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PRESENTATION

Operator:


Before I turn the call over to Mr. Friend, 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 Matt Friend, CFO, NIKE Operating Segments and Vice President, Investor Relations.

Matt Friend, CFO, NIKE Operating Segments and Vice President, Investor Relations:

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss NIKE Inc.’s fiscal 2020 First 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, at our website, investors.nike.com.

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

Thanks, Matt, and good afternoon, everyone. Now many of you know Matt. I'd like to welcome him to his first call as he takes on the responsibility of Investor Relations. And then of course, on behalf of the whole team, I'd like to thank Nitesh for his partnership over the last several years.

Turning to the results, we feel very good about our performance in the first quarter of fiscal year '20, growing revenue 10% on a currency-neutral basis. It was a quarter that proved the depth and balance of our complete offense, building on the strength of our foundational business drivers and capitalizing on the untapped dimensions of our portfolio. For the quarter, this is reflected in the broad-based growth in all geographies, led by our international business, which grew 16%, in double-digit growth in our women's business off the back of incredible summer of celebrating female athletes; in both footwear and apparel with our strong lineup of innovation and style, which continues to feed the growing consumer demand for comfortable athletic products; and in digital which grew very strong 42%, showing the power of more personal relationships with the consumer. Mobile continues to lead the way and within mobile, app experiences are fueling the most growth.

And while this trend has held true in our own channels for some time, we're beginning to leverage our digital experiences with our retail partners. As we set out to do, we're creating a differentiated marketplace for NIKE by scaling our learnings and best-in-class experiences with our partners.

The key to expanding our competitive edge continues to be our total commitment to the consumer through the Consumer Direct Offense. We're focused, we're investing in our brand and key markets and we're accelerating in the high-growth dimensions of our business. And that's especially important in the volatile macroeconomic and geopolitical environment that we see today.

In relation to tariffs, we've been clear that we strongly believe in the power of free and fair trade. Historically, we've effectively navigated through excessive duties, and we're confident that we'll continue to do so under the current dynamic. In China specifically, we continue to extend NIKE's lead. And our key cities of Beijing and Shanghai, we serve a generation of digital-first consumers and we support their love of sport by helping to grow participation through grassroots programs.

As I've said before, NIKE is a brand of China for China and the results continue to prove it out. We've driven double-digit growth in Greater China every quarter for more than 5 years. This quarter, we continued that momentum with an outstanding 27% revenue growth on a currency-neutral basis.

In any environment, NIKE's foundation for success has always been great product. We continue to see that today with another huge quarter for NIKE innovation. We're delivering more choice and fresh options of some of our hottest products, and expansion of both new and existing platforms and a deeper commitment to serving a wider range of athletes. Sportswear continues to lead all categories in both footwear and apparel, growing strong double digits. One of NIKE's greatest strengths is how we mix style and innovation, and Air Max React 270 is a perfect example. We have created a runaway hit by blending Air Max and React with multiple bold colorways. In fact, the 270 Air Max React led to the largest gains in footwear revenue for the quarter.

Another strong addition to our line-up this quarter is the Air Max 200. The layered upper with the new visible air sole unit continues to build on the energy we're driving in running silhouettes. We're also reimagining and clearly segmenting our top Sportswear franchises like the Air Force 1 and Tech Fleece. By adapting the Air Force 1 into models like the N354 and the Sage, we grew the Air Force 1 businesses with women's and kids faster than men's this quarter. It's an approach we're using with our Tech Fleece collection, too, adding new silhouettes and shapes throughout our lines. Our strategy of designing apparel through themes and collections continues to connect with the consumer as we drove double-digit growth in Sportswear apparel for the 22nd consecutive quarter.

Our kids business is one that doesn't get a lot of attention on our calls, but it is, in fact, a critical part of our business. Overall, kids footwear and apparel just experienced its biggest back-to-school season ever, driving double-digit growth for the quarter. In kids, we're earning significant gains through core footwear and apparel for both boys and girls and in Basketball and the Air Max 270 which drove triple-digit growth for kids Power Franchises.

How we present and distribute kid's product also provides new opportunities. We see more parents buying on our
In performance product, we saw a very strong momentum in Basketball internationally this quarter, especially with the AlphaDunk. With Giannis, we're excited about the long-term potential of this signature line. Not only did the Zoom Freak 1 become the largest initial signature launched in NIKE Basketball history, his apparel line sold out quickly as well, with the Freak T-shirt becoming the top-selling apparel item on NIKE.com.

This quarter, we were all inspired by the incredible athletes and performances at the Women's World Cup. It was also a tremendous stage for NIKE innovation. During the all NIKE final, we also debuted our top Football boot innovation, the Mercurial 2019. In addition, Apparel revenue from the 2019 Women's World Cup was 4x bigger than it was for the 2015 event.

Across the wider business, we stayed intensely focused on the apparel classifications that matter the most to the female athlete, bras and tights. For the quarter, the light-support Indy bra led the way, and our NIKE One tight is creating incredible demand, especially in NIKE Direct and strategic retail partner doors. The NIKE One collection is a great example of our "Edit to Amplify" approach that will stretch to other categories, putting more focus on our most profitable items across price points and distribution channels.

In Running we launched Joyride, which was designed to encourage more everyday athletes to get moving. We're excited about the incredible comfort this system delivers with responsive beads that conform to the foot. The customer response to the Running silhouette this quarter was very strong, and we're just now beginning to scale the Joyride platform across multiple categories through Women's, Sportswear and Kids.

As we began to communicate through Joyride, one of the biggest opportunities for NIKE is to continue to serve an even wider range of athletes. As a leader in our industry, we will add to the growing movement of health and wellness around the world. We've been broadening our definition of sport through our brand, but more and more, we're doing it through product innovation.

From competition to fitness to light activity to play, our more inclusive view on design is opening up new lines of opportunity for growth. For example, we're studying the FIT of our product to serve more body types with our successful plus-size line. Our teams are designed modesty to match my people's preferences, and our Flyease system has been updated for easier entry and exit to appeal to even more people. We will be expanding into a new high-performance basketball shoe and one of the most coveted sneakers of all time, the Air Jordan 1. Making more athletes comfortable and confident can be an incredible catalyst to bringing more people into sport. And that's a theme, we'll continue to champion as we lead into the Tokyo Olympics.

On last quarter's call, we told you that the Jordan Brand was accelerating and finished with over $3 billion in revenue for fiscal ’19. Jordan followed up that record-breaking year with a quarter of healthy double-digit growth in all geographies, including mid-teens growth in North America. We're growing at an accelerated pace in new areas like performance Basketball, Women’s, International and Apparel, and the Air Jordan 1 franchise continues to create incredible demand all over the world. This quarter, we were incredibly excited to announce that Zion joined the Jordan family. The proud design will wear the Air Jordan 34 to start the season and we’re already developing new innovation with one of the NBA’s most anticipated rookies.

Looking over the next few seasons, our pipeline is set to fuel growth in our biggest businesses, while also carving out a new space for future opportunities. New LeBron and Kyrie signature models will arrive as the NBA season get started. Women's apparel will lead with new materials for performance tights. Training will introduce a new franchise designed for a range of fitness activities, including high-intensity workouts, station-based training and spinning classes. Running will introduce more innovation that's proven to help make athletes faster as we head into Tokyo. And our adaptive platform will continue to evolve with new features like voice activation from your phone. There's much more to come from NIKE innovation in fiscal year ’20.

While products are usually the first to grab the attention of our consumers, we deepen those relationships through the power of digital. To do that, we're investing in 3 areas: we're building industry-leading personal experiences;
we’re quickly ramping up our back-end capabilities to capture more of that demand; and the final critical piece is to create scale through our own channels and with our partners.

Membership sits of the heart of that strategy, giving consumers a more personal relationship with NIKE.

Fundamentally, that gives them easier access to more tailored products and services. With product, there are multiple advantages to be a logged-in member. In some cases, it means they have early access to our latest innovation like we did this quarter with the launch of Joyride and the Air Max 270 React. It can also be as simple as giving better access to the product they want in the moment so you're capturing more full-priced demand. Connected inventory is critical to that capability.

With services, we’re bringing real value to our members' lives consistently. Our teams are obsessing different ways to engage with more people completely and have them coming back for more. Over the last three years, we've more than doubled the number of active users across all of our apps. With more active engagement, we create more value for both our members and for NIKE. And this quarter, for example, over 50% of our NIKE Direct digital growth came from members.

Becoming personal at scale is the ultimate objective. We start in our own channels and then amplify those experiences through partnerships. The SNKRS App has truly redefined our connection with the sneaker community. It's now in 22 countries with more room to grow in EMEA and APLA and grew roughly 50% this quarter. We've also begun a test -- to test a new opportunity within sneakers on high-heat apparel. The early read from our members on our pilot has been very positive. And as I've said before, the NIKE App is the most comprehensive, one-stop shop for NIKE. It's become the largest and fastest-growing platform in our portfolio, growing almost triple digits this quarter. The NIKE App is already in 21 countries and will go live in China in Holiday.

Just as exciting is the impact of the NIKE App is having on physical shopping experience. It's scaling in North America and its features can be now activated in every NIKE Stored Owned location and most Factory Stores -- including most factory stores. And in this quarter alone, we added nearly 1 million new NIKE members from interactions in our North America doors.

NIKE Fit is our new technology that scans the foot, eliminating a significant consumer friction point by providing an accurate read of a user's shoe size. The in-store experience is currently available in all North America locations, and is moving quickly into Europe and Japan. We'll also be launching an at-home in-app experience later this fiscal year.

We’re moving at an impressive pace in the channels that we control and while we continue to invest in stronger, more distinctive partnerships. In coming together with another platform or retailer, our objective is to create a better experience in the path of the consumer. We want them to be able to move seamlessly from online to offline and easily find a product they want, when they want it across the marketplace. Ultimately, by recognizing, serving and rewarding members, they will engage with NIKE more often across multiple channels and touch points. Our teams continue to be very active in this space.

NIKE App at Retail is already showing the ability to scale with partners. This quarter, for the first time, NIKE App at Retail features a NIKE membership were activating with a wholesaler through a pilot with Foot Locker's Washington Heights store. We plan to integrate NIKE App at Retail in more Foot Locker doors in North America and bring new experiences to Zalando in Europe and Top Sports in China later this fiscal year.

Our inventory partnership program also continued to scale, including Zalando, JD and Pro Direct in Europe. And we're leveraging the world's top social media platforms with Instagram, where consumers can use direct messaging for commerce in our women's and training channels and with WeChat with the new feature that allows users to check product availability in nearby stores instantly.

A critical component to accelerating all of our opportunities is our ability to become smarter through our supply chain. And to do that, we're bringing science to the art of retail like never before. With Zodiac, we've acquired proprietary technology and teams to better know our members, give them better experiences and expand their lifetime value to the NIKE Brand. Invertex brought us computer visioning capabilities for NIKE Fit which we talked about. In addition to my accurate fitting sizes, we're already using insights we gained to inform better design product. And just last
month we acquired a new predictive analytics platform and team of data scientists through our acquisition of Celect. This team will greatly accelerate our ability to turn raw data into actionable demand insights. And this allows us to make more accurate inventory decisions closer to market. We're partnering, investing in our own teams and we're gaining new capabilities all in the name of serving the consumer more completely.

It was a great start to the year for NIKE, the global shift towards more active lifestyles continues to accelerate and demand for athletic product is high. As a company, we have a sharper focus on these areas that will drive the greatest growth. We're bringing the joy of sport to even more people, and we continue to build our more valuable relationships with the consumer through the power of digital. Our fundamentals are strong, but what excites me the most is the significant opportunity ahead for our industry and for NIKE.

Thanks. And now, here's Andy.

**Andy Campion, Executive Vice President & Chief Financial Officer:**

Thank you, Mark, and hello to everyone on the call. First, I want to take a moment to personally thank Nitesh for his incredibly valuable thought partnership and leadership over Investor Relations as he now transitions into a new and expanded set of responsibilities. And I also want to welcome Matt to his first call as he expands his responsibilities to include leadership over Investor Relations.

In Q1, we came out of the block strong with our results meeting or exceeding the expectations we set 90 days ago on every dimension. Most notably, we delivered currency-neutral revenue growth of 10%, 150 basis points of gross margin expansion, EPS growth of 28% and high expanding returns on invested capital. Those are extraordinary numbers, but what we're most excited about is the quality of our performance.

Our financial performance in Q1 reflects exceptional strategic execution by our teams around the world. We continue on our relentless drive to transform how NIKE serves consumers. There are three key themes that really stand out when we reflect on Q1: one, the strategic transformation of NIKE continues to be the fuel for accelerating broad-based growth across our global portfolio; two, this transformational growth is not happening by accident, our targeted investments are extending our competitive advantage; and three, while the geopolitical and macro environment is increasingly volatile, and in some respects unpredictable, consumer sentiment for the NIKE Brand remains incredibly strong and consistent around the world. Let's go a bit deeper on these three themes.

First, strategic transformation is driving our broad-based global growth. When it comes to creating value for shareholders, it all starts with growth. And as Mark has said when it comes to growth, at NIKE, it all starts with the product. NIKE is bringing innovative new product to market at an unrivaled pace and scale. New innovation platforms equated to over 100% of our incremental growth in Q1. That includes the successful launch of Joyride and strong sustained consumer demand for recently launched platforms from React to the range of compelling new Air Max platforms launched over the past two years such as VaporMax, 270, 720 and 200.

At the same time, digital is transforming and amplifying everything we do at NIKE. In Q1, NIKE digital grew 42% on a currency-neutral basis driven by enhanced digital services and the expansion of our app ecosystem internationally. The Nike App and SNKRS App are now both live in over 20 countries with more expansion coming over the balance of fiscal year '20.

As for the second key theme, we are making deliberate investments both organically and through acquisitions, to extend NIKE's competitive advantage. For example, we've enhanced our ability to test and scale new digital services faster by investing in the migration of over 95% of our consumer experiences to a more nimble, cloud-based architecture. Our acquisition of Celect in Q1 was another accelerator of our transformation. Celect's team and proprietary digital demand sensing tools will help us more effectively predict demand, plan supply, allocate product to the right stores and sharpen our pricing and markdown cadence.

Celect's capabilities are first of their kind in our industry. Most other industries sell the same products season after season. Celect has developed unique models that leverage data science and machine learning in our industry, where we bring new and innovative products to market every season. The acquisition of the Celect accelerates our building digital demand-sensing capabilities by at least three years.
With NIKE’s unrivaled scale and resources, we will continue to capitalize on opportunities such as these to invest and extend our leadership and competitive advantage. At the same time, we’re also increasingly offsetting our incremental investment through the editing of resources within our legacy operating models.

The third key theme as we reflect on Q1 relates to the environment in which we’re operating. Despite increasingly dynamic and somewhat unpredictable macro and geopolitical factors, consumer sentiment and affinity for the NIKE brand remains strong and consistent. NIKE’s growth continues to outpace GDP growth and broader retail growth in our major markets around the world. And NIKE continues to be the #1 favorite brand in our twelve key global cities.

Since launching our Consumer Direct Offense two years ago, our currency-neutral performance has exceeded our long-term financial model in terms of growth, profitability and returns on invested capital, and we see that momentum continuing over the balance of fiscal year ’20.

While the macro dynamics are even more volatile than they were 90 days ago, NIKE has a long track record of remaining agile and managing all of the levers we control. We are also increasingly engaging with all of our constituents on the levers that are outside of our direct control. As a result, to date, our net real dollar reported results have remained strong and consistent. We continue to deliver strong financial performance despite FX having had a roughly $3 billion negative impact on our reported revenue and over $1.5 billion of negative impact on our EBIT over the past four years.

Despite the recently implemented tariffs and associated FX headwinds, we expect to continue delivering strong financial performance going forward. But before sharing our positive outlook for the balance of fiscal year ’20, I’ll first touch on a reported Q1 results in a bit more detail.

NIKE, Inc. Q1 revenue increased 10% on a currency-neutral basis and 7% on a reported basis. Our stronger-than-projected overall growth reflects healthy balanced growth across all four of our geographies led by NIKE Digital globally and Greater China.

Gross margin expanded by 150 basis points in Q1, as average gross selling prices expanded and higher margin NIKE Direct growth outpaced wholesale growth. Q1 gross margin significantly exceeded our guidance driven primarily by a shift in the timing of supply chain and other investments out of Q1 and into the balance of the year, significantly lower-than-planned markdown rates in our NIKE factory stores, in fact, even lower than we would expect in typical quarter, and the favorable mix impact from stronger than planned growth in our high-margin international geographies and NIKE Direct.

We nonetheless expect gross margin expansion over the balance of the fiscal year, though of course not to the same level as we saw in Q1. I’ll touch on this more specifically in our guidance. SG&A grew 9% in Q1 as we continue to invest in our digital transformation and in part driven by brand marketing associated with the Women’s World Cup and the Joyride innovation launch. Our effective tax rate for the quarter was 12.4%, which would’ve been largely in line with guidance but for favorable nonrecurring items.

First quarter diluted earnings per share increased 28% to $0.86. And as of August 31st, inventories were up 12%, reflecting strong forward-looking consumer demand globally and also in support of key consumer moments such as back-to-school, which has extended into September this year, and looking ahead to Singles’ Day on 11/11 in Greater China.

Now let’s turn to the financial performance for our reported operating segments. In North America, Q1 revenue grew 4%. Our growth in Q1 was right on plan, led by digital from a channel perspective and Sportswear and Jordan categorically. We are reshaping the marketplace in North America with NIKE Digital growing over 30% on a currency-neutral basis and with high single-digit growth across our key strategic and differentiated partners.

In Q1, we also drove an intentional decline in undifferentiated multi-brand wholesale. We continue to reallocate our best product and our retail investment dollars to NIKE Direct and differentiated partner experiences. That includes, for example, testing new services, leveraging the NIKE App in partner doors such as in Washington Heights with Foot Locker.
Now let's turn to EMEA, where revenue grew 12% on a currency-neutral basis in Q1. Growth was broad based across our categories and amplified by strong double-digit growth in NIKE Digital. We see continued strong digital momentum in Europe with the NIKE App having just launched in thirteen new countries across this geography. We expanded our lead in Europe in Q1, with the NIKE Brand rated the #1 favorite brand in all of our key cities, and our business going at strong double-digit rates in London, Berlin and Milan. While NIKE Direct is a key driver, our strategic partnerships with JD and Zalando are also contributing to our strong sustained growth in Europe.

Now let's turn to Greater China, which continues to set the pace for NIKE’s growth globally. Q1 marks the 21st consecutive quarter of double-digit revenue growth in Greater China. In Q1, Greater China grew 27% on a currency-neutral basis fueled by nearly all key categories, led by Sportswear and Jordan. Coming off of the FIBA World Cup in China, we’re also excited about the energy around the Basketball category in this geography and globally as we enter the new NBA season.

The impact of digital in China has been nothing short of extraordinary. NIKE Digital grew over 70% in Q1, in part amplified by our strategic partnerships with Tmall and WeChat. And looking ahead, we are pulling forward the launch of the Nike App in Greater China into late Q2.

Based on trade and other dynamics, we continue to be deeply engaged with all of our constituents in China and we’re also closely monitoring consumer sentiment. At the same time, affinity for the NIKE Brand continues to build, and our sell-through at retail remains very strong. We believe we’re extending the NIKE Brand’s leadership in China by remaining authentically focused on serving the Chinese consumer while fueling their passion for sport and a broader movement toward a more active lifestyle.

So now let’s turn from China from another fast-growing geography, APLA. In Q1, APLA revenue grew 13% on a currency-neutral basis driven by nearly 50% growth in NIKE Digital. In Q1, we launched the NIKE App at retail in our Harajuku store, a great example of bringing the Consumer Direct Offense to life globally through the key city of Tokyo. The culture of Basketball was also a driving force behind the momentum we saw in APLA with the Jordan Brand growing strong double digits year-over-year.

APLA is an extremely entrepreneurial and diverse geography. In APLA we continue testing new concepts with local partners such as our digital commerce relationship with Flipkart in India, to leveraging the social media platform Kakao in Korea on the launch of Joyride and on-ramping new members.

Finally, at Converse, revenue increased 8% on a currency-neutral basis, with the Converse brand delivering strong double-digit growth in China and across digital globally while returning to growth in Europe. Growth is being fueled by an increasingly stronger and diversified product portfolio, including across the Chuck Taylor franchise, the Chuck 70 and the Chuck Taylor lift. We’re also excited about Converse’s reentry into performance Basketball which got off to a great start with the successful launch of the All-Star Pro BB.

Now turning to our outlook, we see continued momentum going forward. Accordingly, our projected currency-neutral growth and profitability are improving. One might have expected the recently implemented tariffs and associated FX headwinds to result in lower real-dollar expectations. However, our real-dollar outlook remains consistent to slightly improved, net of all of the dynamics in our business.

For the full year, we continue to expect reported revenue growth within the high single-digit range, slightly exceeding fiscal year ‘19 reported revenue growth. This improves -- this incorporates our improved currency-neutral outlook being largely offset by the more intense FX headwinds of late associated with trade dynamics. Recall that the impact of foreign exchange hedges is not accounted for within our revenue line item. We now expect to deliver full year gross margin expansion within the 50 to 75 basis point range. That assumes that the negative impact of recently implemented tariffs remains in effect for the balance of our fiscal year. And again, remember that our Q1 gross margin expansion was amplified by timing shifts and other discrete items.

While our recent acquisition of Celect will have some impact on SG&A, we still expect SG&A to grow roughly in line with revenue for the year. We expect our Effective Tax Rate to be in the mid-teens. And for OIE net of interest expense, we continue to expect $50 million to $100 million of income for the year.
Our focus, first and foremost, is on sustaining strong currency-neutral operating momentum over the full year and longer term, but based on the volatile dynamics of late, I'll provide a bit of context on Q2. We expect reported revenue growth in Q2 to be in line with our Q1 reported revenue growth. That assumes our strong currency-neutral revenue growth will be dampened by roughly 3 points of FX headwinds. For gross margin, we expect Q2 expansion to be roughly 25 basis points, with slightly greater expansion than that in the second half of the year. The impact of tariffs will be most pronounced in Q2. In Q2, we expect SG&A growth in the high single-digit range. We expect our Effective Tax Rate to be the mid-teens range and for OIE, we expect income in Q2 to be roughly $10 million to $30 million.

We are extremely pleased with our brand momentum and the strong currency-neutral growth we've delivered since implementing our new offense two years ago. That said, we are still in the early stages of NIKE’s strategic transformation. Our execution of the Consumer Direct Offense will continue to fuel growth across our portfolio of key categories, key cities and key countries as well as accelerate our growth against the outside long-term opportunities that we see in women's, apparel, digital and international.

With that, I'll now open up the call for your questions.
Our first question comes from Bob Drbul with Guggenheim.

**Q – Bob Drbul**: Hi guys, good afternoon. I guess the question I have is, I have two questions really, on the first part of it is in North America. Can you talk a little bit more about the Apparel performance in terms of success in women's but just to generally in the level of growth and sort of how we should approach to that? And the second question is just around the inventory levels, any pockets of concerns there? Any areas geographically that you're concerned about or anything we should think about from that perspective?

**A – Andy Campion**: Sure. I'll start on North America apparel. We continue -- you asked about Women's in particular, we continue to grow the women's apparel business in North America. It's in fact, growing at a very strong rate. At the same time, we see great opportunity ahead, even greater than we've capitalized on to date. Overall, in terms of apparel growth, we're really pleased with the growth. The number in Q1 does compare unfavorably to some prior year comps. As you may recall last year in Q1, Apparel in North America grew 8%, and that was in part impacted by the jersey business relative to the NBA. As you may recall LeBron James changed teams last year and that had some impact. We also are seeing this year back-to-school extend a bit out of Q1 into our Q2. So, in short, we see really strong demand for our Apparel in North America. We've had a little bit of pressure on supply, but you're going to see the rates of growth in North America Apparel accelerate as over the balance of the year.

And then you asked about inventory. I guess I'll take that one, too. Inventory, as we spoke about was up 12% versus prior year. That was primarily driven by strong consumer demand. A majority of our inventory is in new seasonable -- seasonal product some of which is in transit to the marketplace. And we'll sell into the marketplace and sell through over the quarter and into Q3. There was also a bit of an impact from foreign exchange in that inventory number. So, if you look at it on a unit basis, our unit inventory growth is really well-aligned with our forward-looking unit growth. And kind of combining those two themes, one, the fact that it's largely seasonal inventory; and two, that the overall unit numbers are aligned with what you're seeing you what you would expect and hope to see is that our close out mix is low and it is. In fact, very low. So, our inventory's very healthy in our geographies.

There are couple of other dynamics that are probably worth calling out. One, again is this extended back-to-school season, so you see some of that inventory now selling through as back-to-school extended into September which is in our Q2. And then we also have been building inventory in anticipation of Singles' Day on 11/11 in China. So, the punchline is, we feel great about the inventory that we have on hand and it's reflective of the strong demand for the brand.

**Operator**: Our next question comes from Jamie Merriman with Bernstein.

**Q – Jamie Merriman**: Thanks very much. First question is with respect to North America and you talked about the decision to purposefully ramp down some of those strategic partners in the market, can you talk about how those plans play out for the balance of 2020 and how we should think about that. And then can you just give us an update on how you're thinking about some of those strategic partners, specifically with e-commerce, and whether you have an update on partnerships with Amazon, Jet, partners like that and what you've seen so far? Thank you.

**A – Andy Campion**: Hi Jamie, I'll take the first question relative to North America. As you may recall from our call 90 days ago, we highlighted that we were going to have some year-over-year comparison dynamics in North America. So, I'd start by saying we're right on plan in North America. We're really pleased with the growth that we are seeing in that geography. We still see that geography as sustaining strong, healthy mid-single-digit growth. You'll see slightly higher growth rates in North America over the balance of the year than what we delivered in Q1. And of course, remember not all percents are created equal, a point or two of growth in North America is a pretty significant impact. And then again, I think I touched on this a little bit with respect to Bob's question. The growth in Q1 was slightly impacted again by some year-over-year comparisons, not just in the jersey
business, but also the timing of innovation launches in footwear. And then again with that kind of extended back-to-school season spanning over Q1 and into our Q2, which begins in September. So again, we see tremendous momentum in North America.

You also asked about this distinction between NIKE Direct, differentiated Consumer Experiences and undifferentiated Consumer Experiences. That is really a tale of two cities. We are seeing strong, in fact, accelerating growth in NIKE Digital. We're seeing high single-digit growth in differentiated retail with our strategic partners and we're seeing an expected and in fact, somewhat intentional and deliberate decline in undifferentiated retail. And the drivers of that are how we allocate product and where we put our retail investment dollars. So, we would expect that trend to continue in the short term. Of course, long term, our goal is that we reshape this marketplace to one in which we are connected much more directly with NIKE consumers and members through NIKE Direct and our strategic wholesale partners. So again, we're on plan in North America. The brand's extremely strong. And really excited about the opportunities ahead, including in those areas we have consistently touched on, digital, women's, core footwear below $100 we've touched on and apparel.

**<A – Mark Parker>:** Yes. Let me touch on the second part -- or the second question you had on digital partnerships. Obviously, digital growth is driving much of NIKE's overall growth and that's important obviously for direct but also the digital-based business with our partners, both wholesalers who are expanding their growth through the digital channel as well as digital platforms. We don't have anything new to update you on in terms of Amazon. So far, the work with Amazon, the relationship has gone well. The business is performing well, that is, so nothing new to report there.

We continue to sort of analyze that relationship and the other opportunities we have from a partnership standpoint. It's really critical that our platform partners are actually serving our members or are serving our consumers at the highest level possible so that means sort of seamless interaction, frictionless experiences in terms of commerce, looking at an environment where they know that they're buying authentic NIKE products and ultimately just to better know and serve our consumers. So those are the things that we expect from our digital platform partners. We feel really good about our partners in Europe and in China. And then also growing through the digital channels here in the United States with partners like Instagram through social media, just getting going with Jet so there's lots of opportunity ahead there. So, this will be an important part of our growth going forward. And I should mention -- I failed to mention one of our biggest, most successful partners here in China and that's with Tmall. So, tremendous relationship there. Continues to add energy to the brand as well as help to drive our business in China.

**Matt Friend**: Okay, operator, next question.

**Operator:** Your next question is from Paul Trussell with Deutsche Bank. Your line is open.

**<Q – Paul Trussell >:** Congrats on a great quarter. Thanks for taking our questions. I wanted to touch base on the gross margin performance. Perhaps you could just walk through a little bit more detail on the spread versus your original estimates, how should we think about the supply chain impact in 1Q, and how that will affect the balance of the quarters? As well as what were the drivers behind the lower-than-expected markdowns? And what is the impact in 2Q of tariffs? Color on that would be helpful, thank you.

**<A – Andy Campion>:** Sure. Thanks, Paul. I will first walk you through some of the impacts or drivers, as you said, in terms of the spread versus our guidance. So as compared to the expectations we set 90 days ago, 150 basis points, significantly exceeded those. I'd say first, I would touch on higher growth and favorable mix in our international geographies. Second, higher growth in our NIKE Direct business. And again, both of those I would say are over indexing growth versus the plan we had 90 days ago, so strong momentum in those dimensions of our business versus plan. And again, our international geographies, our higher-margin geographies in North American and our NIKE Direct business is a higher-margin business that the wholesale business.

You asked about lower-than-expected markdowns in our factory store business. I'd say that was most pronounced in Europe. In Europe, we really just had extraordinary separation. You've seen strong double-digit currency-neutral growth in Europe for quite some time. We're taking share in our brands, just incredibly strong in all of our key cities in Europe. And -- so frankly, our markdowns were much lower than we planned there and in some of the areas of our
business, not only than we planned for the quarter but then you'd expect in a typical quarter.

You also asked about the impact of tariffs. Tariffs will impact Q2 through Q4. Now again, we guided to slightly improved overall gross margin even taking into account those tariffs. But the impact is more pronounced in Q2. As you know, they were announced in August and implemented on September 1st. That doesn't give us much time to manage any of the levers within our overall portfolio. As we look out to the balance of the year, there are a lot of levers within our portfolio. We've managed them over time. We're a big proponent of free and fair trade and that's because tariffs have always been part of the financial equation at NIKE. So, with a little bit of time, we have a lot of levers we can work with from sourcing to other levers. So, the impact of tariffs is most significant in Q2. And then, as you likely inferred from our guidance, you -- we expect slightly greater gross margin expansion in Qs 3 and 4 as compared to 2.

<Q – Paul Trussell >: Really appreciate that color. My quick follow up is just regarding the product pipeline. You spoke about a lot of the exciting platforms that are delivering results for you already. Just curious if you could maybe rank for us your excitement or how you think about the platforms in new areas of innovation that will drive these strong high-single-digit revenue gains over the balance of the year as we think about Joyride and Air Max now moving to 200, what you're doing in women's. Just any color on that would be helpful.

<A – Mark Parker>: Yes, absolutely. The excitement meter is very high over this next year. We sort of look at the Summer Olympics as term papers due. And so, we're -- this is a time when we bring our best work, not only from a brand standpoint but certainly from a product standpoint. And in this case both performance-based innovation, that actually leverages into sports style or sportswear. So, we feel like the portfolio of innovation or the pipeline of innovation is more complete. I always talk about the complete offense, and that's how we line up innovation as against our complete offense. You mentioned Women's… would include core in that. More accessibly priced innovation coming particularly in the spring, summer seasons. We've got incredible, again, Sportswear.

We've got Performance, I've been here for a long time at NIKE, and some of the most incredible breakthroughs in performance coming for the -- for the Tokyo Olympics, building on some of the great platforms that we've learned how to leverage more completely. And that includes the cadence of the innovations, how we manage the lifecycle of innovations and how we again leverage that across multiple categories both in performance and Sportswear. So incredibly high level of excitement.

I would add -- we talked about Adapt. It's still in the early stages. NIKE Fit will include both powered adaptive systems as well as nonpowered, hands-free systems and that's incredibly exciting as we bring innovation to more -- make innovation more accessible to more people. Women's, of course will begin to be a high priority. We're shifting resources to amp up our innovation agenda there. We feel really good about both footwear and apparel. Kids, I mentioned is an incredible category to leverage the innovation that we have more completely across the portfolio, so that's a major source for us for growth as well. So, I think the opportunities ahead are as bright as I've ever seen them. So very bullish.

Operator:

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

<Q – Omar Saad >: Hey, thanks for taking my questions. Congrats on another great quarter. I wanted to ask my first question, another follow up in North America. The 30% DTC growth, obviously that's a huge number, a smaller piece of the business. You talk about that still being kind of offset by the intentional reduction in undifferentiated wholesale. Yet can we think about when that DTC or kind of the time horizon looking at TTC starts to become a material mover for the overall North American market or you get to a point where you're happy with the kind of the wholesale footprint? And then have a follow up -- another follow-up for Mark as well. Thanks.

<A – Andy Campion>: Yes, Omar, we at our Investor Day a couple of years ago talk about our business being 30% or greater digital owned and partnered over the next 5 years, that's a global measure of success. But I would say North America's in that same range in terms of the "from to." So, we see digital alone, not just -- not necessarily all of NIKE Direct but digital alone being in that range. And as we've discussed, we see that continuing to build beyond
that. And potentially accelerating toward that date based on the incredible momentum that we've had. As I noted, that was an accelerated level of growth in NIKE digital in Q1.

So, much like we discussed at our Investor Day two years ago, our view was that over the next five years, sustainable profitable growth in North America would equate to a mid-single digit range of growth. But what we're really excited about is we think the next five years in North America is building the platform for the long-term future. North America is the marketplace where the most reshaping and transformation is required and, frankly, is underway.

<Q – Omar Saad >: Got it. Got it. And then stepping back, I don't think and watching the different components of the company performed year-after-year, quarter-after-quarter, I've never seen such consistent positive performance across categories, regions, price points, channels, age groups, genders. Maybe help us understand -- NIKE obviously performed exceptionally in the past but maybe if you can help us understand or give us an insight into why that kind of broader platform seems to be performing so much more consistently than past historically.

<A – Mark Parker>: I think we're actually a lot smarter about how we, not only where we invest in terms of new product innovation, but as I said, we better leverage that innovation across multiple categories. And then up and down the price point spectrum across genders. And again, I always fixate on complete offense. And it's one of those areas where you go no matter how well we're doing across every -- across all of those dimensions, we see more opportunity. Areas where we have, where we're underpenetrated, where we have what we call outsized opportunities. We talked about apparel, we talked about women's, digital, international as examples. But even in our foundational business, I think we've got tremendous upside ahead in terms of core. Striking that right balance across the complete portfolio or the complete offense as we call it, is a never-ending challenge for us or opportunity, let me put it that way. So, the innovation that we're putting out there I think we're just getting better at how we're leveraging that across the entire offense.

And I feel like this has always been a competitive advantage for NIKE as a source of brand energy but also tremendous growth for us. And I've never seen or been at NIKE during a period where there's such robust and strong innovation that's relevant to consumers across the portfolio. That said, I'd be the first one, as people here at NIKE would tell you, to say that we have a lot more opportunity. So, the challenge for the opportunity is to focus on the things that matter the most. We have unlimited opportunities. The fixation of the focus on the things that are really going to drive the needle from a consumer standpoint that are really going to be relevant and ultimately drive growth is what creates success.

<A – Andy Campion>: And Omar, I'd just add, maybe from a framework perspective or framing up how you may think about it, our key categories in our 12 key cities and our 10 key countries are really the “where” in terms of growth opportunity is for NIKE. The Consumer Direct Offense is the “how”, and it applies to all of those categories, all of those cities and all of those countries. And that's about doubling the cadence and impact of innovation, being faster to market so that's 2x Speed and then being more directly connected to consumers. And there isn't any dimension of our offense -- the complete offense that Mark refers to, that isn't (unintelligible) where it can be positively impacted by those strategic principles.

And then of course, the overarching or maybe you'd say underlying fuel, is this digital transformation of NIKE that's impacting everything we do from how we create product to how we assess demand and plan supply all the way through to consumer services through the Nike App that are now not just in our digital offerings but they're in our retail stores and increasingly in our partner doors. So, it's really a strategy that consumer -- so it's impacting every dimension of the portfolio.

<A – Mark Parker>: Yes. I want to put an exclamation point on that. The digital capabilities that we're creating and investing in are really going to make us a better innovation company. Understanding the consumer, serving the consumer, leveraging the innovation that we invest in. It's all making us better. I'd say so much more opportunity from being advancing our digital capabilities going forward.

Matt Friend>: Okay, operator. Maybe time for one more call.
Our last question is from Jim Duffy with Stifel, Nicolaus & Co. Your line is open.

<Q – Jim Duffy>: Thank you. Thank you for squeezing me in. A couple of questions for me on the gross margin. Andy, as we think about gross margin in the context of historical performance, you've got pricing power afforded by innovations, structural shifts from out growth to direct, you're reshaping the North American marketplace and then some more nuance factors that can help margin like leveraging Celect and NIKE Fit and so forth. Is there a reason to think that NIKE’s gross margins shouldn't go past past peaks in the near future? It seems like a lot of good things are coming together.

<A – Andy Campion>: The short answer is no. I think many of the drivers you mentioned and some others, are long-term drivers of expansion in margin. NIKE Direct is a significantly higher margin business than the wholesale business and as we just touched on as part of Omar's question, we see digital and direct being increasingly larger part of our business long-term. The price/value equation is also an opportunity to expand margin and as Mark just touched on, we've never been more excited about the innovation pipeline we're bringing to market and that means bringing tangible value to the consumer.

In your own question you touched on a huge opportunity, at our Investor Day, we talked about the potentially significant impact from having a greater mix of full priced sell-through and lower markdowns and closeouts and Celect is just spot on in terms of the capabilities that we had planned to build organically, but are now able to start leveraging thanks to this acquisition and drive that.

If I was to tell you that the one thing that we're not as pleased about are FX headwinds that have impacted us as I touched on, on the call over the last four years, we've had about a $3 billion headwind on revenue and $1.5 billion or more headwind on profitability. Of course, if we could add those back, we would. That would be pretty significant expansion in our operating margin that's more reflective of what we're doing from an operating perspective. But again, the short answer is, yes, we see some pretty systemic drivers of gross margin expansion over the short, medium and long term.

<Q – Jim Duffy>: And then as it relates to FX and gross margins, to what extent are more favorable hedge rates a positive contributor to gross margin in the first quarter and fiscal ’20?

<A – Andy Campion>: Yes. The way I would think about FX in fiscal year ’20 is we came into the year expecting FX to be sort of neutral to slightly favorable. It's now a net negative from an EBIT perspective. Again, that's in the context of our slightly improved guidance. So, we are thrilled that our operational performance just continues to be so strong that it's offsetting that.

Over the balance of the year, one thing to keep in mind is, it's somewhat difficult to predict -- not to predict, but to model the impact of FX. You have very volatile actual spot rate, certainly the renminbi is of the top of the list in that regard of late. The timing of our hedges over the course of the year as well as the timing, which is kind of backward-looking timing aspect in terms of when we lock in product cost. So, I think that the easiest way for me to say it is FX will be about 3 points negative headwind on revenue as I spoke about in my guidance, it'll be a slightly negative impact on margin over the course of the full fiscal year and it's now shifted to slightly negative impact from an EBIT perspective. But we're hopeful that those are more transient impacts. And that as we go forward and we get more certainty with respect to trade and some resolution, that maybe we see things turn from a headwind into a tailwind.

Matt Friend>: Thank you, Jim, and thank you, everybody. Thank you for joining us on the call today and we look forward to speaking with you next quarter. Take care. Bye-bye.

Operator

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