

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY20 NIKE, Inc.**

*December 19, 2019*

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### **Operator:**

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2020 second quarter conference call. For those who want to reference today's press release you'll find it at <http://investors.nike.com>. Leading today's call is Matt Friend, CFO, NIKE Operating Segments and Vice President, Investor Relations. 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, Operating Segments and Vice President, Investor Relations.

### **Matthew Friend:**

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2020 second quarter and results.

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

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

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

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

### **Mark Parker:**

Thanks Matt. As most of you know, this is my final quarterly earnings call as Nike's CEO. While I'm tempted to go right to the results – to let another strong quarter speak for itself – there are a few things I want to say right up front.

I'm excited to take on a new role as Executive Chairman...remaining a part of the management team and leading the board.

This has been a thoughtful transition that has been planned for many months. I strongly believe the best time to make change is from a position of strength. And our brand and business are as strong as they've ever been. We're focused, we're competitive and we're creating a future of our own design.

Most of all, the time is right because of the team we have at Nike, and, of course, John Donahoe himself.

I can't say enough about the incredible people I get to work with every day. With their expertise, their commitment, and their enthusiasm for the business the entire Nike team has been fueling our current momentum. And because of the depth and quality of the leadership team we have at Nike, the transition with John will be seamless.

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As for John, his proven experience in leading global strategy, digital commerce and enterprise technology will be invaluable as we continue our digital transformation.

And his passion for sport, commitment to developing teams and talent and his growth mindset will make him a great Nike CEO.

John will help elevate Nike to the next level and accelerate our strategic transformation. And I look forward to working with him even more closely.

With that, let's take a look at our Q2 results. We continue to show that greater focus is the key to accelerating growth. Overall, revenue for the quarter grew 10%, up 13% on a currency neutral basis.

The big takeaways from the last 90 days are...

...we're proving that innovation is Nike's greatest competitive edge. The consumer is voting for our brands...across the whole portfolio and up-and-down price points.

...the passion for sport and active lifestyles is thriving around the world. Our international business grew 18%, led by Greater China at 23%.

...and we continue to grow Nike's digital advantage in the marketplace. The Nike App and the SNKRS App are outperforming all other channels, driving digital growth of 38% for Q2.

I'll get into the details by sharing some of our Q2 product wins and insights into how our obsession on product and innovation is creating separation for Nike. Starting with sportswear, we're opening new lanes of opportunity by re-imagining our top products.

One example is how we're bringing fresh points of view to some of our most loved iconic footwear – with the Air Force 1, Air Jordan 1 and our deep line-up of Air Max. Our deliberate strategy to add new styles and colors to the Air Jordan 1 – allows us to bring one of the world's most popular sneakers to more people – while offering consumers more choice.

And with women and the Air Force 1, we're running a nimble key city offense through the

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express lane using local feedback to create and move product to meet shifting consumer tastes. We'll apply that process to a new classics strategy for women that'll ramp-up in the back-half of the fiscal year.

2X Innovation is creating a continuous cycle of scalable, distinct platforms. For example, in this quarter, the top 3 growth drivers in Air Max were all introduced in the last year with Air Max 270, 720 and the 200.

In basketball footwear, we're leveraging signature athletes to create innovation that matches different styles of play and creates differentiation across price points.

It starts with new expressions of platforms like Zoom Air – from an articulated cushioning unit in the Kyrie 6 for quick cutting...to a higher stack height for more responsive jumping with the new AlphaDunk. With the LeBron 17, we created a new cushioning system to propel the game's most explosive player during his incredible run with the Lakers this season.

We're seeing very strong sell through in our signature athlete footwear, especially through digital and in China. Next quarter gives us a number of storytelling opportunities to create even more energy with Chinese New Year, the first NBA regular season game in Paris and the NBA All Star Game in Chicago.

Running continues to create tremendous energy with consumers, across both performance and lifestyle. At Nike, we leverage innovation to help athletes perform better while catalyzing energy and growth in running inspired sportswear styles.

That starts with serving the widest range of runners. Over the past two years we have introduced several performance innovation platforms into the running category, including React, Vaporfly 4%, Next % and Joyride.

Vaporfly 4% and NEXT% continue to transform the sport taking over the fields in marathons around the world – including this quarter's sub two-hour marathon from Eliud Kipchoge in Vienna and Brigid Kosgei's (Kos-Gay's) women's marathon world record in Chicago.

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While Joyride and React continue to fuel the everyday runner early next year we'll keep the cadence of new platforms going. In January, we'll start with the Nike React Infinity Run - which blends responsiveness and comfort for both efficiency and impact reduction. And for Tokyo 2020, we'll introduce a new Zoom Air running platform that'll scale across both performance and lifestyle.

A more complete running offense also means delivering greater value at core price points. A number of initiatives are developing such as our exciting Renew platform offers a plush, resilient ride, similar to the properties of React cushioning. We're selectively leveraging one of Nike's most iconic innovations – Air Max – into core price points and we're designing women's core products from the ground-up, bringing unique style and tuned cushioning to her preferences.

In apparel, we delivered strong 10% growth in the quarter, and we see a major opportunity ahead. We're getting better every season at capturing the value of one of the world's strongest brands.

Obsessing the fundamentals of fleece, t-shirts and outerwear is giving more consumers access to the Nike brand across a range of price points. That's being led by seasonal capsules and collections, which encourage consumers to keep coming back for the latest chapters of storytelling, color and prints. This formula has been an especially strong driver for women's sportswear apparel, which grew revenue double-digits for the quarter.

We've also piloted a new model of launching high-heat apparel on the SNKRS App this quarter. We're taking the energy and storytelling we drive in footwear and amplifying one of our biggest growth opportunities. We're seeing strong-sell through of our apparel collections that we've co-designed with collaborators on SNKRS.

The Jordan Brand on a wholesale equivalent basis just earned its first Billion-Dollar quarter– an incredible milestone. Just as important, is that it was high-quality growth. The brand is very strong internationally AND in North America. The marketplace is healthy, and, in many cases, demand is exceeding supply. Performance innovation like the Jordan 34 is complimenting one of the world's hottest franchises in the Air Jordan 1 and Women's and Apparel continue to reach

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new audiences.

What's most exciting is we're still in the early stages of diversifying the Jordan portfolio. And we've continued the momentum into Q3 with a significant holiday launch of the Jordan 11 "Bred", meeting demand for one of sneaker culture's all-time favorites at an incredible scale.

So, as we look ahead, we're about to enter a hyper-intense cycle of new product introductions with the Tokyo 2020 games and the football Euro Champs on the horizon. Both will be a springboard for new innovation that'll help define the performance and aesthetic of Nike product for years to come.

Eurochamps will be another great catalyst for EMEA apparel in the back half of the year. For the Olympics and Paralympics, we'll be revealing the specifics about our explosive line-up next quarter. But you can expect to see the next AIR revolution, with new approaches to Zoom Air and a renewed VaporMax platform. A celebration of women's basketball like never before, highlighting the opportunity we see to grow the women's game and our business and our teams using the world's stage of Tokyo 2020 to elevate sustainable design at an incredible scale.

Across the board, our product teams are proving that innovation is Nike's greatest competitive edge...

...we're turning athlete insights into breakthrough innovation...

...we're offering more choice on the industry's top icons...

...we're delivering more complete and more productive assortments...

...and we're being opportunistic with the consumer in real-time.

Another way we continue to create separation is through Nike's digital advantage. Our digital commerce revenue grew an impressive 38% in Q2, powered by an outstanding performance during our most important holiday moments in November.

For Black Friday, digital sales grew over 70% in North America and broke records for the

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weekend across many of our metrics, including our highest week of member engagement ever. Buying members also grew 45% versus last year. We also saw phenomenal success in EMEA with an increase of nearly 50% in demand as Black Friday Week grows in importance to the European consumer.

Single's Day showed the current strength of our brand and product portfolio with the Chinese consumer. Through Single's Day we created demand, generating nearly half a billion dollars in revenue. We strengthened our relationships through Nike+, adding 3 million members. We served our consumer faster, delivering 20% of the 11/11 orders the same day and we finished as the #1 athletic brand on TMall.

China is, in many ways, the world's most compelling digital marketplace. And while the digital share of our business in Greater China is larger than any other geography for Nike, we still see so much potential ahead. At the end of Q2, we added the Nike App to a powerful portfolio in China that includes Nike.com, Sneakers, NRC, NTC and our branded experiences with Tmall and WeChat.

The Chinese consumer is already telling us they're excited about the Nike App, downloading it one million times during launch. Incredibly, it's already the number-one shopping app in China.

Of course, we continue to stay engaged with all of our stakeholders in Greater China, monitoring trade conversations and the state of the consumer across the region. Overall, we feel very good about the sell-through of our product and the health of the marketplace, our support of the growing community of everyday athletes, as well as China's top leagues and federations and the immense opportunity to create tailored experiences for the Chinese consumer.

We've talked a lot about the scale of the investments we've been making to fuel our digital transformation. There are many components. Industry-leading, consumer retail experiences that merge online and offline, new operational capabilities and powerful partnerships.

And all enabled by the digital talent we've added through five recent acquisitions and

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investments in our teams.

The common thread to these workstreams is that they put the consumer at the center. They're all designed to reduce friction and create a more direct connection with our customers and ultimately invite them to become members. Membership is the sharp point of our growth. For the quarter SNKRS app grew strong double-digits, the Nike App more than doubled, and both apps now make up over 1/3 of our Digital revenue and active users for our apps are growing almost triple digits.

The Nike App at retail continues to be one of our greatest opportunities to create scale as we pair the App with physical retail across our owned and partnered doors. Through the Nike App at Retail, personalization and convenience move to another level. Inside the store, members can unlock tailored offers based on their past engagement with Nike and shop at their pace on the retail floor – scanning products for information and checking out on their own.

Nike is also changing the experience of finding product and how its delivered. Members can reserve product online and have it waiting for them at their nearest store so they can try it on first. Or if they can't find a product they want, new investments in RFID will enable the consumer to instantly track another one down – somewhere else in the store, online or potentially in another retail partner's channel.

We have a culture of testing and iterating new retail concepts very quickly. And we're in the early stages of scaling some of our best ideas around the world...in our own doors and with our partners. For example, our first test of Nike Live internationally opened in Shibuya, our smallest Nike Live door in the world but serving millions through the power of digital.

Nike is not only deeply committed to using our digital advantage to make the consumer experience better, we're also using data science to inform how much product we supply and where.

Through our acquisition of Celect, we are applying and developing new unique algorithms to make us be better attuned to what the consumer is telling us. We are leveraging data that



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includes past and present consumer interest in products and purchasing signals to better predict demand so we can decide how to stage inventory in our distribution centers and our stores in different ways. For Single's Day, we shipped product from over 200 stores – instead of DC's – to meet the needs of consumers faster and more profitably. Bringing science to the art of retail remains one of Nike's greatest opportunities.

Before handing it off to Andy, I do want to take a moment to recognize you, our shareholders. Many of you have been invested in Nike for years, some even decades and I've greatly appreciated your engagement and long-term focus.

As you know, I tend to think more about what's coming than reflecting, but my time as CEO really has been a humbling experience. I'm leaving this role with so much optimism for the future of this company. Sport continues to inspire and move the world forward in incredible ways. Our brand is connecting deeply with consumers everywhere. Our innovation is helping athletes prove that there are no limits. We're challenging the conventions of retail at every turn. We're growing our biggest businesses and focused on our greatest opportunities and we're bringing tremendous talent into Nike to add to our already-deep bench of leaders.

It's clear that sport is thriving. Nike has the right people. And the right plan. What's great is I won't be a spectator to all of our success, I'll be part of the team creating it.

So, with that, for the last time I'll say, thank you and here's Andy.

### **Andy Champion:**

Hello and happy holidays to everyone on the call.

First, I want to thank and recognize Mark. We have all been fortunate to be guided by Mark's extraordinary vision and leadership as Nike's Chief Executive Officer over the past 14 years. I've told Mark this personally: he is the most creative, inquisitive and frankly also the most demanding leader for whom I have ever worked, and, at the same time, he is the most patient, thoughtful and balanced.

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We will all continue to benefit from Mark's leadership as Nike's Executive Chairman.

We are also extremely fortunate to have John Donahoe joining us as Chief Executive Officer.

Few companies are guided by an inspirational founder as well as a 14-year former CEO and 40-year veteran of the company and now John Donahoe. John is clearly a proven CEO who brings extraordinary people leadership and talent development experience as well as deep expertise in strategy, consumer digital technology and enterprise technology.

This abundance of strong leadership is yet another competitive advantage that we enjoy at Nike.

This planful transition is happening as Nike's momentum is accelerating, driven by the increasingly deeper execution of the Consumer Direct Offense by our talented teams around the world. As we are still in the early innings of our digital transformation, now as Mark said, is the perfect time for John to be joining and leading our team.

Simply put, I'm extremely excited about the future for Nike.

Before we talk more about the future, let's focus on the present for just a few moments.

In Q2, we delivered revenue growth of 13% on a currency-neutral basis. Our strong topline growth was amplified by gross margin expansion and significant SG&A leverage. The result was EPS growing 35%.

There are three key strategic and financial themes that stand out as we reflect on our strong Q2 results:

First, as we've said before, Nike is a Growth Company. Growth is how we measure the value we create for consumers and delivering strong sustainable growth at scale is how Nike creates extraordinary value for shareholders over the long-term.

Second, while we will continue to prioritize investments that drive focused growth and build capabilities that differentiate Nike, we are now also increasingly editing and divesting more

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deliberately in other areas.

Third, we are extending Nike's digital advantage and positioning Nike for even greater competitive separation over the long term. As we transform elements of the consumer journey, our individual investments will have an exponential impact on Nike's long-term growth, profitability and returns in the aggregate.

I will provide just a bit more context on each of these themes.

First, Nike is a growth company. In fact, our rate of growth in constant currency terms has exceeded the long-term financial model that we communicated at our Investor Day in October 2017.

More notably, our growth has been profitable, capital-efficient and broad-based across our entire global portfolio. That's because our growth is being fueled by focused strategic execution of the Triple Double by our teams around the world.

At our Investor Day, we said our goal was to double the percent of Revenue generated by recently introduced innovation platforms. In other words, we would 2X Innovation. As of this quarter, we have in fact more than tripled innovation as a percent of Revenue.

And we're not slowing down. We will sustain this level of innovation driven by the incredible breadth and depth of our innovation pipeline, in particular all that we have in store for the Tokyo 2020 Olympics.

Our strong growth also continues to be fueled by an increasingly more Direct connection to consumers in the marketplace. Nike Direct grew 17% on a currency neutral basis in Q2, led by Nike Digital growing at 38%. Our digital growth was driven primarily by the Nike App and SNKRS app, with both now live in over 20 countries. In Q2, we also opened two Nike Live stores in Long Beach, California and Shibuya, Tokyo which leverage digital to better serve members within a more moderate-sized and efficient physical retail format.

Our growth also continues to be balanced across all Nike Brand geographies. That is because

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we are executing our offense first and foremost in the 12 key cities and 10 key countries with the greatest potential impact and our growth in Q2 in those key cities and countries continues to over-index the broader market.

That brings me to my second key takeaway from Q2. Our investments continue to be focused on the areas where we see the greatest potential to drive growth and on building capabilities that will truly differentiate Nike. At the same time, we are now increasingly editing and divesting in other areas.

At our Investor Day, we told you that we would focus and invest in the following areas: innovation, speed and direct our priority Categories and the 12 key cities and 10 key countries that would deliver over 80% of our incremental revenue growth over the 5-year horizon. Over the past two years, that is precisely what we have done, and our results are giving us even greater confidence that we are investing in what matters most.

As we all know, investing in the future always comes before editing and divesting legacy operating models but we are now increasingly doing both.

We are editing and shifting how we deploy resources within our marketplaces, across our categories and geographically. While we are investing in differentiated Nike Brand experiences, owned and partnered, we are also more efficiently managing broader retail leveraging digital tools such as our Nike.net business-to-business sales platform. As a result, we are delivering strong overall revenue growth despite intentionally flat to declining sales in undifferentiated multi-brand retail. Quite frankly, we could sell more in the short term in these undifferentiated channels, but our focus is on building a more compelling marketplace for the consumer and unbreakable relationships with Nike members.

In early Q3, we also sold the Hurley Brand, which has become one of the leading brands in surf apparel. Hurley will benefit from new ownership's focus on the surf category. Our sale of Hurley will further sharpen Nike's focus and investment on the key Categories that will drive our long-term growth.

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Going forward, we will refine our operating model with respect to dimensions of our business that have historically been less profitable and/or have lesser growth potential. For context, today we currently operate essentially the same business model in over 45 countries.

One of our many competitive advantages at Nike is that we have unrivaled resources. The more focused and efficient we are in deploying those resources, the more we will extend Nike's lead with the consumer and the greater the value we will create for shareholders.

Finally, the third key takeaway from the quarter is that we continue to expand Nike's digital advantage. As we systematically transform individual elements of the consumer journey, the more exponential the impact is on our long-term growth, profitability and returns on invested capital.

In Q2, more than half of our total digital traffic came from logged-in members. A Nike member is a consumer who has chosen to create a profile with Nike. Even in just these early stages of digital transformation at Nike, the average order value for members is significantly greater than for non-members. And, we are seeing growth from members continue to expand based on two factors: one, strong rates of growth in new members and two, greater member engagement year over year as measured by monthly active users.

As we consider investments in transforming how we operate, we always look to our consumer, and more specifically our members, and assess where we have the greatest potential to improve their experience.

It starts with digital demand sensing. Our acquisition of Celect accelerates our ability to better predict the right supply of products consumers love, down to the style, color and size. Celect's tools will also enable more accurate forward positioning of inventory in stores, online and in our distribution centers. Note that Celect also brings other tools that improve pricing and markdown efficiency.

As consumers shop, our investments in Connected Inventory provide our store employees near 100% accurate visibility into the precise location of specific inventory, whether that one pair is in

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the stockroom, or elsewhere on the floor, at a partner store or in one of our distribution centers. And, thanks to our investment in Invertex, Nike FIT will give consumers confidence they are getting the right size in that specific style.

Our investments in Data & Analytics help us learn from each of these consumer experiences and translate those learnings into, for example, curated content, product offerings and more-personalized digital experiences for members.

And as they say, that which is measured, improves. Our acquisition of Zodiac allows us to assess real-time how each new offering impacts engagement and consumer lifetime value.

Transforming the consumer journey has significant financial impacts. We will capture greater demand at the moment of truth, we will have stronger full-price sell-through and more efficient markdowns, we will have fewer days in inventory, and we will have greater member retention and repeat buying.

Our digital transformation is beginning to impact our results. In fact, our constant currency revenue growth and margin expansion, excluding foreign exchange, over the past two years, has exceeded the financial model we communicated at our Investor Day. We believe that building on our digital advantage is certain to further extend Nike's lead and amplify our long-term growth potential.

Before providing more context on our outlook, I'll first reflect on the details of our financial results overall and for our key operating segments:

- NIKE, Inc. Revenue grew 10% in Q2, up 13% on a currency-neutral basis, reflecting strong balanced growth across the portfolio led by Greater China and Digital.
- Gross Margin expanded by 20 bps in Q2, as strong gross pricing margin (which is essentially average selling price net of average product cost) and strong growth in Nike Direct was partially offset by the impact of new tariffs implemented in September, strategic supply chain investments and foreign exchange headwinds.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY20 NIKE, Inc.**

*December 19, 2019*

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- SG&A leveraged as compared to Revenue growth, growing just 6% in the quarter as investments in digital capabilities were partially offset by productivity within our Operating Overhead, efficiencies within our Demand Creation spend, and our decision to defer Demand Creation to the second half as we ramp up to Air Max Day, the NBA All Star Weekend, European Championships and the Tokyo Olympics.
- Our Effective Tax Rate for the quarter was 10.7% compared to 15% for the same period last year due to greater stock-based compensation benefits.
- Second Quarter Diluted EPS was \$0.70, growing 35% versus prior year
- Inventories were up 15% in dollar terms, 10% in units, reflecting strong consumer demand globally, strong growth in Nike Direct, a higher rate of on-time factory deliveries.

With that, let's turn to our reported operating segments:

In North America, Q2 revenue grew just over 5% on a reported and currency-neutral basis.

Nike Digital grew 32% in the quarter, fueled in part by a strong Black Friday.

Growth was fueled by those dimensions of the marketplace we are transforming, in particular Nike Direct and through differentiated wholesale partners like Foot Locker, JD, Finish Line and Dick's. We continue to intentionally right size undifferentiated dimensions of the marketplace. We have strong momentum in North America, which makes it the ideal time to affect this transformation.

Our key city focus is also fueling North America's transformational growth. New York and Los Angeles are outpacing the broader market, and Nike Direct is well over 50% of our business in New York and Digital is already well over 30% penetrated.

We see our momentum continuing in North America over the second half of FY20, with comparable growth in the mid-single digit range. That said, our reported rate of Revenue growth will not be comparable. Year over year Revenue growth in North America will be negatively impacted in the short term by the value-accretive to Nike sale of Hurley. This transaction will

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create a two-point unfavorable comparison on North America Revenue growth versus the prior year unadjusted which equates to roughly one point for NIKE, Inc. That said this is accretive from a capital deployment and profitability perspective.

Our North America business is strong, and we are right on plan.

Now let's turn to EMEA, where the Nike brand is on fire and continues to take significant market share. In Q2, revenue in EMEA grew 14% on a currency-neutral basis, with double-digit growth in most key categories, led by Sportswear and Jordan. Nike continues to be the #1 brand in all of our key cities within EMEA.

To deepen our Brand connection with consumers, we launched two powerful, locally relevant campaigns in EMEA in Q2. We launched a Kids-focused Just Do It campaign celebrating girls. And, on the back of that campaign, we saw the Kids business grow strong double-digits. We also launched a campaign around the 30th anniversary of the Berlin Wall coming down, with a focus on the power of sport to unite. Notably, our increasingly localized approach has resulted in Nike becoming the #1 footwear market leader in Germany.

Our Women's business also grew faster in EMEA than in any other Geography in Q2. Through our Express Lane we brought the T-100 Women's apparel pack to market in less than 120 days from consumer insight. The product sold out immediately through Nike Direct, Asos, and Zalando.

On that note, Nike Digital in EMEA grew 27%, growing faster than any other dimension. We also continue to expand our brand accretive partnership with Zalando, including rolling out a connected inventory pilot to 7 countries based on the strong incremental revenue generated from the initial launch in Germany.

We have extraordinary momentum in EMEA, and we expect to extend our lead fueled by the Euro Champs and the Olympics over the second half of FY20 and into FY21.

In APLA, revenue grew 18% on a currency-neutral basis, fueled by growth in Korea and Japan.



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Nike Digital in APLA was up 67% in Q2 and continues to lead all dimensions of growth. We are also putting the Nike Brand in the path of more consumers through our partnerships with digital platforms such as Zozotown and Flipkart. These partners are affording the Nike Brand, and our product, premium positioning while also serving as an on-ramp to Nike membership.

In Q2, we also opened our first international Nike Live store in Shibuya, Tokyo ... next to one of the busiest train stations in the world. At the same time, we leveraged our Express Lane to create a unique Air Force 1 inspired by the Shibuya neighborhood and launched through the SNKRS app.

Finally, our Running business has tremendous momentum in Japan. Nike's market share in Running reached a record high in Q2 led by the success of the Vaporfly 4% and NEXT%. We're excited to build on this energy with the launch of new styles like the Nike React Infinity Run next month and the strong portfolio of innovation to come around the Tokyo Olympics.

Now, let's turn to Greater China.

This past quarter, we delivered 23% currency-neutral revenue growth in Greater China.

We saw strong double-digit growth in every key category and every dimension of the market.

Nike Digital once again led our growth at plus-44% on a currency neutral basis, fueled by a record-breaking Singles Day that exceeded our own ambitious expectations. We continue to deliver strong digital growth in Greater China despite only just having launched the Nike App this month.

That is one of the many reasons we believe that while we have great current momentum in China, we are still far from realizing our full potential.

While we are of course very mindful of the geopolitical dynamics in Greater China, the Nike Brand continues to deeply resonate with consumers and our growth continues to be strong and sustainable. We are proactively managing inventory in the Hong Kong market based upon the more recent declines in Hong Kong retail traffic. These actions will create a short-term headwind

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on what will remain a very strong rate of growth for Greater China.

With that, I'll now share our outlook. On a currency neutral basis, our outlook for the full year continues to improve.

For the full year, we now expect currency-neutral revenue growth approaching the low double-digit range, even after taking into account the non-comp impact from the sale of Hurley. With continued geopolitical uncertainty, we expect Foreign Exchange to remain a 2-3 point headwind on Reported Revenue growth. Taking into account all these factors, we continue to expect high single digit Reported Revenue Growth for the full year.

We also continue to expect Gross Margin expansion within the 50 to 75 basis point range and SG&A growing in the high single digit range including the impact of acquisitions.

We expect our Effective Tax Rate to be in the low-to-mid teens.

And for OIE, net of Interest Expense, we now expect roughly \$100 - 150 million of income for the year.

Based on quarterly volatility, let me provide more context on our Q3 Outlook:

We expect reported revenue growth in Q3 to be in the high single digit range, albeit at the very low end of that range. Our continued strong currency-neutral revenue growth will be partially offset by roughly 2 points of foreign exchange headwinds and the non-comp impact related to the sale of Hurley. Put differently, Q3 reported revenue will be in line with our reported revenue growth in Q1.

We expect Gross Margin in Q3 to be flat [to a very slight decline] compared to prior year. We expect continued strong underlying product margin expansion, reflecting the strength of our product pipeline. However, that expansion will be largely offset by tariffs in North America and investments in our supply chain. In addition, foreign exchange headwinds within Gross Margin will be more in line with what we reported in Q1. The impact of geopolitical trade dynamics on FX and more recently tariffs create quarterly anomalies. That said, as we all know, one quarter

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or one data point does not equate to a trend. Over the past two years, our Gross Margin expansion has significantly exceeded our goals but for these dynamics. And we see continued strong fundamental expansion in our margin fueled by our strong product pipeline and the higher rate of growth in Nike Direct.

In Q3, we expect SG&A growth in the low double-digit to low teens range driven by our decision within Q2 to shift demand creation into the second half in order to amplify the NBA All Star Weekend, European Championships, the Tokyo Olympics and our launch of innovative new products.

We expect our Effective Tax Rate to be in the low-to-mid teens range.

For OIE, net of interest expense, we expect income in Q3 to be roughly \$50 - 75 million.

Q2 was another strong quarter fueled by execution of the Consumer Direct Offense by our unrivaled team around the world. That said, as Mark will continue to remind all of us: There is No Finish Line. We are still in the early stages of this transformation at Nike, with tremendous growth potential ahead of us.

I could not be more excited about the future,

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