

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

### **Operator:**

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2019 second quarter conference call. For those who want to reference today's press release you'll find it at <http://investors.nike.com>. Leading today's call is Nitesh Sharan, Vice President, Investor Relations and Treasurer. Before I turn the call over to Mr. Sharan, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC including the annual report filed on Form 10-K.

Some forward-looking statements may concern expectations of future revenue growth or gross margin. In addition, participants may discuss non-GAAP financial measures, including references to constant-dollar revenue. References to constant-dollar revenue are intended to provide context as to the performance of the business eliminating foreign exchange fluctuations. Participants may also make references to other non-public financial and statistical information and non-GAAP financial measures. To the extent non-public financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliations will be made available at NIKE's website, <http://investors.nike.com>.

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

### **Nitesh Sharan:**

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2019 second quarter results.

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

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

Joining us on today's call will be NIKE, Inc. Chairman, President and CEO Mark Parker, and our Chief Financial Officer, Andy Campion.

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

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

### **Mark Parker:**

Thanks, Nitesh. Hello, and Happy Holidays everyone.

We've seen some amazing highlights in sport this past year.

...Eliud Kipchoge smashed the marathon world record...

...Simon Biles dominated the World Championships...

...Kylian Mbappe became a global star at the World Cup...

...and LeBron James continued to inspire on and off the court...

It was a year of incredible achievements for Nike as well and Q2 was another strong proof point on our journey. We continue to show progress against our key long-term objectives of driving innovation, direct connections, and speed and agility all around the world.

Our teams are doing a fantastic job of delivering sustainable, profitable growth through the Consumer Direct Offense while aggressively pursuing our highest potential long-term opportunities. We set high goals and each success makes us hungry for more.

The marketplace in which we compete is highly dynamic. Consumer expectations are accelerating, and the macro economy is increasingly volatile.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

A key part of our strategy to win in this environment is to double-down on digital. Our digital transformation is taking hold through a series of positive disruptions across the business.

For example,

...we're leading the industry through a retail revolution...

...we're creating sport's first smart, adaptive footwear...

...and we're investing in a global supply chain that delivers personal at scale.

It's all incredibly energizing. And we find that the more disruptive we are, the more we grow.

Our digital disruption is fueled by breaking old models, building new commerce partnerships, and merging new talent with our years of industry experience. Our teams are driving change and it's yielding excellent results.

For the quarter...

- Nike, Inc. Revenues grew 10%. On a currency-neutral basis, Nike Inc. Revenue increased 14%.
- Gross Margin was up 80 basis points to prior year.
- And Earnings Per Share was up 13% to prior year.

Specific highlights include...

...9% growth in North America and nearly 20% constant currency growth in our international geographies.

...Digital growth of 41% on a constant currency basis and continued momentum in both Sportswear and Performance categories including a return to growth in the Jordan business.

The momentum we're driving is grounded in strong product innovation. We're increasing the pace of new concepts and bringing a new discipline to how we manage the lifecycle of our innovation.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

We have a clear roadmap of how we stage our new platforms – giving each one the space to shine through high-energy storytelling then ramping up scale and choice to serve diverse consumer needs. Put simply, we're increasing the return on investment in innovation.

One of our great differentiators is, of course, Nike AIR. It's being energized through platforms like Vapor Max and Air Max 270 – two of the world's top-selling athletic footwear models.

New interpretations of our icons, led by the Air Max 95 and 97 and this Spring, we're excited to add a new, distinct AIR platform to the mix with the Air Max 720. The consumer is already anticipating its arrival and we'll keep the interest high through multiple iterations early in its product lifecycle.

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

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

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

That reputation has made its way to the everyday athlete making 4% the most sought-after shoe on race day. And it's created a halo effect for many of Nike's other Fast Footwear styles, especially the Peg 35, driving double-digit growth in the Running category in Q2.

I'm excited to announce that in the New Year we'll launch a new Adaptive performance platform in basketball at the \$350 price point.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

We have a smart shoe designed for the perfect FIT and it's a major step in advancing and connecting our digital transformation to product.

This is just one "better FIT" solution among many that we're working on and we look forward to rolling them out throughout the year.

We have a full innovation pipeline ahead including new cushioning platforms which will carry our strong product momentum into Fiscal 20, all the way to the Tokyo Olympics and beyond. I've spend a lot of time with the Olympics team and the Tokyo 2020 collection is the boldest we've ever assembled across performance and lifestyle in footwear and apparel.

We're growing our competitive advantages in many ways. Sustainability is one example, where we're reducing waste at a scale that creates change for our entire industry.

...Nike Flyleather, made from 50% reclaimed leather, will scale to over one million pairs starting this summer.

...Nike Flyknit represents a multi-billion-dollar business and uses 60% less waste than traditional manufacturing...

...and Nike AIR uses 50% recycled manufacturing waste in hundreds of millions of pairs.

As a whole, we're making great progress to lower our overall environmental impact as a company driving greater efficiencies and fueling growth in our business.

Another area where our 2X Innovation agenda is making a dramatic impact is in apparel. As designers, there's no greater challenge than innovating for the body in motion. We think about...

...how to account for different environments through moisture management...

...creating breathability that adapts as needed...

...or keeping a garment comfortable when it's twisting and turning...

Through new materials and methods of make, our apparel teams are continuing to push the limits in performance silhouettes. And in the process, it's creating a new style.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

Our strategy starts with taking sports to new places. For example, in Basketball, our partnership with the NBA is fueling strong growth. Our NBA apparel accelerated in Year 2, especially with our City Editions jerseys led by Miami, Minnesota and Brooklyn.

To no one's surprise, LeBron's move to the Lakers also created opportunity. We already booked three times more Nike Lakers gear this year.

Our work with the NBA has also created a lift for Nike in-line basketball apparel. We built on the success of our Showtime Hoodie and added Therma Flex pants, which has seen great sell-through.

Overall, the traction we've gained for basketball in Nike Direct and internationally led to strong global growth for the basketball category this quarter.

In Sportswear, our biggest category, apparel grew over 20% this quarter. Sportswear Fleece and women's apparel were up double digits. In Sportswear, we're anchoring our communications around head-to-toe collections, which makes it easier for consumers to shop the complete look and strengthens our presentation and storytelling.

Apparel continues to be one of Nike's greatest growth opportunities. And in the back half of the fiscal year there's a lot to be excited about...

...we're launching new high-performance kits for the Women's World Cup in France...

...a yoga collection that includes men's yoga apparel for the first time at Nike....

...new tights innovation...

...and an expanded Nike Tech Pack collection.

Two other areas of our business where we're accelerating but we know we have much more opportunity ahead is Women's and Jordan.

There's incredible momentum for women in sport right now, as athletes – elite and everyday – lead a movement of health and wellness, while driving a strong appetite for athletic footwear and

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

apparel.

This energy is manifesting in a number of ways. For example, Footwear for women overall was up 20% for the quarter. And sneakers for her are really taking off. The Sage Air Force 1 has emerged as a favorite franchise, owning the #1 spot on Nike.com for five weeks running.

Our strategy to Edit to Amplify and offer more color and material choices on fewer styles is also proving successful. Nike has the top-3 selling Women's athletic footwear models above \$125 with the Air Max 270, VaporMax and Epic React.

And in apparel, our Bra business remains a strong growth opportunity, up over 20% in Q2.

Looking ahead to this summer's World Cup, Nike will dominate on the pitch. A total of 14 of the 24 National teams will compete in Nike, including the favored US National Team.

And throughout the year, we'll continue our Just Do It campaign that celebrates elite and everyday female athletes around the world. We think 2019 is going to be a true tipping point for women in sport with more participation, more coverage, and overall, more energy.

Meanwhile, with the Jordan Brand, we're seeing positive results from the strategic shifts we're making. In Q2, Jordan grew double digits and we've returned to healthy sustainable growth in North America. At the same time, we've continued our pace of double-digit growth internationally.

We're making great progress in diversifying Jordan. Apparel had a very strong quarter, especially internationally. Sell-through of the Jordan and PSG collaboration exceeded expectations and we'll come back with a refreshed collection in January.

Jordan's performance footwear is also contributing to solid growth, led by the new Air Jordan 33 game shoe and the Max Aura that's doing well in China at the \$120 price point.

And from a sportswear perspective, we're elevating our storytelling with icons like the Air Jordan 1, which is more coveted than ever.

At the start of Q3, our team executed an incredible effort with the most successful Nike sneaker launch ever with the Jordan 11 Concord.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

It was a well-orchestrated plan complete with geo targeting that offered pre-heat pairs to our members...

... total integration across our business, with partners like House of Hoops and Foot Action...

...and locally-driven storytelling in our key cities.

The Concord shows that the Jordan Brand yet again has the power to drive launches with incredible volume and create energy for the brand. We're bringing much greater balance to Jordan with much more opportunity ahead.

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

In China, Singles Day once again broke records. Nike earned the #1 Sport Brand on Tmall, with our overall business for the day, up over 40% from last year's Singles Day.

It's clear that the consumer is craving experiences and the fastest way to meet that demand is to test, learn and scale new features.

We know not every one of our new experiences will be successful. Not all will be scalable. But when we do find features that improve our services, Nike's advantage is how quickly we deploy them across our global footprint.

In November, we opened our House of Innovation concept in both Shanghai and New York. The energy and performance at both locations has exceeded expectations.

Both stores create the most personal and responsive retail environment in the industry. It's a digital experience brought to life in a physical space and uses our most exciting features to-date, such as...

...the ability to scan barcodes to check availability and buy the full look of mannequins...

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

...Instant Checkout that requires no waiting at a register...

...Expert Studio that gives personal guidance...

...and special unlocks and notifications when members enter the store.

The gateway for consumers to get the most value out of these new experiences is membership. We want more doors to feel like a personal home for members – where we can elevate 1-to-1 service. And we want to leverage mobile apps to make sure Nike is serving our consumers wherever they are.

One way we do that with members is to create ways to be in their path more organically. For example, the LeBron Watch, which will deliver 25% of the LeBron 16s in the marketplace this year makes his on-court shoes available in the moment through SNKRS and our partner mobile apps.

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

Another key to making Nike commerce a part of people's lives more seamlessly – again and again, is to develop unique services with some of the world's most engaging and brand-friendly platforms.

This quarter we did that with a new feature in Instagram that allows Nike product to be shopped directly from stories

...on the Apple Watch, where we continued to serve our most active and highly valued Nike Run Club members...

...and with Google, where consumers can now buy directly from Nike through search and Google Assistant.

And to further leverage partnerships that amplify our brand we're making great strides with strategic partners like JD Sports, Footlocker, Nordstrom, and Dick's Sporting Goods where elevated experiences are driving outsized growth in the wholesale channel.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

We know that to fully offer consumers what they want – in the moment – requires a high level of agility in our business. Through 2X Speed, we're elevating the industry creating an end-to-end value chain centered on the consumer.

The pillars are...

...demand sensing and insights...so we know our consumer

...responsive product creation and manufacturing to provide the best product

...delivery at speed for product to arrive when they want it

...and connected inventory so they're never disappointed.

It starts with better demand sensing and insights. In Q2, our Express Lane business grew double digits supporting key cities with hyperlocal product and faster fulfillment to drive higher full-price sell-through.

Responsive product creation and manufacturing has many components:

...digital product creation allows for greater precision and creativity in design...

...planning and staging materials drastically reduces lead times...

...and automation increases speed and quality in manufacturing.

To date, more than half of our total footwear production has been modernized through initiatives started in the Modernization Centers of our top-six manufacturing partners and our Advanced Product Creation Center at our World Headquarters.

We're also investing in delivery at speed. Take Singles Day as an example. To deliver against this massive opportunity we had a coordinated fulfillment strategy across our 12 Greater China distribution centers and we shipped direct from over 50 retail doors to consumers on the day. Overall, we fulfilled over five million units in five days.

And finally, our connected inventory strategy, with partners like Zalando and JD, will help to realize

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

many of our speed initiatives. In support of that initiative, we'll introduce RFID into footwear and all non-licensed apparel in 2019.

This will lead to vastly improved product visibility and accuracy across the supply chain, from product creation to point of sale. It further opens up the possibility to integrate more widely with our wholesale partners, contract factories and distribution centers.

Each of these work streams is a building block for Nike to be more personal at scale. And as a system, they demand enterprise-wide coordination and innovation.

Nike's ambitious digital transformation is driving the strong results you see today. We're staying competitive and opportunistic with every shift in the marketplace.

As a leader, Nike has high expectations. And as good as this quarter was, we know we have the ability to do much more. We're going to continue use our scale, speed and agility to grow sport and our business around the world.

Thanks, and now here's Andy.

### **Andy Champion:**

Thank you, Mark, and Happy Holidays to everyone.

Our Q2 financial performance was exceptionally strong across nearly all dimensions:

- 14% currency neutral revenue growth
- 80 basis points of gross margin expansion
- 13% EPS growth versus prior year

Our strong growth was also broad-based across all four of our Geographies as well as across Footwear, Apparel, Men's, Women's and most Categories.

This broad-based momentum is not happening by accident, but rather is being fueled by our focus on what matters most to consumers globally. The common theme across our portfolio is the

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

Consumer Direct Offense. More specifically, we are bringing the Triple Double – of 2X Innovation, 2X Direct, and 2X Speed – to life in our 12 key cities and 10 key countries around the world.

Take Innovation, for example, we've said we expect new innovation platforms to drive over 50% of our incremental growth over the next 5 years. In fact, year to date, new innovation platforms including VaporMax, Air Max 270, React and ZoomX have driven over 80% of our incremental growth. Another significant contributor to our growth from a product perspective are our Power Franchises. By leveraging an approach that Mark calls Editing to Amplify, we are bringing new dimension and driving the growth of iconic franchises like the Air Force 1 and Air Jordan 1. We do that, for example, through fresh new designs and collaborations for both Men and Women as well as color and materials updates through our Express Lane.

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

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

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

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

In short, we are very pleased with our strategic execution and the strong performance we have delivered year to date.

That said, more importantly, we are confident in the sustainability of our growth going forward. While FX headwinds have intensified, we now expect stronger currency neutral growth in FY19 than previously planned. And, as we are beginning to gain greater insight into FY20, we are seeing continued strong demand.

Our positive outlook is not merely optimism, but rather is founded on fundamental changes in how we operate at Nike. One fundamental change is in how we bring innovation to market. In addition to driving faster innovation cycles we are also focused on innovation platforms that have greater potential to scale across Categories. Accordingly, as Mark detailed, we have an extraordinary pipeline of innovation to come over the balance of FY19 and throughout FY20. That begins in Spring with the launch of the Air Max 720 and HyperAdapt in Basketball and extends to innovation platforms launching in early FY20 and through the Tokyo Olympics.

We are also digitally transforming Nike and driving positive disruption in our industry, unlocking new opportunities for growth long term. While we already have extraordinary digital momentum, we are still in the early stages of this transformation. We are executing against a three-year roadmap of new digital capabilities that will enable us to continually serve consumers better. We are aggressively building those capabilities in-house and accelerating our development of these capabilities through acquisition. Our 3-year roadmap also includes the global expansion of our digital ecosystem in the key cities and countries where we see the greatest opportunity for growth. For example, last month we launched the Nike app in Japan, where it immediately became the #1 rated shopping app.

Over the next five years, we see the Consumer Direct Offense delivering on the financial model and measures of success we communicated at our Investor Day back in October 2017. But we are already setting our sights even higher longer-term.

Today, we see the opportunity to expand the definition of sport to be even more inclusive, including competition and training as well as movement and play. By using this broader lens to

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

inspire and enable a more active lifestyle, we will grow the market for athletic footwear and apparel. There are four areas where this purpose-driven approach to growth is creating outsized opportunities for us: International, Digital, Apparel and Women's.

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

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

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

And, finally, as we aim to redefine and expand the definition of sport, that is with an even sharper focus on Women. Similar to the strong returns we are seeing from having doubled our investment in Innovation, we see the potential for asymmetrical returns by editing and shifting resources toward Women's. The Women's footwear and apparel markets are larger than Men's, yet today Women's represents less than a quarter of Nike's total Revenue. We are already on this journey,

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

as our Women's business grew double-digits in Q2, but we see step-change growth opportunities ahead by serving Women more deeply within classifications and across more occasions.

In short, we have strong current momentum and extraordinary growth potential long term.

Before I share specifics regarding our outlook, let's reflect on the drivers of our current momentum:

- NIKE, Inc. Q2 Revenue increased 10%, up 14% on a currency-neutral basis. This exceptional growth reflects double digit currency-neutral momentum internationally and strong high single-digit growth in North America. Nike Digital was the fastest growing channel in each geography, with 41% growth in aggregate on a currency-neutral basis, led by mobile. That said, FX headwinds had a slightly larger impact on our reported revenue growth than the roughly 3 points we anticipated 90 days ago.
- We also delivered strong Gross Margin expansion of 80bps across NIKE, Inc., fueled by Nike Direct growth and a higher mix of full price sales.
- Demand Creation grew 4% in the second quarter, with our focus being on increasingly connecting with consumers through digital experiences and platforms.
- Operating Overhead increased 18%, reflecting strategic investments that are accelerating Nike's digital transformation and will fuel long term growth.
- Our Effective Tax Rate for the quarter was 15%.
- Second Quarter Diluted Earnings Per Share was \$0.52, up 13% versus prior year.
- As of November 30th, Inventories were up just 1%, reflecting a healthy pull market for Nike and a lower mix of closeout across all geographies.

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

In North America, Q2 revenue grew 9% on a reported and currency-neutral basis.

NIKE Direct grew high-single-digits, with Nike Digital up over 30% in North America. As Mark

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

mentioned, we are now turning our vision for the next generation of retail into a reality. In our Nike Live concept on Melrose, we are aligning data-driven bi-weekly flows of product to the store with digital storytelling and 1:1 connections between the store and local consumers. As a result, the store is driving strong digital member acquisition, engagement and buying. And we are seeing even more impressive early results at our new House of Innovation in New York.

While the overall retail marketplace in North America is still going through consolidation and we expect that to continue, our NIKE wholesale business in aggregate has returned to strong growth with improving profitability, led by our strategic retail partners such as Footlocker and increasingly JD.

In Q2, we also reignited brand heat in North America through the Just Do It campaign launched in early September and by amplifying key moments in sport like the launch of the NBA season.

We see our Brand heat across both Nike and Jordan, our strong pipeline of innovative product, and digitally-led consumer experiences continuing to fuel strong growth in North America.

In EMEA, Q2 revenue grew 14% on a currency-neutral basis, driven by strong growth across Sportswear, Running, Training, and Jordan. NIKE Digital led all dimensions of the marketplace, growing over 30% versus prior year.

We have extraordinary momentum in this Geography, where we're taking significant share and we're growing the market. We are mindful of the geopolitical dynamics in Europe. That said, we have a long track record of delivering growth and profitability amidst a wide range of macroeconomic circumstances. As we look ahead, we expect our momentum to continue ... fueled by our brand distinction, product innovation pipeline and increasingly deeper service of consumers leveraging digital.

In all five of our key cities in EMEA, consumers rate us as the #1 Cool and #1 Favorite brand and, in fact, those ratings strengthened even further in Q2. We are connecting more directly and deeply with consumers locally through our key city focus and we are seeing the impact globally. For example, through the PSG-Jordan partnership we connected authentically with consumers in Paris, while the product sold out at launch around the world.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

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

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

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

In Q2, with the opening of the House of Innovation in Shanghai, we also began to more fully leverage digital in this largely NIKE-branded physical retail environment. It's still early days, but the results have been extraordinary.

Now, while there has been uncertainty of late regarding US-China relations, we have not seen any impact on our business.

Nike continues to win with the consumer in China. For over 3 decades, Nike has been a Brand of China for China. We have connected deeply with the consumer here through our key city focus on Shanghai and Beijing through partnerships with sports federations, teams and athletes and by partnering with China's Ministry of Sport to fuel greater sport participation in schools throughout China.

Just last month, leading up to the Shanghai Marathon, we took Eliud Kipchoge on a tour of Shanghai and other key cities. Then, on Marathon Day, we launched a Shanghai-focused Just Do It campaign. In just the first 24 hours, the campaign was watched more than 16 million times.

We are bullish about our potential to continue delivering strong, sustainable, and very profitable growth in this important Geography.

In APLA, Q2 revenue grew 15% on a currency-neutral basis with balanced double-digit growth

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

across footwear and apparel as well as double-digit growth in Sportswear, Jordan, and NIKE Basketball.

NIKE Digital is also accelerating in APLA, with revenue growing over 75% in Q2.

We also continue to expand our digital connectivity to consumers across this region through commerce partnerships, such as those with Zozotown, Flipkart and others.

APLA is also a market in which we are being extremely entrepreneurial, testing new concepts that leverage digital to enhance the consumer experience at retail. As we mentioned on our last call, we will be opening a Nike Live experience in Tokyo in Q3.

And, in Seoul, we are testing our “Connected Inventory” strategy. We have connected the inventory across 19 Nike-branded doors, including doors owned by two of our strategic partners. This connected inventory pilot has yielded very promising early results serving thousands of consumers whose demand would otherwise have been unmet due to product being out of stock in a particular store.

And, finally, at Converse, revenue increased 6% on a currency-neutral basis in Q2. Growth was driven by strong double-digit growth in Asia and a sharp acceleration in owned Digital growth globally, approaching triple-digits. While Converse wholesale in the U.S. and U.K. remained challenged in Q2, digital also accelerated in those markets.

We see significant opportunity to grow Converse by expanding the product portfolio, including within Basketball, and launching a new digital platform.

With that, let's turn to our outlook.

There is increasing volatility and uncertainty of late on a macro level. That said, what is certain is that Nike's execution of the Consumer Direct Offense is driving consistently strong broad-based growth across a diverse global portfolio.

That is because we are focused on what matters most to consumers, and they are responding with strong demand.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

Accordingly, our full year guidance for FY19 reflects stronger currency-neutral Revenue growth stronger gross margin expansion and accelerated strategic investment.

For the full year, we now expect currency neutral revenue growth to be in the high single-digit range, potentially approaching low double digits. Based on current foreign exchange rates, we expect reported full-year Revenue growth to be over 3 points lower than our currency-neutral revenue growth and at the low end of the high single digit range.

For Gross Margin, our outlook is also improved. We expect our full-year gross margin expansion will be roughly in line with the gross margin expansion of 70 basis points that we delivered over the first half of FY19.

We expect SG&A for the full year to grow in the high single-digits, as we continue to invest in new disruptive digital capabilities that will differentiate Nike and fuel our long-term growth.

We project Other Expense, net of Interest Expense to be between \$50M to \$75M for the full year.

We continue to expect our Effective Tax Rate to be in the mid-teens for FY19. That said, the finalization of regulations related to U.S. tax reform may result in adjustments to our provisional charges and may impact our tax rate.

While our focus is on sustaining profitable growth over the course of FY19 and for the long term, I'll provide a bit of context on Q3 considering the current macro environment.

In Q3, we expect strong currency-neutral Revenue growth squarely in the high single-digit range. Based on FX dynamics, our reported real dollar revenue growth will likely be roughly 4 points lower than our currency-neutral revenue growth in Q3.

For Gross Margin, we expect Q3 expansion roughly in line with our full year guidance.

As for SG&A, we expect growth in the low double-digit range in Q3 as we continue to prioritize strategic investment.

We expect our Effective Tax Rate in Q3 to be between 16% and 18%.

**PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY19 NIKE, Inc.**

*December 20, 2018*

---

The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call, and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

---

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

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