

**FY 2019 Q3 Earnings Release Conference Call Transcript
March 21, 2019**

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PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2019 Third Quarter Conference Call. For those who want to reference today's press release, you'll find it at <http://investors.nike.com>. Leading today's call is Nitesh Sharan, Vice President, Investor Relations and Treasurer.

Before I turn the call over to Mr. Sharan, let me remind you that participants on this call will make forward-looking statements based on current expectations, and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC, including the Annual Report filed on Form 10-K. Some forward-looking statements may concern expectations of future revenue growth or gross margin.

In addition, participants may discuss non-GAAP financial measures, including references to constant dollar revenue. References to constant dollar revenue are intended to provide context as to the performance of the business, eliminating foreign exchange fluctuations.

Participants may also make references to other non-public financial and statistical information and non-GAAP financial measures. To the extent non-public financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliations will be made available at NIKE's website, <http://investors.nike.com>.

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

Nitesh Sharan, Vice President, Investor Relations and Treasurer:

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss NIKE Inc.'s fiscal 2019 third quarter results. As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about an hour ago, or at our website, investors.nike.com.

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

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

Thanks, Nitesh, and hello, everyone. In Q3, our teams once again drove healthy growth across NIKE's complete portfolio leading to balanced results in our key dimensions. In our geographies, for example, the continued growth in North America was fueled by NIKE Consumer Experiences, where we have our most direct connection with the

consumer. China earned its 19th consecutive quarter of high-quality, double-digit growth as the Chinese consumer increasingly makes sports a part of their daily lives.

The NIKE Brand continues to accelerate in EMEA and APLA, as we go deep into our key cities to seize new opportunities quickly. In innovation, we led with both platforms like Air Max and Sportswear and Adaptive Technology and Basketball. We kept consumers coming back for more with the fast pace of fresh-ups in our Power Franchises and with the energy for Sportswear at an all-time high, NIKE continues to stand out in the active lifestyle marketplace through our authentic position in sport, and through our digital transformation, we're scaling the digital capabilities that'll serve consumers more personally and we're driving significant growth through our Digital ecosystem making Q3 NIKE Digital's first billion-dollar quarter.

Put together, all of this work led to strong results for the quarter. NIKE Inc. revenues grew 7%. On a currency neutral basis, NIKE Inc. revenue increased 11%. Gross margin was up 130 basis points to prior-year and earnings per share was \$0.68. Diving into the details, we launched some incredible innovation this quarter. Let's start with NIKE Air.

The major leaps we've made in new designs for the Air Max like VaporMax and Max 270 continued to energize the consumer's ongoing love for the whole platform. Icons like the Max 95 and 97 and Tuned Air are a hit with both men and women. The Air Max Dia, our new women's-specific design is performing extremely well across the globe, and the Air Max 720, a radically unique silhouette was released in a number of bold color ways creating a strong consumer response right out of the gate.

We don't, however, take this high demand for granted. It requires constant fine-tuning and the right balance of seeding and scaling to ensure a healthy position in the marketplace, but we know as long as we're making an impact with distinctive innovation like Air Max, our top platforms will continue to fuel our long-term growth. At the same time, we're delivering a faster cycle of fresh assortments of our Power Franchises and we do that by offering more options of colors and materials inspired by more targeted and relevant storytelling, and the strategy is paying off.

For example, in our Sportswear category, which continues to grow in double-digits, the Air Force 1 is accelerating growth in both Men's and Women's. In the Jordan Brand, where the business grew at a very healthy rate this quarter, the Jordan 1 is the top seller across all geographies. And in Basketball, we drove energy with the KYRIE 5 and the LeBron 16 through multiple color ways and creative product storytelling.

We also know there are several untapped opportunities within our innovation agenda and we've intensified our focus to amplify them. For example, we're energizing the marketplace from statement innovation, and going forward, you'll see us bring more distinction at the core level. Specifically, for next fiscal year, we fast-tracked new collections under the \$100 price point and we're aligning the merchandising and marketing teams to support them throughout the marketplace.

Apparel, as we've said, is another outsized growth opportunity. Over the course of the next year, you're going to see sharper focus on key classifications in NIKE Apparel. We'll accelerate growth by offering fresh options in our top sellers, much like we do in Footwear, with our Power Franchises. Our goal is to provide great apparel for every step of the sport journey. For workouts, we're offering the best core items. This quarter the bra business continued to expand, and our athletic take on yoga apparel has moved us into a new market. For day-to-day life, we're designing for added versatility, and this quarter the new tech knit has been very successful, helping to grow Tech Pack unit sales nearly 200% compared to last year. And to feed a passion for teams and athletes, we're offering premium product, like the NBA Showtime Hoodie and then cascading to core level fleece, tees, and shorts.

In just our second year with the NBA, this is tracking to be the largest merchandising season in its history. We're at our best when we're leveraging sports moments through our athletes and league partnerships and looking ahead the sports calendar is full of moments to elevate, starting from today's first round of March Madness, all the way through the Tokyo Olympics in 2020. In the next few months, we'll celebrate World Cup, with our most innovative team kits and Sportswear collections. In the Spring marathons we'll unveil the next generation of the ZoomX platform, and building on the energy of the NBA playoffs, Giannis will cap off his incredible season with the reveal of his first signature shoe.

We'll also continue our streak of industry-defining innovation for the everyday athlete. We'll introduce a completely new cushioning system designed to get more people running, and in Women's we'll launch more than 40 new styles of bras to expand our inclusive sizing considerably. And building off the successful adaptive Basketball launch this quarter, we'll expand the platform into new categories and embed the adapt technology even further into our Digital ecosystem. The innovation pipeline is full at NIKE, and it gives us great confidence that we'll continue to win with the consumers for years to come.

While we view innovation as NIKE's number one competitive advantage, our digital transformation will create even further separation. There are teams all over NIKE piloting new ideas and proving out concepts. We're testing, learning, and optimizing at an incredible pace, but the real key is to turn these new digital capabilities into growth at scale. There's a lot to talk about here, and I'll highlight a few areas that are leading to broad-based growth.

First, we're super-charging NIKEPlus membership for even greater personalization with consumers. When we offer more tailored product and experiences, we bring more value to the consumer and it opens up more opportunities to grow our business, so this quarter, we extended a new advanced algorithm in our apps that allows us to reward our most active members, but we added this data-driven format to the release of the NIKE App in Japan and it helped lead to the most successful launch ever.

We continue to show how important membership is to create an increasingly seamless physical-to-digital retail experience. In our House of Innovation stores in New York and Shanghai, over 50% of transactions are with members. Across our wider fleet, consumers using the NIKE App at retail average 40% higher sales than those that don't. Our SNKRS app in particular continues to be a powerhouse in the world of Digital commerce. For the quarter, SNKRS traffic and revenue were up triple-digits. 17 of the top 20 SNKRS launches had 100% sell-through and during the record-breaking Air Jordan 11 Concord launch, our Digital ecosystem showed its ability to handle scale and drive unrivalled energy, processing on average 300 transactions per-second.

As a whole, our Digital business was up an impressive 36% in the quarter on a constant-currency basis. Another area where Digital is creating company-wide efficiencies is within our product creation teams. We fully digitized our palette of over 6,000 footwear materials allowing our design teams to build on one another's work and adapt to market trends more quickly. With fewer physical samples, it also plays an important role in minimizing our environmental impact. Overall our advanced digital tools are reducing lead times, driving sustainability, and leading to faster design cycles.

The third highlight is how we're connecting the marketplace by digitally tagging and tracking NIKE products all the way from production through retail. Our RFID initiative, for example, is improving product visibility and is an important step toward integrating our diverse ecosystem of physical and digital experiences, distribution centers, and contract factories. This will give the consumer easier access to product and allow NIKE to more accurately match supply to demand across the world and ultimately fuel better, higher-quality growth.

We're seeing early wins pile up in our digital transformation, and it's bringing scale to every facet of our Triple Double strategy. What's so exciting is the more we invest in stronger digital capabilities, the more growth opportunities we uncover. Today the consumer rewards agility. The companies who adapt and scale first are the companies who grow fastest. To do that, NIKE's looking across the spectrum of the value chain from our factory partners to key cities so we can take advantage of our most important opportunities.

At the factory level, that means staging raw material, so they can be quickly deployed to fill requests for our most in-demand products. We did this in anticipation of LeBron's move to a new team last Summer and it cut our jersey lead times nearly in half. Expect more of that with all the high-profile free agency moves this summer, but more broadly, this process is a critical component of our 2X Speed initiative and fuels our key city execution, so we can quickly adapt our assortments based on the demands of local consumers.

The Express Lane is another important enabler to 2X Speed, continuing to scale and grow as a percentage of NIKE's overall business, and this quarter, in our geographies, the Express Lane in Greater China was responsible for over half of the products in our Chinese New Year collection. In North America, the top 10 styles in our NIKE App all came out of Express Lane, and in EMEA, it contributed to over 20% of our business. Express Lane is just one of the ways we're driving agility in our value chain to serve consumer demand. We're also investing in responsive

manufacturing and faster delivery capabilities for our key cities. Overall, Q3 demonstrated the strength of NIKE's complete portfolio. The Consumer Direct Offense is connecting our powerful brand to compelling innovation to operational excellence all in service of the consumer, and it's a strategy that gives us a very clear path to sustain that momentum over the long-term.

This quarter one of our greatest growth opportunities, our Women's Offense, experienced an important inflection point. I was fortunate enough to join our team in Paris for a powerful launch for the upcoming Women's World Cup where we hosted some of the greatest athletes in the world. We were excited to unveil 14 National Team kits for World Cup 2019, a tournament record for NIKE, and that energy of the moment is building on our Dream Crazy or Just Do It campaign that's narrated by Serena Williams. The campaign is a great example of how NIKE's leveraging the power of social media platforms to carry our message. Dream Crazy has broken several of our own consumer engagement records across all four geographies.

For example, in North America, it's NIKE's most shared Instagram post ever and one of the most successful NIKE tweets of all time. In Greater China, the campaign reached 600 million views in just the first three days. This inspiring work from our brand teams is just part of our broader strategy to ship resources and accelerate our Women's business. In-product we've aligned our merchandising teams for one unified Women's vision at Retail, and our R&D teams are quickly moving to create the platforms of the future. A more Complete Offense is taking shape and it's incredibly energizing.

This quarter, you began to see the early results from those teams. Our NIKE One Tight fueled our training tights business to strong double-digit growth. Plus-size bras launched this quarter and are off to an amazing start. Jordan Women's is growing strong double-digits and our Women's sneakers offering is diversifying and growing with products that range from reimagined retro styles like the Air Force 1 Sage Low and the M2K, to new innovations like the Air Max 270 and the Air Max Dia.

In Paris, the celebration of NIKE women was unlike any moment I've experienced. The best part is the work that we're doing this summer is just a start. We want to help create the next wave of growth for women in sport and with a fully dedicated women's offense, we see an even healthier, longer-term future for NIKE. It's a great time to be in the business of sport. The larger movement of health and fitness is growing the athletic Apparel and Footwear market all over the world and we're excited about our role in fueling that energy and capturing even more of that opportunity ahead.

Thanks, and now here is Andy

Andy Campion, Executive Vice President & Chief Financial Officer:

Thank you, Mark, and hello to everyone on the call. In Q3, we once again delivered very strong growth and profitability with 11% currency-neutral revenue growth, amplified by 130 basis points of gross margin expansion. Most importantly, our growth was high-quality, strategic, and broad-based. Our execution of the Consumer Direct Offense is fueling strong demand across all four of our geographies led by the 12 key cities that we believe offer the greatest platform to impact the world through sport and create brand distinction.

Our broad-based global growth is being fueled by four underlying strategic drivers. One, editing our product portfolio while amplifying the styles that consumers love most. Two, doubling the cadence and impact of innovation that we're bringing to market. Three, operating with greater agility and four, transforming the consumer experience through digital. This is the Consumer Direct Offense in action and the direct impact on NIKE's growth is tangible.

First, by Editing the Amplify we're reduced the total number of styles in our portfolio significantly while bringing much greater dimension and choice to what we call our Power Franchises. In any given season, our Power Franchises include select icons within Sportswear such as the Air Force 1 and Air Jordan 1, performance franchises such as the Pegasus, as well as new innovation platforms such as the VaporMax, Air Max 270 and React. The new dimension we are bringing ranges from collaborations with athletes and influencers to compelling new elements of design, to infusing new innovation into longstanding performance franchises.

Second. We are well on our way to doubling the cadence and impact of innovation on our business. Once again in

Q3, new innovation platforms comprise the vast majority of our incremental revenue growth and as Mark said, our innovation pipeline is more robust than ever. In Q3 we launched the Air Max 720 to strong demand, as well as the Adapt BB on-court in the NBA, which was a leap forward into the future of adaptive performance Footwear, and we're scaling innovation faster than ever before with React in our new Max Air platforms being leveraged across multiple performance categories and in Sportswear within just the first year of launch.

Third. We're bringing innovation and our Power Franchises to market with greater speed and agility. Through our Express Lane initiative, we're using closer-to-market consumer insights to update key styles with new materials, prints and colors on significantly shorter timelines. In Q3, product updated and fulfilled through our Express Lane drove well over 10% of our revenue. These efforts, Editing to Amplify, doubling the cadence and impact of innovation and operating with greater speed and agility, all come together with the greatest consumer impact through NIKE Direct. NIKE Direct is where the NIKE brand experience comes to life in its fullest sense, and increasingly, that experience is being elevated by digital. Once again in Q3, our growth was led by NIKE Digital, which on a currency-neutral basis, grew 36% globally. We continue to expand our digital footprint with the launch of the NIKE App in Japan, and we continue to enhance our digital ecosystem through the rollout of the NIKE App in our own Retail stores across North America and Europe.

Our expansion is fueling the acquisition of new members at a strong double-digit rate and the new experiences that we're creating are also driving strong double-digit increases in member engagement and buying. Our vision is to create direct, unbreakable relationships with our consumers and we know the most direct connection is through the mobile device they carry with them everywhere they go. As Mark referenced we are driving a digital transformation of NIKE with an emphasis on mobile. Over the balance of this fiscal year and through fiscal year 2020 we will continue investing in this digital transformation. While many companies can build a technology stack, no other brand is able to leverage technology to create the kinds of amazing consumer experiences that only NIKE can.

Our most significant investments will continue to be in the capabilities that enable us to better serve consumers and extend our brand leadership. These include investments in new digital member services, in data and analytics, in-demand sensing technology, in technology such as RFID that enable connected inventory across the marketplace and in a new, editorial content engine, that will keep us engaged with our members 365 days a year. More so than ever, our investments are directly translating into strong and sustainable growth, but before providing more context on our positive outlook, I'll first reflect on our Q3 results.

NIKE, Inc. Q3 revenue grew 7% up 11% on a currency-neutral basis. Our growth reflects double-digit currency neutral momentum internationally and high-single-digit growth in North America. Gross margin expanded by 130 basis points in Q3 as average gross selling prices expanded, strong demand drove higher full-price sales and higher-margin NIKE Direct growth outpaced wholesale growth.

Q3 gross margin was also favorably impacted by the shift of supply chain investments out of Q3 and into Q4. Demand creation was flat in the third quarter as other demand creation increased and sports marketing declined based on the timing of investments. Operating overhead increased 17% driven by continued investment in NIKE's Digital transformation as well as year-over-year compensation-related accruals. Our Effective Tax Rate for the quarter was 14.7% and third quarter diluted EPS was \$0.68.

As of February 28th, inventories were up just 1% reflecting a continued healthy pull market for NIKE globally and our stronger supply and demand management. With that, let's turn to some of the highlights across our reported operating segments.

In North America, Q3 revenue grew 7% on a reported and currency-neutral basis. Sportswear, Jordan, NIKE Kids, and Running, led our growth across the geography. From a product perspective the majority of our incremental growth was driven by our Power Franchises ranging from the Air Force 1 and Air Jordan 1 to the Pegasus and KYRIE to the Max Air family of products including the new Air Max Dia for women. As Mark referenced the Jordan 11 Concord was also the biggest launch in our history with the product selling out in hours. The strength of our product portfolio and the fastest digital deliveries, in our industry fueled a strong or I should say very strong holiday season for NIKE in that we outpaced the broader Retail market by roughly 2X.

We also have very strong brand momentum in North America fueled by the powerful Just Do It Dream Crazier

campaign, which Mark referenced as well as our executions around NBA All-Star Weekend. Creating differentiated retail experiences remains a significant opportunity as the physical retail marketplace in North America continues to go through consolidation. At the same time, we're catalyzing the Next Generation of Retail in North America, and that begins with digital. NIKE Digital grew 30% in Q3 faster than all other channels. We're also disrupting the physical marketplace in a positive sense, leveraging digital through new, NIKE Direct concepts such as our House of Innovation in New York and NIKE Live in Los Angeles. Accordingly, our growth in New York and LA is over-indexing the broader market.

We're also continuing to create new differentiated Consumer Experiences through the rollout of the NIKE App at Retail in our own stores and the testing of new services and concepts with our strategic retail partners such as Foot Locker and Dick's Sporting Goods. We expect our strong pipeline of innovative product, the brand heat we've created and an acceleration in our creation of new digitally-led Consumer Experiences to continue driving healthy sustainable growth in North America going forward.

Now let's turn to EMEA, where we continued to build extraordinary brand momentum. In Q3, revenue in EMEA grew 12% on a currency-neutral basis driven by double-digit growth in Sportswear and Jordan. NIKE Digital led all dimensions of the marketplace growing at a strong double-digit pace. One of the underlying drivers of our sustained growth in EMEA is the ever-increasing strength of our brand across this diverse geography. EMEA is home to five of our 12 key cities. In all five, NIKE is rated the number one favorite brand by consumers and our growth is far outpacing the broader market.

Take Paris, for example. Mark mentioned our Women's World Cup launch there last week which was by all accounts powerful. It was just earlier this year that we launched the Jordan PSG partnership, which drove incredible energy in the style, culture, and football-obsessed city and of course looking ahead, Paris will host the 2024 Olympics. It's a great reminder that our 12 key cities were not chosen based on size alone, but instead, because we see these key cities as having the greatest potential impact on our brand and business.

In our APLA geography, revenue grew 14% on a currency-neutral basis fueled by balanced double-digit growth across both Footwear and Apparel. From a country perspective, growth was led by Japan and Korea, catalyzed by the great momentum we have in the key cities of Tokyo and Seoul. Across APLA, NIKE Digital is continuing to accelerate, with revenue growing over 60% in Q3. We continued to expand our digital ecosystem across this region and leverage digital partnerships.

As we look ahead to the Tokyo 2020 Olympics we could not be more thrilled with the momentum we're building in Japan, both the SNKRS App and newly-launched NIKE App are resonating strongly with consumers. Our Running innovation has also resonated with the highly-discerning Japanese Running consumer, with NIKE now having ascended to the number one position in Running across Japan.

So now let's turn to China. This past quarter, we delivered 24% currency-neutral revenue growth in Greater China, led by NIKE Direct, with digital commerce up well over 60%. We have great momentum in China, but we are still far from realizing the long-term opportunity in this market. On our last call we spoke about four epic growth opportunities for NIKE. International, Digital, Apparel, and Women's. China is perhaps the best example of our outsized growth potential internationally. China is already the largest Footwear and Apparel market in the world, but athletic Footwear and Apparel represents a smaller share of total than in more developed markets such as the U.S.

That said, within that broader market, athletic Footwear and Apparel is growing double-digits in China. Sport has increasingly become more a part of life for consumers in China. While Basketball has long been popular with the Chinese consumer, we are now also seeing a Running boom, and that is why NIKE has always been a brand of China for China. We have always believed that by being authentically connected to the Chinese consumer, we could help catalyze the rise of sport participation and sport culture in this market. From sponsoring the Shanghai marathon to our partnerships with the Chinese Super League to working with the Ministry of Sport to expand physical education in schools. That is why even amidst current geopolitical dynamics, NIKE continues to deliver strong and sustainable growth in China. That said, we are not taking our current momentum for granted. Rather we are more focused than ever on creating products specifically tailored to the Chinese consumer's preferences and fit and creating digital experiences that connect us more deeply to consumers through China's unique digital ecosystem.

With that, I'll now share our outlook for the remainder of fiscal year 2019 and provide an early read on fiscal year 2020. For the full year fiscal year 2019 our outlook for constant currency revenue growth and gross margin continues to improve. At the same time, we will continue to invest in the capabilities that are fueling our strong sustainable growth. For Q4 specifically, we expect continued strong growth with constant currency revenue growth being squarely in the high-single-digit range. It is important to note that we expect roughly 6 points of FX headwinds in Q4 which would result in low single-digit reported revenue growth. As you may recall in Q4 of last year, we delivered 8% currency-neutral revenue growth with 13% reported revenue growth. In that quarter, the launch of new innovation platforms such as React and the Air Max 270 began to materially impact our performance, along with the impact of World Cup so our outlook for strong currency-neutral revenue growth this Q4 is a testament to the sustainability of the growth that we are delivering through the continued execution of our new offense.

We also see the disparity between currency-neutral and reported revenue growth peaking in Q4 before narrowing significantly as we enter fiscal year 2020 based on current FX rates. Recall that during Q4 of last year, the euro approached 125 before depreciating to as low as 115 in Q1 of this fiscal year, a similar dynamic exists with respect to the Renminbi. As a result, we currently expect the FX headwind on reported revenue to largely dissipate as we enter fiscal year 2020.

For gross margin in Q4, we expect expansion of roughly 75 basis points ending the fiscal year with gross margin expansion that will have exceeded our long-term financial model. While we expect continued strong full-price sell-through and strong growth through our higher-margin NIKE Direct businesses, that is partially offset in Q4 by higher input costs, specifically cotton, chemicals and labor, FX sourcing headwinds, and the shift of Supply Chain investments from Q3 into Q4.

As for SG&A we expect growth in the high-single-digit range in Q4 as we continue to prioritize strategic investment. We project other expense net of interest expense to be roughly flat in Q4. We expect our Effective Tax Rate in Q4 to be roughly 18% to 20%, with the ongoing finalization of regulations related to U.S. Tax Reform, we've experienced volatility in our tax rate due to nonrecurring items, which favorably impacted Q3 on a net basis. We will likely continue experiencing near-term volatility in our tax rate based on the finalization of regulations. That said, due to the uncertain timing of finalization, we have not factored all of the potential nonrecurring impacts into our guidance for Q4.

Now let me share some preliminary thoughts on our positive outlook for fiscal year 2020. We are still in the early stages of our annual planning process. That said, our expectations are buoyed by our current momentum, our brand heat with consumers, our robust innovation pipeline, and a positive early signal we are receiving from our NIKE Direct business and our strategic wholesale partners. Overall, we expect to deliver high-single-digit revenue growth as well as gross margin expansion and profitability in-line with the long-term financial model we communicated at our Investor Day in October 2017.

Of course, we continue to operate in a dynamic environment, so we'll share more specific guidance for fiscal year 2020 on our next earnings call. We are thrilled with our current momentum. That said, we are still in the early stages of executing the Consumer Direct Offense with much more opportunity ahead of us, so we will continue to focus our investments on the digital transformation of NIKE and in the areas of our business where we see the greatest potential to grow and create value for both consumers and shareholders.

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

QUESTION AND ANSWER SECTION

[Operator Instructions]

Operator:

Your first question is from Omar Saad with Evercore ISI. Your line is open

<Q – Omar Saad>: Thank you for taking my question. Another great quarter. Congratulations. I wanted to ask a question on the Women's business actually. We've noticed a greater focus on the marketplace, marketing, messaging on the product side too. There seems to be a lot of innovation. Obviously, you talked a lot about it on the call as well. Maybe give us an update on where you stand on that opportunity. Obviously, it's a key focus of the company and an important part of the long-term plan. Is it growing as a mix of the business? Or is the Men's business just too strong for Women's at this point still really to become a more material mix driver? Thanks, and I have one follow-up. Thanks.

<A – Mark Parker>: Thanks, Omar. Yeah, actually the Women's business is over-indexing our Men's growth and we see as we said earlier, tremendous opportunity moving forward. We are under-indexed in terms of our percentage of business in the Women's area, as you know, so the upside there particularly with the consumer, the market being bigger than the Men's is tremendous upside. We had a great quarter in Q3. The good news, it's driven by balanced growth, I think, across Footwear and Apparel. We had particularly great momentum in Greater China and APLA, so this is obviously a global opportunity. We see women embracing the sneaker culture more and more every day so we're scaling up popular models and creating new models for women specifically and the response like with the Air Max Dia for example, one of the newer models has been tremendous.

Also, great opportunity in Apparel. We've had real strong response to the NIKE Yoga collection and the tight business driven by the one tight, some innovation there as well and as I said the bra business is actually a great opportunity for us and we've expanded the bra collection considerably particularly in the plus-size area of the business and we're seeing strong consumer demand there, so it's really an opportunity across all dimensions of our business. Jordan is another one. Women's in Jordan grew a strong double-digit number this past quarter and the focus for us is a huge priority is editing and shifting the resources we have internally to serve women more completely.

We're definitely looking at how we elevate our female athletes and influencers more completely, providing membership and access to sport, being very thoughtful in terms of design and our innovation agenda specifically for women, so again simple conclusion there is under-indexed opportunity for us at this point, huge opportunity for us going forward as we shift focus.

<A – Andy Champion>: And, Omar, an area in which we will deliberately shift investment from product creation through Retail experiences to accelerate against what we see is a tremendous growth opportunity.

<Q – Omar Saad>: Understood. That's helpful. And then while I have you, maybe bigger picture on the digital capabilities very clear the company has developed outstanding expertise in a lot of areas in learning how to scale it. You look at the other brands in the portfolio, Converse maybe isn't performing as well. Is there something about the digital learning you're developing in the NIKE Brand that's scalable or not scalable across other brands in your portfolio? Is there a way we should think about that because it's clearly working in the NIKE Brand? Thanks.

<A – Mark Parker>: Absolutely. Lots of opportunities to leverage learning in NIKE Digital, across the portfolio certainly in Jordan. We're seeing tremendous success as I mentioned on our SNKRS App platform. Jordan is a major part of that energy. Converse, we just launched Converse.com and the early response to that is incredibly positive and we see tremendous upside opportunity for the Converse brand as well. Overall, I think the brands in the portfolio, Converse particularly Converse, Jordan and of course NIKE are all lined up to share learning and leverage what the expertise and the capabilities we're building in digital, so we're going to see a lift I think across the portfolio.

<Q – Omar Saad>: Thanks Mark. Good luck, guys.

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

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

<Q – Jamie Merriman>: Thanks very much. You talked a little bit about the in terms of the digital investment with the NIKE App at Retail. Can you talk about where you are in that process and what you're seeing in terms of response and sort of connection from consumers as you've done that, and that would be my first one.

<A – Mark Parker>: Okay. Well, first of all, obviously, digital is up significantly for the quarter, so we are leveraging what we're learning and it's showing up in the results, up 36% for the quarter. I mentioned the SNKRS app. SNKRS app to me is really a signal of the future potential of how we connect with consumers in a deeper way with storytelling as part of that effort and then the connection we're making with physical-to-digital, through NIKE Live and LA and then our House of Innovation in New York and Shanghai. We're learning a lot. Every day we're learning and then we're applying those learnings to the rest of our business across our own Direct business but also in partnership with our wholesale digital partners at the same time, so we're seeing a healthy lift and we know membership is a key part of this as well and the membership is really driving a lot of the increased improved performance in Direct Retail at the same time. We've seen some impressive numbers on that as well.

<Q – Jamie Merriman>: Okay. Great. And then can you just talk a little bit about Apparel in North America? You talked about Women's and Apparel as being two areas particularly where you're focused in terms of driving growth and clearly seeing great results from Women's, but can you just talk a little bit about the initiatives in Apparel and specifically just wondering about North America as well. Thanks.

<A – Mark Parker>: Yeah, well, first of all, we continue to see great momentum in our Apparel business not just in North America but across all geographies. And it's a balance between both performance and Sportswear. That said, we see a lot more upside potential particularly as we 2X our innovation agenda in Apparel. We see tremendous opportunity to start to echo much of what we seen on the Footwear side of the business and we're having, we're putting particular emphasis too on the Women's innovation agenda in Apparel as well, so we've seen some early positive response to some of that product and some of those launches but we see much more upside for Apparel around the world really for NIKE in both Sportswear and in Performance, for women and for men for that matter.

<A – Andy Champion>: I'd just add that one of the reasons we call out Apparel as such an extraordinary or outsized opportunity for us long-term is Athletic Apparel as a percent of total Apparel is much smaller than is Athletic Footwear as a percent of total Footwear and what we're really focused on is the opportunity to go deeper in some of the classifications where we have been a player and had great response from consumers but we haven't gone as deep as consistently and that extends to offering product that is well-suited for new occasions. Again, think apparel Monday through Friday as well as on-court in the gym and over the weekend, and then that extends to price points, up and down the price-points from premium apparel through to the more affordable price-points, so we see a pretty extraordinary opportunity to both catalyze the growth of athletic apparel within the broader apparel industry and also extend the offerings that we're bringing to market.

<A – Mark Parker>: I'll just add that we're in the infancy stages of apparel opportunity on the Jordan side of the business as well. We've seen a taste of the response to the Women's Apparel business in Jordan, but we see a lot of upside opportunity for apparel in our overall Jordan business.

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

Operator:

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

<Q – Paul Trussell >: Yeah, good afternoon. I know it's early in the fiscal 2020 planning process, so I appreciate the color given but just wanted to see if there's any other puts and takes you can provide as we think about maybe the composition of the high-single-digit revenue growth outlook as well as puts and takes on margins. In

particular, your long-term algorithm is inclusive of slight leverage on SG&A which we haven't seen this year so just curious on how we should think about that going forward.

<A – Andy Champion>: Yeah, we're still in the early-stages of our planning process and I appreciate that you noted that, but we do have increasing confidence in the expectations that we've just shared for fiscal year 2020. We have incredibly strong momentum and demand across both Footwear and Apparel, Brand Heat, and as we've shared an incredible pipeline of innovation that's both in the early part of the year as well as in the latter part of the year as we ramp-up to Tokyo 2020. We're already receiving very positive signals from our NIKE Direct business and our wholesale partners as I shared. All of these really contribute to our confidence in our outlook for growth.

Our outlook for growth is broad-based. We expect growth largely in-line with the guardrails that we've shared in terms of our long-term algorithm across our geographies, so continued momentum internationally as well as continued healthy sustainable growth in North America. I would keep in mind that we're operating in a dynamic environment and so we'll update you with more specifics when we get to our Q4 call.

As for SG&A, we see the investments that we're making translating into this extremely strong currency-neutral revenue growth and margin expansion and so that correlation has probably been more direct than ever which is leading us to continue to invest in the capabilities that are going to drive the digital transformation we've spoken about and fuel that growth.

Our investments in innovation which we've spoken about in speed and digital are clearly having a tangible impact, so we'll continue to make those investments. At the same time as we said at our Investor Day, we do expect to be able to both make those investments and deliver slight SG&A leverage over that five-year horizon, so that is very much still a goal in terms of the profitability of our business going forward.

<A – Mark Parker>: And I'll quickly add that the growth that we're seeing it makes up that high-single-digit guidance at this stage is a very, it's a balanced as I think we've seen it in terms of Complete Offense. Men's and Women's, performance and Sportswear, I think across the geos driven by the key cities, categories, price-points, we do have some opportunity I think in core particularly as we head into fiscal 2020 and you're going to see a whole refreshed core offering from NIKE that we think is going to help to fill in our Complete Offense there as well and then as Andy said, we say all the time but it's true. It's the innovation pipeline is full, and I think it's going to drive some great upside for us.

<A – Andy Champion>: And the only thing I'd add is I think it is important to note that a lot of the investments we're making are really long-term in nature. They have a compounding impact. Innovation platforms that we can leverage obviously and scale faster over time as well as the investments we're making in digital. As we've said before, from a long-term perspective, we see digital comprising the majority of our business and so these are investments that we think will have a compounding effect as we make them year-over-year.

<Q – Paul Trussell >: Thank you for the color. My follow up is just a circle back on North America, and I think part of the question Jamie was asking which was around the Apparel just is there anything from a timing standpoint that led to the deceleration in Apparel in the third quarter? And any other kind of just comments you can provide in North America around what you're seeing with your wholesale partners?

<A – Andy Champion>: Yeah, very intuitive, insightful question. There were some timing impacts related to our NBA business and the launch of certain products year-over-year. They are always timing impacts in terms of product launches, so yes, nothing in terms of a turn or change in consumer demand. In fact, consumer demand for our apparel in North America is very strong. Frankly, to some extent it puts pressure on supply but that's a great point of pressure to have. We've got really strong demand for our apparel in North America, so I wouldn't overly index on the quarterly rate of growth.

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

Operator:

Your next question is from Alexandra Walvis with Goldman Sachs your line is open.

<Q – Alexandra Walvis >: Great. Thanks so much for taking the question here. You mentioned in response to Paul's question that there was some work that you guys were doing refreshing the core products and driving more growth across different price points. You also mentioned in your prepared remarks that you'd be giving more distinction to some of the core level product, that product under \$100. And you mentioned that you'd be introducing some new cushioning product to get people more people running. I wonder if you could dig a little bit more into or dive a little bit more into those strategies. And then more broadly, why is now the time to bring some of that product innovation and process innovation to those lower price-points and broader consumer groups?

<A – Mark Parker>: It's basically a part of our ongoing Complete Offense strategy. As we see, where we have opportunity to improve our offering, and to create more opportunity. And certainly, as we look at Footwear, our complete Footwear offering not just in North America but around the world, we see the opportunity to strengthen the price-to-value opportunity for our Footwear. So, part of that is bringing innovation into that price-point, not just taking it down but creating unique innovation for those price-points and those consumers.

We have to be competitive at every level and I think as part of our offense and I think there is a great opportunity for us and I think that can drive some of the under indexing in the marketplace now versus the opportunity. So, we have about three-quarters of our product at the core level in Footwear is going to be refreshed starting at back-to-school and it's not a takedown. It's a making sure that we have that value at that price-point, again creating some unique innovation platform opportunities.

As far as the new cushioning platform goes, I can't really talk a lot about it other than it's incredibly comfortable and I think it is going to open up an opportunity for part of the running population that actually we might not have at this stage or at least invite more people into it. I'm actually wearing a pair now and I will tell you, it's one of the most comfortable platforms that we've had so incredibly exciting and visually very distinctive.

<Q – Alexandra Walvis >: Great. Thank you that's very clear. My second question was on Jordan. The brand is back to strong growth and you've called out several drivers of it. I wonder if you could reflect on some of the actions taken there in the last year-and-a-half or so to reset that North American market how you're feeling about the health of inventory in the channel today and about the growth opportunities for that brand going forward.

<A – Mark Parker>: Yeah, we have at this time last year we were in a reset mode on Jordan and we're very pleased with where we've come in terms of cleaning up the product, in terms of the marketplace, I think we over-indexed a bit on the retro market. We've got a reign on that so it's a very balanced management of the Jordan product portfolio, not just in terms of retro but actually balancing that out with performance products as well, and that's the story in Jordan too is we're beginning to see a much more balanced product offering both performance and Sportswear, new performance platforms with retro and retro refreshed, but making sure that we're managing that in terms of the marketplace, the inventory is actually quite healthy, in a good position right now. Women's is just coming on, so I mentioned Women's Apparel but also Footwear for Jordan, a big opportunity for us and there's a lot of great brand energy around Jordan right now. Not just here in North America but around the world. It's APLA, EMEA, China, huge brand presence for Jordan in China, so again, we're bullish and we feel like we've got a good reign on managing that in a healthy and balanced way.

<A – Andy Campion>: I'd just add that, as we've said, the demand for the Jordan Brand has been strong, it was strong, even when we were in a reset mode it still strong and our opportunity was to as both Mark and others have said, bring new dimension to the brand. Mark touched on Women's a couple of other areas of dimension, performance Basketball product. We've seen extremely strong demand for the Air Jordan 33 game shoe which we amplified with the Chinese New Year and Travis Scott additions, we're seeing incredibly strong demand for Russell Westbrook's signature shoe, Why Not, also a performance silhouette and then as Mark touched on in response to the earlier question on Apparel. The Apparel coming out of Jordan is extremely strong and we see a big opportunity there.

In fact, as I talked about in my prepared remarks, the Jordan PSG launch was largely an Apparel launch. We did have Footwear in that launch but what was really a shock and surprise to consumers in a very positive way was what we were able to do with the Jordan brand on football Apparel.

<Q – Alexandra Walvis >: Great, thanks so much.

Nitesh Sharan>: Thank you, Alex. Operator, we have time for one more question.

Operator: Your last question comes from Lauren Cassel with Morgan Stanley. Your line is open.

<Q – Lauren Cassel >: Great. Thanks so much for taking my question. Just a quick follow up on Paul's question. Looking to 2020 on gross margin specifically, are there any specific factors, if any, that would prevent 2020 gross margin from being up as much as they have been here in 2019? And then my second question, just bigger picture. How do you guys view the resale markets role, the StockX goods of the world in the context of the overall industry? Do you think there would ever come a point in time where you'd partner with them directly, whether it be for collaborations or exclusive products? Just any thoughts on how you view that portion of the market. Thanks so much.

Nitesh Sharan>: Lauren, sorry can you quickly repeat the second part of your question?

<Q – Lauren Cassel >: Yes. Just how you guys view the resale market? Within the overall industry of the StockX of the world, do you think there would ever come a point in time where you collaborate with those sites?

<A – Andy Campion>: Thank you. We'll start with the gross margin question. You know, as we communicated at our Investor Day, our goal, a very ambitious but we believe achievable goal, was to deliver as much as 50 basis points of gross margin expansion over the next five years. Obviously, in this fiscal year, we are exceeding that goal and that's fueled by a number of factors, very strong full-price sell-through. The continued outpacing growth in our NIKE Direct business. As we look ahead to fiscal year 2020 as I said in our guidance, we expect gross margin to be largely in line with the long-term objective that we communicated on our Investor Day, which is again a robust amount of margin expansion, especially on top of what we've delivered this year.

Much like this year, as we get into the fiscal year, we may see opportunities to expand on that. Certainly, this year, we've just had incredibly strong brand momentum and incredibly strong product pipeline that has afforded us the opportunity to outperform in that regard. At the same time, I would, it's important to note that there are a myriad of factors within gross margin ranging from the impact of real-time foreign exchange rates to the timing of the hedges that we put on from a sourcing perspective, so we'll update you with more specifics when we get to our Q4 earnings call on gross margin. But suffice it to say, we are really pleased with the drivers of gross margin expansion that we've had in this fiscal year, and as we shared, we expect to see continued strong margin expansion next year.

<A – Mark Parker>: Just quickly on the resale market, we're not focused on that slice of the market at this time. We don't have anything to sort of add to that. We're fully aware that we're a huge part of creating that market, and that's our focus is how do we deliver the innovation and the creative energy to the product that ultimately is going to create an opportunity there for others. Right now, we're looking at it, but we have no plans in terms of partnerships or business strategy in that particular area.

<Q – Lauren Cassel >: Okay. Thank you so much.

Nitesh Sharan>: Thank you, Lauren, and thank you, everybody, for listening in today. We look forward to speaking with you next quarter. Take care. Bye.

Operator

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