic React, and the Shox, the 270, any -- if we could just walk through and understand where you think the industry is going based on especially where we are today.

**Michael Spillane, President, Product and Categories**

I'll take that, and thanks. Look, I think we -- with each category, we have a very specific pricing period that we put together to try to serve all consumers at all price points. I think, we talked about earlier, we want to have the best product at every price point. And ultimately, consumer demand will weight where the majority of the business goes. What we've seen with the VaporMax, we price that at the high-end of the marketplace, and it's probably been our best-selling product. So what we've really learned through the process is when you have a great product with great innovation and it connects with the consumer, pricing really doesn't matter. It's really about solving what the consumer's looking for. So we see as long as -- and I think you walked through our innovation and product room as well as the membership area, we have a lot of amazing things coming, so we're pretty confident in terms of where pricing goes forward.

**Mark Parker, Chairman, President & Chief Executive Officer, NIKE, Inc.**

I'm just going to add, pricing -- innovation and pricing, there's a relationship too. In this Complete Offense in the sense that we're focused on bringing innovation down in price points as well. The old model was to innovate at the top and then essentially strip it down to a lower price -- more accessible price point. We're actually applying our innovation to the lower and mid-price points as well to create more balance in the product creation process. So it's not just the takedown approach. And I think, that, in the end, will give us a more balance innovation offering for the consumer, up and down the price point.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Why don't we come in the middle here to Lindsay?

**Lindsay Drucker Mann - Goldman Sachs Group Inc., Research Division – MD:**

I have one question, but it's in 2 parts because I think one part you may not answer. In one of the -- sorry, Lindsay Drucker Mann from Goldman Sachs. In of the breakout sessions, the membership session, I noticed on the app that Morgan could buy a pair of blue VaporMaxes either at the NIKE store or at a Foot Locker. So I was wondering what your plan was as it relates to shared inventory in the future. We didn't discuss that but I observed that. And second, as you think about your differentiated retailers, the 40% that will grow to 80% over time, is there an -- what happens to the 60% today that are undifferentiated? Is there sort of an orderly wind down process because that going out of business or whatever dynamic could be disruptive to you guys?

**Elliott Hill, President Geographies and Integrated Marketplace:**

That's really 2 questions. I think I'll take both of them. You may have to remind me on the second one though. I'll take the first question around seamless inventory. I think, go back to the consumer, and that's where we always start. We've stated it time and time again today, the consumer wants fast, easy, personal and premium. So that's the journey that we're on. And we're starting first with our sales back half of '18. We will have a seamless integrated inventory with our own NIKE Direct. We've had a number of conversations with our strategic partners and they share a vision where we will also seamlessly share inventory. We've already got a couple pilots up around the world, one I referenced in the presentation around Zalando. So at Zalando, a consumer comes in and wants to buy a style, size, color of NIKE and they don't have it, we actually complete the transaction through our NIKE Direct inventory. So that's already up and running. So again, over time, we see a vision where you'll see more and more shared inventory between NIKE Direct and our strategic partners. In terms of the shift, and again that was a North America-specific conversation. We've identified the strategic partners that share the same vision that we have for their consumer, fast, easy, personal and premium. And again, premium is at all price points to play off the product conversations. And so we see that shift continuing to take place, and we'll accelerate that. And we have ways, a list of things that we can do to accelerate that shift, and I won't go through the whole list, but I'll share a few. One, we are shifting people and resources to that differentiated side. We are shifting high heat product allocations to the differentiated and marketing [fronts] to the differentiated. So we will accelerate the shift to serve the consumer. And I think there will be an orderly fashion in that undifferentiated. It's not like we're going to go and just close every one. There will be an orderly fashion that takes place over time. And again, we believe we must do this in service to the consumer, and we believe it's a critical part of our overall Triple Double strategy to accelerate growth in North America.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Why don't we go over here to John?

**Jonathan Robert Komp - Robert W. Baird & Co.:**

Jon Komp from Baird. Kind of an open-ended question, but, Andy, you put up the slide about the multiple decades and the various challenges the brand has overcome in the past. Maybe correct me if I'm wrong, but it seems like some of those challenges have taken multiple years to get through. I'm just wondering if that's the right historic context to view the past and how that applies in the current period we're in today.

**Andy Champion, EVP & Chief Financial Officer:**

Well, hopefully, what you felt today is that we're already taking the actions. Again, today, the -- this Investor Day, maybe more so than any you might experience was about experiencing what we're actually doing versus us telling you what our plans are for the future. So we think we're well underway in terms of driving some of those shifts, 2X Innovation, 2X Speed and 2X Direct that will fuel that acceleration in next horizon of long-term growth for NIKE. I'd say maybe most notably, I referenced that we doubled our investment innovation. That is a past tense conversation. And we really are seeing the returns from that now. And you saw it in the 2X Innovation space earlier. So we think we're well into it.

**Trevor Edwards, President, NIKE Brand:**

Yes, and you could also add that when you think about digital as an example, we doubled down on that investment earlier, because we did believe that that's where the market was going. Having said that, we have seen that actually shift at an even faster pace. And so part of -- for us it's always trying to get ahead of the -- where we see the market going and make sure we're doubling down on where we believe the market will go, and to Elliott's point, that's why we said we will go down the path of differentiated retail because we believe that is the future. Obviously, Direct is the future. So I think some of these things we might have started them. Now the acceleration is happening at a much faster pace and our task is to constantly go even harder on the things that we know are critical.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Thanks, John. why don't we go here to Paul?

**Paul Trussell - Deutsche Bank AG:**

Paul Trussell, Deutsche Bank. Thank you for the color you provided today. Just to be clear on guidance, are you reiterating revenue and earnings guidance for this current year? And how should we think about the cadence and the curve of revenue and gross margin over the next few years, both domestically and internationally? I just want to make sure that we do understand that caveat that you outlined around potential challenges in the wholesale market.

**Andy Champion, EVP & Chief Financial Officer:**

Yes, today is about our long-term growth trajectory. And what hopefully you gathered was the very rigorous approach that we take to developing that perspective over the next 5 years. Today wasn't about quarterly performance or even annual performance. One thing I did note and wanted to make sure was very clear is we do see some potential disruption ahead in the North American marketplace. Again, we've rigorously quantified that potential risk. And as I said earlier, we can't predict the precise timing of retail store closures. You go through disruption of this nature, everybody's in a different circumstance. We have retailers who share our strategic vision and are accelerating and people -- there are others who are in a different circumstance. But again, for context, should the aggregate amount of the risk, without taking into account any potential recapture, take place in a fiscal year like fiscal year '19, it would only impact our trajectory by a couple -- not trajectory, but it would only impact revenue growth in a specific period like that by a couple of points. And again, our objective as you saw today is to accelerate the Nike Consumer Experiences and, importantly, Nike.com and membership that recapture that demand that's there in the marketplace, but may be disrupted based upon a specific retailer situation.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Why don't we go back to the back corner? Simeon, you want to go?

**Simeon Avram Siegel - Nomura Securities Co. Ltd.:**

Simeon Siegel at Nomura Instinet. You mentioned last year, you noticed the channel disruption towards Digital. Can you comment in a similar vein regarding marketing? Has anything changed in terms of the power of the athlete versus celebrity versus social media influencer? And just in light of the comment around SG&A leverage, maybe talk to me about how you're viewing marketing over the next several years?

**Trevor Edwards, President, NIKE Brand:**

Yes, I'll take that. I think one of the things and I think you heard that as maybe a common theme about kind of how we work and we talk about edit to amplify. And in some respects, what we have seen around marketing is to make sure that we are investing the marketing dollars against the most important things. And for us, that certainly is -- and you heard us talk a lot about innovation as we've powered up our storytelling. So you will see us do that even clearer. So rather than do multiple tasks, make sure that we're really singularly focused -- to make sure that the brand is strong. At the same time, we believe that investing across many -- different dimensions, so whether you go from television or film or you go into social media that actually guides and helps the consumer and at the same time, or some of the investments we're doing around membership. All of those things are part of what I would say is the new way that we're doing marketing. Now in terms of some of the things that we're utilizing, so you asked about athletes and influencers, what I would say is that the idea that athletes are not a powerhouse of influence would be kind of missing it. I think athletes are clearly, in today's world, it's -- you can kind of see everywhere, the power of athletes. When you think about someone like Cristiano Ronaldo, he has 300 million followers, right? Neymar has 200 million followers. And so, I think some of these things are sometimes important to sort of put in context. At the same time, what we do believe is that being able to use other influences to help amplify our business, to amplify the story. So you saw whether we're using Virgil Abloh to help us with some -- help design products and give his interpretation or Riccardo Tisci or any or Comme des Garçons so we're using multitudes of different approaches to actually make sure that we stay tapped in, the kids can get new and sort of fresh perspectives about our brand. So we believe it's the combination of those things. So we think of it as a multiplayer as opposed to -- it's not an or. Definitely it isn't an or. We firmly believe athletes have incredible resonance and we certainly get that from the youth that we connect with.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Thanks, Simeon. Why don't we just come right in front here to Cedric?

**Cedric Lecasble - Raymond James Euro Equities:**

Cedric Lecasble, Raymond James. I have a question on the way you want to meet the consumer needs in terms of speed with your different production facilities. We've seen 2 aspects. You mentioned quickly the fact that you could put many more automation -- much more automation in Asia, for instance in your partners. We don't -- you didn't focus too much on that, but as Chinese is very fast, Chinese consumers, highly connected, you have to be as fast in China as you should be in the U.S. We mentioned Flex, we mentioned partners, but not that much your Chinese facilities and partners. How fast can you think you can combine both? And how fast do you think you can put your Asian facilities, maybe not at the level of the top U.S. new facilities, but how does everything match?

**Eric Sprunk, Chief Operating Officer:**

Yes, it's good question. I think, I talked a lot about speed and scale across every product and across every factory in the store space. And while we spend a little bit of extra time today on Tegra and Flex because it's mostly relative to the North American market, we're trying to get onshore and nearshore in all of our major markets around the world. China is a great example where we have a really robust innovative source base in China to serve the China consumer. As we set up the Express Lane that Michael talked about in Shanghai for the China consumer using that source base, which is just 1, 2 or 3 days away from those major markets is the agenda and is the game plan for us for China. Same -- that's not really copy-paste, but the same approach around speed and scale, literally everywhere around the world.

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

In some ways, the Chinese consumer is actually more demanding than the consumer in North America in that respect. So there is a major focus on accelerating speed to market in China and being really responsive to those consumer needs.

**Eric Sprunk, Chief Operating Officer:**

The video we showed on the Air Jordan XIII today, I said it was our manufacturing partner Feng Tay, it's Taiwanese-based manufacturing partner with great footprint in China. So they're well out ahead of the automation curve, and we are also innovating in those factories as well.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Great. Now we'll go back to that side, right there.

**Laurent Andre Vasilescu - Macquarie Research:**

Laurent Vasilescu from Macquarie. I wanted to follow up on the manufacturing revolution. I think a year ago, it was called out that about -- there were tens and millions of dollars saved by quarter with regards to the manufacturing revolution. Can you tell us where that can go over the next 5 years as part of the gross margin algorithm? And then in terms of Tegra is just a housekeeping question, is that the partnership with Apollo Global Management?

**Eric Sprunk, Chief Operating Officer:**

I can take both. Andy doesn't always let us talk about the savings from ManRev the way you wanted to so. Tegra is the Apollo Capital, effectively the verticalization of the -- of nearshore onshore apparel for promoting the license that we've had a great relationship with in a strategic partnership with. I'll mention -- the more -- the faster the better and the more the better on the savings from ManRev. We feel really, really good about those. Fair point that we didn't give you a target or a financial quantification of those savings, but they are -- we're well into the tens and millions of dollars each year from those savings. I mentioned today, we rolled out some of the automation techniques to over 1,500 of our models, 1,200 pieces of equipment that get to that automation. It's having a significant impact on our cost. Frankly, ManRev is multifold, right? It's reducing labor and eliminating waste, driving the cost of the product down. It's driving speed and responsiveness so that we get more full price sales and we get better inventory optimization and maybe most importantly, it makes our product better. That combination has proven really beneficial for us, and we are now at a point -- I hope that you took away today that we're not just kind of finding this step in the process to automate. We're putting them together, and we're doing it a scale across the source base.

**Andy Campion, EVP & Chief Financial Officer:**

And I think the series of implementations of automation and the types of things that reduce our reliance on labor do add up and, to some extent, aren't separate and distinct. At the same time, some of the step changes that we're now seeing, Flyleather was a great example. If you may recall a couple of years ago, I shared with you that over \$1 billion worth of what we spent on product cost is actually waste. I think what's most exciting about this journey we've been on manufacturing revolution-wise is we're starting to tap into some of these innovations that are true unlocks of that potential scale in terms of benefit.

**Eric Sprunk, Chief Operating Officer:**

Flyknit being the first of the significant ones a couple of years ago.

**Andy Campion, EVP & Chief Financial Officer:**

Yes. And so we're seeing some step function changed type opportunities with some of the new innovations that are being created.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Okay. Why don't we go back here to Kate?

**Kate McShane - Citigroup Inc.:**

Kate McShane from Citi. I don't mean this to be provocative at all. I'm just very curious and a little nervous to ask it, so just bear with me. I'm just wondering, what would have happened if you launched all of these new platforms 2 years ago? I'm asking the question because, is it a foregone conclusion that innovation prevents more fashion casual silhouettes from becoming a trend? Or is it more that you think the consumer is ready for this innovation now versus 2 years ago?

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

Let me touch on that. First of all, there is -- we tend to make this sharp distinction between performance and style. And our point of view is that there isn't, from a consumer standpoint, that sharp a difference. There is a lot of traveling back and forth across that spectrum. So you'll see even what we're wearing here, there's performance that is bought for style and style that is bought -- we're actually bringing performance into style. And that's a big part of our innovation agenda. So I think you'll see more innovation coming from NIKE not only on the performance side but on the sportswear side of the business, not just in footwear, but also in apparel, for men and for women. And I think performance done well is actually quite stylish and has much more consumer appeal than just the performance intended end use target. So that's really the important thing. It's not just the innovation, it's the style that you bring with the innovation. So it's -- we're not looking at those as 2 completely separate categories, if you will. Trevor, you want to...

**Trevor Edwards, President, NIKE Brand:**

No, I mean, the only thing I'd probably add there which is that I think as you heard us say the consumer has an insatiable demand for newness, and perhaps that's one of the things that -- I would say that is the hallmark of the market right now, and I think we think that will continue. And one of the reasons it will continue is because of what we see is people are being more active in their lifestyles. And at the same time, we're seeing people wear more athletic product for more occasions. And that's giving the consumer more reasons to have different choices in their wardrobes. And so to Mark's point, we can sometimes take a -- what is a classically looking performance product that is stylish and through color and material, you actually make it much more of a lifestyle product. So

we're seeing that mix go -- continue to go. But the key point is, more and more people are wearing athletic products for more and more occasions, whether sport or through their life, and that provides great opportunity for us to keep growing.

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

I'm trying to think of an example that you might have saw in the innovation space. And one that I think is particularly good is the LeBron 15. Traditionally, we would have brought that style out in one color. We would have updated the color at Christmas. We would have updated the color at the All-Star break. They'd be decidedly athletic colors. I think what you see, with the examples in the room was much more creative interpretation of that style to make it much more relevant across a broader access point. And I think you'll see a lot more of that coming into the performance innovation product as well. It doesn't compromise the performance. It just opens up the access point to that type of product, and makes it more relevant to more people.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Why don't we take one in the front right over there.

**Mitchel John Kummetz - Pivotal Research Group LLC:**

Mitch Kummetz with Pivotal Research. I was just hoping to get some clarity, Andy, on the digital percentage. You're saying, go from 15% to 30%, I believe, and that's a combined, owned and partnered percentage. So is that like some sort of a wholesale equivalent basis? Or is that based on sort of reported dollars? And is there anyway like on the 30% that you can kind of parse out what's owned versus partner?

**Andy Champion, EVP & Chief Financial Officer:**

Yes. It is including both owned and partnered. It is including our business that retail partners at wholesale, because that number was a metric in comparison to our total reported revenue growth. And the only thing I'd add to that is, and I touched on this, we see accelerating pass that number. The investments we're making are setting up capabilities, we shared some of those with you that we frankly believe that consumer will want more and more of. That's a number within the next 5-year horizon. It's one of the numbers that we could see potentially accelerating past within that horizon, but we certainly see opportunity well beyond that -- out beyond 5 years.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Okay, we're going to take two more questions. So why don't we go here to Sam.

**Samuel Marc Poser - Susquehanna Financial Group:**

Sam Poser, Susquehanna. Just -- the U.S. inventory situation. At what point in the -- how long is it going to take to sort of get the model back to a full pull model here and clear through the excess inventory that's out there. For instance, you have a lot of big launches coming out this holiday season. Are you reducing the amount of inventory going into the marketplace to support those launches to make sure you clear out, not have residual carryover.

**Trevor Edwards, President, NIKE Brand:**

Yes, so I'll start off and then I think that a couple will jump in here. I think -- when I think of -- maybe I'll give a context to it, first and foremost. I think Mark said it earlier, every time we think about the North America market and we think about what is the key to the North America market, we say first and foremost, it's great product. Right? And so one of the things that we've done and as we've talked about the idea of bringing more innovation into the marketplace, that's really, really critical for us.

We will continue to strengthen our storytelling in the marketplace. We have made progress around inventory. In fact over the last couple of seasons, we've actually seen the decline in inventory in North America, specifically. The other piece that we are doing is that we will make sure that we are managing the marketplace in terms of MAP pricing. So there are things like that we're doing. But if you start up top, the first thing we want you to think most and foremost about is about actually creating demand for the brand is really, really critical and we believe that pull market then starts to actually alleviate all the other pieces.

**Elliott Hill, President, Geographies and Integrated Marketplace:**

I'll just be real tactical for you, Sam. Just we have -- take a look at forward orders and we have really decelerated the futures orders going in, so were trying to right-size inventory. We came off of MAP. You can -- we all know that the North America marketplace is being promotional. Moving through that inventory and now we see sales exceeding inventory at retail. Then you've seen our own inventory numbers, we reported those at Q1, where we've come down in inventory. So as we move to the back half, we will move back to MAP in the United States, MAP pricing, and actively manage MAP pricing program in January and we see moving through the inventory and the promotional activity in the back half of the year.

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

One point I just want to throw in. It's a little bit related, but we talk a lot about product and how important that is. Obviously, that's an obsession, appropriately. But when we say that, we're not talking about more product. I think one of the things that we are completely obsessing on internally, that doesn't come out maybe enough, is that we're trying to edit the product line more effectively and provide more choice at the same time. This is really important. It does affect how we manage demand planning and inventory management. And that's critical. I don't think we need more product. I think we need better choices. One of the things that happened with the category offense is that we created deep insights into each category, which translated into lots of product opportunities. There were actually redundancy between the product categories that we're now managing more effectively through a centralized merchandising effort. So we want to go deep, but we want to be edited and then we want to provide more choice at the same time. And I think that's a win all the way around.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

We'll take our last question at the back from Omar.

**Omar Regis Saad - Evercore ISI:**

Omar Saad from Evercore ISI. It's really impressive the capabilities you guys are building, digital, supply chain, product innovation, consumer experiences, on and on. It kind of strikes me that NIKE maybe is evolving from a brand company to more of a platform company. So maybe you could talk a little bit about how you take those learnings to some of the other brands in the portfolio. And maybe longer term, is it possible to add other brands to the portfolio to leverage this what seems to be pretty unique holistic skill set around from end to end?

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

First of all, I think that's a good observation. I think there is an opportunity. I'm not going to say we're moving from to. I think it's more of an and. I think there is an opportunity to leverage the brands that we have in the portfolio currently and then we'll see. We're a growth company. If there's an opportunity to leverage this skill set that we're investing in and obsessed in developing, then that's something we'll be taking a look at. But I'm not going to say no. I'm not going to say it's not an opportunity.

**Andy Campion, EVP & Chief Financial Officer:**

Yes, Omar one thing I'd add is we do really look at within the Nike Brand having a global portfolio of businesses, whether it's categories, geographies, dimensions of the marketplace. And I think what you've really locked on to is, while we have not been pursuing brands as the opportunity, what we've really been pursuing is investing in-house in capabilities or platforms as you called it, or acquiring platforms and capabilities that we can leverage within that global portfolio of businesses, even within the NIKE brand.

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

We can leverage that competency and we will for sure. But the biggest unlock, frankly, is the connection that we're making with the consumer and that personal relationship in that we can translate into doing a better, stronger business, operating more personal at scale. That's the thing that we are most excited about, but I think it opens up those sorts of opportunities as well.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Mark, you want to hit some last thoughts before...

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

I just wanted to -- we're wrapping up, that was the last question. You guys have been kind of hooked up to the firehouse today and we threw a lot at you. We've been very excited about sitting down, spend a little while. There's been a lot going on. As Andy said, this isn't the start of. We're already in the midst of much of the things we talked about today, but we're incredibly excited about the growth plan. We think a lot of what we've talked about today is really -- hopefully, gives you more insight into why we think we can ignite this next phase of long-term growth and make that stronger connection to the consumer and innovate and be faster. In the end, it's all about making us more competitive. We're a sports company. We're very competitive. These sorts of challenges, I think we're in, in terms of the broader disruptive marketplace, particularly in North America, is what makes us better. We've gone through these transitions before and we're very excited about what this means to us right now. So I just want to thank you for your attention, your support and your questions. So cheers.

**Nitesh Sharan, Vice President, Investor Relations and Treasurer:**

Thank you. Thank you everyone joining on the web. And I want to say to those of you in the room if you just hang on for a brief sec, you'll hear another voice from above.