

**FY 2020 Q3 Earnings Release Conference Call Transcript
March 24, 2020**

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PRESENTATION

Operator:

Good afternoon, everyone, and welcome to NIKE, Inc.'s Fiscal 2020 Third Quarter Conference Call. For those who want to reference today's press release, you'll find it at <http://investors.nike.com>. Leading today's call is 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>.

I would like to turn the call over to Matt Friend, CFO, 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 third quarter results. As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about one hour ago, or at our website, investors.nike.com. Joining us on today's call will be NIKE, Inc. President and CEO, John Donahoe; and our Chief Financial Officer, Andy Campion. We are sitting together in a conference room six feet apart, practicing social distancing. Following Andy and John's 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 will now turn the call over to NIKE, Inc. President and CEO, John Donahoe.

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

Thanks, Matt, and hello to everyone on the call. Over the last quarter, NIKE delivered 7% currency-neutral revenue growth despite the material impact from COVID-19 in China. This performance reflects the strong business momentum we had in Q3 across all of our geographies and categories. But let's take a step back. We're living in an unprecedented moment, and like never before, each day requires a close inspection of a very dynamic external environment and a clear determination of how we will respond. So, let me tell you what we've seen over the past two months.

When COVID-19 began to aggressively spread across China in late January, our top priority was to protect the

health and safety of our teammates and our consumers. We immediately began closing stores, and as of 45 days ago, we had closed more than 5,000 stores in Greater China, while the remaining open doors were operating with severely reduced hours. Not surprisingly, retail volume in China plummeted, but we acted quickly and decisively, leveraging our diverse sourcing base and digital capabilities to manage the business with flexibility and shifting our inventory to serve consumer digital demand.

At a time when people were confined to their homes, we moved swiftly to leverage our digital app ecosystem and NIKE expert trainer network to inspire and support consumers across China to stay active and connected while at home. As a result, our NIKE Training Club workouts in China saw an extraordinary rise in signup and engagement. In fact, our weekly active users for all of our NIKE activity apps were up 80% by the end of Q3 versus the beginning of the quarter. And here is what happened. The strong engagement of Chinese consumers with our activity apps translated into strong engagement with our NIKE commerce app. As a result, our digital business in China grew more than 30% and maintained strong momentum throughout this challenging period, a powerful statement of NIKE's agile problem solving in times of disruption.

Then approximately 30 days ago, we began to gradually reopen stores in China. People got back to work, and retail traffic began improving significantly. Today, nearly 80% of our stores in China have reopened with more coming back on-line every day. In fact, just last week, we reopened our first store in the Wuhan area, and the results are encouraging. Our digital business in China has accelerated even further over the past month, and we are now seeing double-digit increases in retail traffic week-over-week with some stores having already returned to prior-year levels.

Credit for this response goes to Angela Dong, who leads our Greater China geography, and her talented team of more than 1,600. I spoke with Angela two nights ago and she has been telling me about the positive sentiment consumers in China are feeling for NIKE, and I can't overstate how impressed I am. It's become quite clear to me that when NIKE says we are a brand of China, for China, it's really true, and it's no surprise to see the business already rebounding given the depth of our connection and the incredible strength of our local leadership team.

So today, I can say that we're seeing the other side of the crisis in China, and due to the resilience and creativity of our team in China, we now have a playbook that we can use elsewhere. In addition to Greater China, we've applied that playbook in Japan and South Korea over the past two months, and we're seeing early momentum in those markets as well. And with COVID-19 now spreading across Europe and the US, we are applying the same playbook. We have prioritized the health and safety of our teammates and we have closed our stores.

Over the weekend, we drove a strong digital marketing campaign to engage consumers across Europe and across the US to stay healthy and connected while they are at home. And our digital commerce remains open and in growth mode, supported by our teammates in our distribution centers. We also know that this is a moment in society where the private sector has a major role to play. Companies like NIKE need to do our part so our teams in innovation and manufacturing are exploring designs for personal protective equipment, or PPE, to support doctors, nurses and others on the frontline of this outbreak.

Based on needs identified by the teams and health professionals at Oregon Health and Science University, our teammates are working right now about how to best help, including prototyping face shields of OHSU and others. It's been so energizing to see the quick-strike efforts of the cross-functional team to try to help with this critical need. That said, we expect the next several weeks to be a challenging period for those living in the US and Europe, and I can't precisely predict how long the containment phase of the outbreak will last. But our experience in China, Japan and South Korea gives us confidence that we will see the other side of this crisis in the near future.

And I can assure you this, as the situation continues to evolve, we will be ready, and we will respond. We'll be guided by our values and we will execute with empathy and with decisiveness. For instance, we'll continue to maintain pay continuity even while our facilities are closed or have altered schedules. We know that our people are vital to fueling our deep connections with consumers, whether they work in our stores or in our distribution centers, and what's more, it's simply the right thing to do. So, while this is an uncertain and challenging time, NIKE has the foundation in place to emerge from it stronger than ever.

Thanks to our competitive advantages, the power of our brand in connection with consumers, our digital capabilities, our compelling product innovation, and most importantly, our extraordinary team, we will manage our business back to full recovery. We know, in times like these, that strong brands get even stronger, and I truly believe that no one is better equipped than NIKE to navigate the current climate. So, with that said, let's go a bit deeper. I've spent the last 90 days digging into this extraordinary company. I thought I knew NIKE after five years on the board, but believe me, when you get to dive even deeper, this place is even more impressive than I imagined. Let me walk you through what I've learned.

Through the lens of the four strengths I just mentioned; our strong brand, our digital advantage, our product innovation and our extraordinary team, these are the strengths that will continue to set us apart and these are the strengths that will allow us to shape the future marketplace going forward. Since I started as CEO in January, I have visited with our teams in several of our key cities, experiencing firsthand our deep connections with local consumers around the world as well as our innovative retail concepts. I've also had the opportunity to meet with many of our most important strategic partners.

During my first week as CEO in early January, I spent time in China and Japan before the virus took hold. I got to see firsthand just how deeply the NIKE, Jordan and Converse brands are connecting with consumers, both in compelling retail executions, and in the many ways that NIKE partners with regional, local governments to grow physical activity in sport. Our brand is driving these powerful connections to consumers worldwide. In fact, we were the number one favorite brand in all 12 of our key cities in Q3, and we continue to gain market share in key cities such as Berlin, Mexico City and Tokyo. And during a time of physical store closures around the world, we know that our digital foundation will help us emerge out of this situation in an even stronger position.

For instance, in Q3, digital delivered 36% currency-neutral growth, and it will continue to be a powerful driver of our deep consumer connections. As I mentioned early, we are executing our learnings from China about fueling sport and fitness all over the world. We're using our digital advantage to connect with and support our consumers as behaviors around staying healthy at home continue to evolve. Over the weekend, we made the NTC Premium free for everyone in the US for 90 days. NTC Premium offers the best on-demand workouts and expert tips from our master trainers and others, as well as inspiration and support for healthy living.

Digital remains our fastest-growing channel with owned and partnered digital already representing more than 20% of our overall business. And our apps continue to be the sharp point of our growth, with the NIKE app growing revenue close to triple-digits once again in Q3, fueling member acquisition and strong monthly engagement. And while we've driven impressive results in acquiring new members, engaging them and fueling increased digital demand, we know that the opportunity here is still far greater than what we've realized to-date, and will become an even greater advantage for NIKE as we move forward.

And even while our stores remain closed in Europe and the US, we continue to work on defining the future of seamless physical and digital retail. To expand the advantage we have in digital, we continue to invest in our NIKE Direct businesses, enhancing rich experiences like those in the NIKE app at retail, and we're increasingly concentrating on our online-to-offline journey and accelerating our work to fully connect the marketplace while creating frictionless experiences for consumers throughout the world.

Another clear competitive advantage is our product innovation. Our product and innovation have always set NIKE apart from others, and I firmly believe this will become even more important of a differentiator as we look ahead. Over the past couple of months, I've spent a lot of time with our innovation, design, product and merchandising teams. I've done several deep dives in these areas, and I am truly blown away. As a board member, you get to see a lot, but you can never fully understand how impressive NIKE's product innovation capability is until you spend time with our teams.

For instance, today we have more than 1,000 designers working at NIKE with broad and deep talent across footwear and apparel. And you can just feel how their creativity and vision for product inspires everyone here and inspires consumers around the world. I got to see some of this innovative product on display at the NIKE 2020 Forum last month in New York, which served as a great illustration of the power of our two times innovation offense. There, we announced a powerful array of breakthrough product such as our NEXT% footwear line which

offers measurable benefits to consumers.

We also launched a new aesthetic for sustainability where we're delivering new, scalable platforms like no one else. And by bringing together athletes and creative partners as only NIKE can, the Forum was an optimistic statement about the future of sport culture. And our advantage goes beyond our incredible product pipeline. It has become even more clear to me why NIKE leads the industry. Our innovation, product and design teams have an unrelenting commitment to discovering what's next.

This culture of innovation is pervasive across our organization and deeply embedded within NIKE teams around the world, from those who engage consumers at retail, to those creating the next wave of digital experiences that connect with consumers daily. Fueled by data and analytics capabilities, we are equipped with deep consumer insight that we combine with our design expertise and athlete research. This process directly translates into breakthrough product, season after season, allowing us to drive more separation in the marketplace.

There's one last thing I'd like to mention. As you know, the organized sports world remains on hold, and yet, the global culture of health and wellness continues unabated. In fact, in many ways, people are looking to health and wellness now more than ever. Whether it's to stay in shape at home or with the focus on mental health in stressful times, people all over the globe are finding ways to make sport a daily habit wherever, whenever and however they can. And as you may have seen, this past weekend, we encouraged consumers worldwide to work out at home with a simple message; play inside, play for the world.

We're seeing new behaviors normalize in countries all over the globe, and we're shifting our entire consumer ecosystem to deliver access to sport that speaks to consumers changing lives. Across key markets we're working to create shared experiences and opportunity for virtual participation, connecting people to something bigger and showing how sport can inspire. And though there's no predicting when organized sports will restart, when our athletes, teams and leagues can return to competition, I do have one guarantee, when the gates reopen, when the first whistle sounds, the energy is going to be off the charts. The world's passion for sports remains undiminished, and when it all returns, NIKE will be right there with sports fans everywhere.

In summary, I'm incredibly proud of our team and the results they delivered in Q3. And amidst unprecedented conditions across the globe, we are staying focused on not simply managing through this situation but taking the actions that will allow us to emerge from it even stronger than before. We know it won't be easy, but NIKE is better prepared than anyone else to regain that momentum, extend our brand leadership and reshape the future marketplace. NIKE has a long history of rising to the occasion in extraordinary times, to deliver strong results and affect extraordinary change in the world of sport and beyond, and that's what we're going to do once again.

With that, I'll now turn the call over to Andy.

Andy Campion, Executive Vice President & Chief Financial Officer:

Thanks, John, and hello to everyone on the call. Before I speak to our business, our priority right now is first and foremost our people. Ensuring the health, safety and well-being of our teammates around the world is a foundation for all of the business decisions we're making. We have a maxim at NIKE, we win as a team. And I can tell you that the resilience, strength, empathy and creativity of our teammates has never been on greater display. Our team has always been NIKE'S greatest advantage.

On that note, I want to congratulate one of my teammates, Matt Friend, on his new role going forward. Matt and I have worked closely together since he joined NIKE 11 years ago. He's been a great thought partner to me over that time, and we're working seamlessly together through this transition. As I move into my new role at NIKE, I could not be more confident in NIKE's financial management with Matt as our CFO.

So, as we close Q3 and look ahead, we see three key themes. First, as we enter these challenging circumstances, NIKE's brand leadership and business momentum have been stronger than ever and unrivalled around the world. In Q3, we delivered 7% currency-neutral revenue growth overall, led by 13% growth in both EMEA and APLA. NIKE Greater China was also on pace to deliver another quarter of strong double-digit revenue growth prior to the impact of COVID-19.

And in North America, our strong mid-single digit reported rate of revenue growth would have been roughly 3 points higher, if not for non-comparable items including the sale of Hurley and our shift to a licensed business model with Fanatics relative to the NFL. While those transactions had a negative impact on our year-over-year revenue growth comparisons, they also result in higher profitability for NIKE.

Across all of our geographies and Converse, digital remained our fastest-growing channel, growing 36% on a currency-neutral basis. In fact, each of our geographies and Converse exceeded 30% digital revenue growth in the quarter. Our growth was also broad-based across categories as well as across Women's and Men's, all fueled by innovation platforms and power franchises such as the Air Max 270, the Air Force 1 and Air Jordan 1.

Our launch of the Air Jordan 11 Bred was the largest in our history with the product selling out in 28 minutes powered by the SNKRS app. In fact, the Jordan brand grew double digits globally in the quarter. The LeBron 17, Giannis Zoom Freak and the City Edition NBA jerseys fueled Basketball's strong growth. And in Running, we unveiled our most advanced performance running shoe ever, the Alphafly NEXT%. We also launched the new Infinity React designed to help runners run longer and we've seen very strong sell-through, particularly with Women.

Apparel also fueled growth in the quarter, growing faster than Footwear, with double-digit Apparel growth in our Sportswear, Training, Basketball, Women's and Kid's categories. Setting aside the non-cash, non-recurring charges related to our business model changes in South America, NIKE, Inc.'s earnings exceeded the earnings that were implied in the financial guidance we provided 90 days ago. We were able to deliver that strong bottom line performance even including the impact of COVID-19 on Greater China.

The second key theme as we look ahead relates to how we're addressing the evolving implications of COVID-19. As John said, we are executing on an operational playbook focused on positioning NIKE for an expedited return to profitable, capital efficient growth.

We see each of our markets progressing through a time series that begins with the country addressing the COVID-19 outbreak followed by three phases from a business perspective: one, a recovery period, including for example the ramp-up of store re-openings; two, a period of normalization across consumer demand and supply; and three, a period in which we return to strong growth.

Why are we so confident in our approach? As John said, our team in Greater China has given us a playbook for the rest of the world. Based upon the most recent trends we see today; NIKE Greater China has already progressed through the recovery phase and is now transitioning into the normalization phase. Specifically, we are seeing accelerating strong double-digit, approaching triple-digit growth in our NIKE Digital business. At the same time, roughly 80% of our 7,000 brick-and-mortar NIKE owned and partner stores are now open. Based on the latest trends in our business, NIKE Greater China Q4 revenue will likely be roughly flat versus Q4 of fiscal year 2019.

We're also executing on this playbook in Japan and Korea. Both markets are entering the normalization phase, fueled by strong digital growth and significant week-over-week increases in retail traffic and demand for NIKE. Based on what we're experiencing in China, Korea and Japan, we are optimistic. At the same time, this has become a global pandemic. Each country is addressing COVID-19 differently, and accordingly, our markets will progress through the three phases from a business perspective on different timelines. That adds some complexity from a global point of view. So, we're also executing against a top-down enterprise-wide operational plan.

Our top-down plan includes: one, tight cost management; and two, daily global demand and supply optimization. Accordingly, our Q4 SG&A will be lower than prior-year Q4 spending. We're also taking decisive action with respect to supply on a global basis, while shifting our distribution focus to digital in the face of temporary retail store closures. As a result, Q4 fiscal year 2020 and fiscal year 2021 year-over-year revenue, margin and inventory growth rates will neither be intuitive nor linear. Our measures of success in the near term will be rooted in the amount of inventory on-hand relative to the pace of digital demand, store re-openings and traffic patterns.

Now going into this, we were fortunately experiencing a very strong pull market for NIKE globally, with some of

the highest rates of full-price sell-through we have ever experienced. So, we're now aggressively managing all of our operating levers to ensure that we expedite NIKE's return to that strong pull market. Realigning supply and demand is our focus operationally.

We're also executing this plan leveraging two of NIKE's longstanding and greatest competitive advantages. First, NIKE's financial strength. Liquidity will not be an issue for NIKE. In order to ensure resilience during challenging times, we have long maintained a strong balance sheet, a strong investment-grade credit rating and ample access to capital, all coupled with strong operating cash flow generation. NIKE's liquidity and access to capital affords us the ability to be principled, for example, with respect to pay continuity and decisive relative to real-time supply and demand management.

Second, we have forged the strongest partnerships across the value chain in this industry. That includes, among others, our marketplace partners like Topsports, Pou Sheng, and Tmall in China, as well as Foot Locker, DICK'S, JD and Zalando, across the US and Europe. Of course, we also have longstanding partnerships that span decades with manufacturers such as Feng Tay, Shenzhou, Chung Shin and many others. We're working closely with all of these strategic partners on a daily basis. Our partners recognize that the stronger NIKE is going forward, the stronger they are. Of course, NIKE's not operating in isolation. External factors will continue to be dynamic, and we will continue to adjust our execution accordingly.

The third key theme as we look forward. While the setbacks from a business perspective will be significant for all, NIKE will come back even stronger as a brand and as a company. Consumer behavior is changing real-time. We're all witnessing new normals emerge in terms of both how consumers shop and stay active. Sport is being redefined as much broader than competition as the world finds new and creative ways to stay healthy and fit. And NIKE's digital ecosystem is keeping us connected real-time.

From a marketplace perspective, NIKE Digital growth is accelerating amidst these dynamics. From a digital capability perspective, the investments we made to-date are now proving to be the foundation for our resilience amidst challenge and they will be strengths as we emerge. For example, we're leveraging Celect's team and tools to dynamically model demand, pricing, planning and allocation. We're leveraging our NIKE membership platform and NIKE mobile app ecosystem to inspire and enable people to be active at home, while also providing targeted product offers and services to consumers, and the foundation we've built in enterprise data and analytics is fueling our more agile end-to-end execution.

As we've said, we're still in the early innings of NIKE's digital transformation, but the capabilities we've already been building for the future are proving to be the strongest pillars within our business today. As John said, simply put, these are times in which strong brands get stronger, and we're confident that NIKE will come back stronger than ever.

Now, let's turn to the details of our third quarter financial results and operating segment performance. NIKE, Inc. Q3 revenue grew 5%, up 7% on a currency-neutral basis, reflecting strong balanced growth across EMEA, APLA, North America and Greater China, prior to the impact of COVID-19, all fueled by NIKE Digital growing 36% versus prior year.

Gross margin declined by 80 basis points in Q3 as higher average selling prices and better off-price margin were offset by the impact of COVID-19 primarily in Greater China as we managed inventory sell-through in that market. Gross margin was also negatively impacted by FX headwinds and incremental tariffs in North America.

SG&A grew 6% in Q3. We continued to invest in our digital transformation, while also beginning to more tightly manage operating overhead and shift demand creation. Our Effective Tax Rate for the quarter was 3.9% compared to 14.7% for the same period last year, due to a shift in the proportion of earnings taxed in the US and increased benefits from discrete items.

Third Quarter Diluted EPS was \$0.53, including the \$0.25 non-cash, non-recurring FX-related charge associated with the transition of Brazil, Argentina, Chile and Uruguay to strategic distributor models. As of February 29, inventories were up 7% compared to the prior period, reflecting healthy full-price versus off-price mix prior to the impacts of COVID-19.

With that, let's turn to our reported operating segments. In North America, Q3 revenue grew 4% on a reported and currency-neutral basis, which again would have been approximately 3 points higher adjusting for the sale of Hurley and our partnership with Fanatics regarding the NFL business. In Q3, NIKE Digital grew over 30% and the NIKE App grew over 60% in North America. New York City and LA each grew double-digits, fueled by differentiated NIKE consumer experiences. As an example, in LA, we launched our newest NIKE Live concept store in Glendale, which blew past our expectations and significantly over-indexed in terms of the Women's business.

As of today, we've closed our owned stores in North America. Going forward, we will reopen stores on a location-by-location basis as we closely monitor developments. At the same time, NIKE Digital demand has been extraordinary with NIKE Digital commerce sales of just the past few days approaching holiday peak levels, growing triple-digits over just the past week. We've maintained operations in our distribution centers, implementing social distancing and reduced staffing, while focusing on the shipment of digital orders.

Now, let's turn to EMEA, where we continue to build on our extraordinary Brand momentum. In Q3, revenue in EMEA grew 13% on a currency-neutral basis with double-digit growth in most key categories. Women's growth strongly outpaced Men's, Apparel accelerated faster than Footwear and Digital was up over 40%. The NIKE Brand has never been stronger in EMEA. In every key city in EMEA, consumers rated NIKE their number one favorite and cool brand. We also gained significant market share in Q3 across both Footwear and Apparel driving further brand separation.

Greater speed and agility also fueled our growth and share gains in EMEA in Q3, with over 30% of EMEA revenue and nearly 80% of EMEA incremental growth flowing through our Express Lane. In order to help limit the spread of COVID-19, we've also closed our owned stores in Western Europe and select Eastern European markets, and similar to the US, we will reopen on a location-by-location basis based on developments. NIKE Digital continues to grow versus prior year and we're maintaining operations in our distribution centers, again shifting their focus towards digital distribution.

In our APLA geography, revenue grew 13% on a currency-neutral basis. Growth was fueled by our key cities and was balanced across key categories, nearly all of which were up double-digits. The Jordan brand, in particular, was incredibly strong in APLA, growing nearly 50% in the quarter, with new innovation like the Jordan Max 200, along with fresh, new approaches to Jordan icons all resonating with consumers.

In performance running, our accelerating momentum continued, especially in Japan, where we dominated the Hakone Ekiden competitive race seeing a record 84% of participants wearing NIKE. The energy around running in Japan is being fueled by the Vaporfly NEXT% as well as a halo effect that is impacting other performance models like the Zoom Fly, Rival Fly and Peg Turbo, which all grew triple-digits in Q3.

NIKE Digital grew 51% and wholesale grew double-digits overall on a currency-neutral basis, as business with our differentiated strategic partners grew five times as fast as undifferentiated distribution. As we've said, APLA is our most diverse geography, so we're seeing the impact of COVID-19 vary significantly across Asian and Latin American countries.

With that, let's turn to Greater China. While our full quarter results in Greater China were significantly impacted by COVID-19, it is worth providing some dimension. Our momentum in China continued to be extraordinary through mid-January. Our revenue growth was on track to exceed the expectations that we set 90 days ago, fueled by NIKE Digital. We launched the NIKE App in China in Q3, and today, we already have 5 million NIKE App downloads. And as John said, we're also seeing a spike in weekly average users on our activity apps as we inspired and enabled consumers to engage in sport at home.

We're now, as I said, through the recovery phase and into the normalization period in China. Today, our digital commerce growth continues to accelerate, with triple-digit growth in demand just this last week. Most of our stores and our partner stores are open. Retail traffic is significantly accelerating week-over-week, and we're beginning to see a decline from the peak inventory levels we experienced. We are confident that NIKE Greater China is on track to return to growth in fiscal year 2021.

As we look ahead, we will not be providing financial guidance for Q4 due to the uncertainty resulting from the spread of COVID-19. For fiscal year 2021, we have been planning performance in line with our long-term financial model. A year-over-year growth rate-based comparisons will no longer be meaningful, so we'll share the approach that we're taking with respect to fiscal year 2021 on our next earnings call.

All of that said, we are confident that executing our operational plan will position NIKE for a return to profitable capital efficient growth. That will happen over time as each country addresses COVID-19 at a different pace, but our confidence in the return to growth is founded on the relatively rapid recovery and early signs of normalization we are already seeing in China, Korea and Japan.

In these challenging times, NIKE's competitive advantages are showing up as extraordinary resilience. As we emerge from these challenges, those same competitive advantages will show up as strength and brand distinction. Those unique strengths include NIKE's deep, authentic connection to consumers, our pipeline of innovative products, our financial strength and capacity, our industry-leading digital capabilities, our strong partnerships, and most importantly, our talented and committed teams around the world. I would not trade NIKE's team or position with anybody.

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

QUESTION AND ANSWER SECTION

[Operator Instructions]

Our first question comes from Bob Drbul with Guggenheim Securities. Bob, your line is open.

<Q – Bob Drbul>: Hi. Good afternoon, guys.

<A – John Donahoe>: Hey, Bob.

<A – Andy Campion>: Hey, Bob.

<Q – Bob Drbul>: Just on the questioning, for the – I guess it's on the inventory and the innovation pipeline, when you think about the halting of organizational, the sports and the Olympics and basketball, can you just talk us through how you're thinking about the pipeline given the postponement of the Olympics? You showed us some really great product last month. I'd just love to hear how you're approaching that piece of it.

And then the second piece of it is just can you elaborate a little more on how flexible your spending is, your demand creation that you sort of had planned for the next, let's call it, six months? Thanks.

<A – John Donahoe>: Sure, Bob. It's John. Why don't I take the first part of the question and maybe Andy take the second piece? So obviously, the world of organized sports, professional sports leagues and now the Olympics have put things on hold, and they're doing I think what's appropriate by prioritizing the health and safety of their athletes and fans, and we're very supportive of that, and we look forward to when organized sport will be back and running and when they are, we'll be there.

But I think it's important to separate those sporting events and our innovation pipeline because we will continue to move forward in our innovation pipeline. And as I said earlier, we're very excited about the products in that pipeline and the products we're introducing, in fact more excited than perhaps any time before. And while we announced some of these products around the Olympics, if the Olympics get deferred for a year, we can still launch them on our timing, so two specific examples.

As you know, the NEXT% performance running line will allow runners of all abilities to have the same technology and measurable benefits of the Alphafly NEXT% that the world's leading marathoners have, and we could launch that when the time is right unrelated to the Olympics.

Similarly, some of the sustainability products we announced at the forum, the VaporMax 2020, which utilizes 75% recycled manufacturing waste or the Space Hottie line, which is an innovative way to have low-carbon footprint footwear, we can launch when the time is right, when we get to the recovery normalization period, and so consumer demand for those things is strong and will continue to be strong. And so, we simply are going to move ahead with our product pipeline at the right moment in the right ways.

I'll just make one small final example before turning it over to Andy. In China, we got creative and we took a couple of launches that were scheduled in February and made them digital-only launches. So, the Air Jordan Retro High OG and the Air Jordan V Retro, we made digital-only launches in a world where stores were closed and – but digital demand was strong. So, we're going to proceed full speed ahead with that product pipeline.

Andy, do you want to talk about the second part of the question?

<A – Andy Campion>: Yeah, I'd just say just to summarize some of what both John and I said in the remarks, and John just reiterated, we came into these circumstances in an incredibly strong position. Some of the highest full-price sell-through we've seen, inventories really healthy. As we go forward, we recognize that there will be some promotion in the marketplace, but, as John said, we've also got an amazing pipeline of innovative and compelling fresh products, and what we'll be doing is working on the timing of the launch of those products and the flow of those products over time, so that while we're working through energy...working through inventory, we're also bringing distinctive energy to the market and to consumers.

You asked about our licensed business. Just for context, our licensed business is a very low-single digit percentage of our overall business. We'll have some impact on that business. I'd say just keep in mind that a lot of these elite sport activities or events are being postponed versus necessarily canceled, although some of them have been canceled, but one of the things we recognize around here is our product, some of our product has a little bit longer life cycle, and come fall, we think we could be kicking off one of the greatest years in sports history.

Now, you also asked about SG&A. So from an SG&A perspective, the short answer is we've got quite a bit of flexibility within our SG&A and that's one of the reasons you saw us deliver profitability even in Q3 when we were all a bit taken off guard by the significant impact of COVID-19. We were still able to deliver profitability that exceeded the guidance we set 90 days ago.

As I also mentioned, based on some quick and agile work across our cross-functional teams, we see SG&A in Q4 declining versus prior year. There's quite a bit of flexibility in demand creation and actually, it ties back to your question about sport. As John mentioned in his remarks, we've done some really creative things from a digital connectivity perspective with huge impact, so quick, low-cost, extraordinary impact, and we think within demand creation we can save quite a bit of our powder for the return to sport that we see within fiscal year 2021.

Within SG&A, our liquidity and our access to capital allows us within SG&A to stay very principled, so continued pay continuity as John talked about, and at the same time, continuing to invest in those things that even now more than ever we see as differentiators long-term, albeit we'll do it in a more focused way. So, beyond that, there are quite a bit of opportunities with operating over in CapEx and when I said our team has just been amazing in terms of their resilience and creativity, it actually includes in terms of tightly managing our cost.

<Q – Bob Drbul>: Got it. Okay. Thanks. And I just have one quick follow-up. Andy, you mentioned the Infinity React helps runners run longer. I can run a pretty solid 11-minute mile for two miles in my Epic React Flyknit. If I switch over to the Infinity React, do you think I can get three 10-minute miles out of those?

<A – Andy Campion>: I think we should sign up for the New York Marathon. I'll come out there and run with you in November. How's that?

<Q – Bob Drbul>: Sounds like a plan. Good luck, guys. Thanks very much.

Matt Friend: Thanks, Bob. All right. Operator, next question?

Operator:

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

<Q – Omar Saad >: Thanks for taking my question. Welcome, John. Congrats to all three of you on your new roles. Sorry, it's not under more normal circumstances. John, given NIKE leadership position in the global consumer landscape, I'd really appreciate just a little bit more detail on this kind of successful China coronavirus playbook that you mentioned, you're now rolling out to rest of world. You hinted at some of the successful digital strategies to connect to consumers when they're stuck at home. Feel free to add anymore color there. Maybe could you also distinguish between the recovery you're seeing and the behavior you're seeing in stores versus that strong digital offset you mentioned? Do you expect this share that you seem to be capturing digitally to be sticky long-term? And then, maybe could you – most importantly, could you also talk about whether you'd expect a similar sort of demand curve in other market as coronavirus pulls through? Thanks.

<A – John Donahoe>: Sure, Omar. So, one of the real advantages as you said of NIKE, being a scaled global company, we can extract learning and insight from each of our markets, and so here is what we've seen just to quickly recap what Andy and I talked about.

We're looking at things through the lens of four phases to this. Containment of the outbreak, first; second, recovery period when stores reopen; third, normalization when things get back to growth than the prior year; then fourth, return to growth. And the data from actually China, Japan and Korea was fairly consistent.

Containment took five to six weeks. Stores were closed, but the e-commerce growth in all three markets remained strong during that time, augmented by NIKE's connecting with consumers around being active while at home.

Now all three markets are through what we're calling recovery. That is retail's opening back up, consumers are back on the streets, and we're seeing as we move into normalization, retail traffic is coming back. Consumers are in the stores, they're engaged, they're often wearing face masks, but they're back on the streets.

Interestingly, digital has accelerated even more since the stores have been open. Again, I think pointing to this blended digital versus physical experience is a thing of the past. Consumers don't think in those terms. So, I bring a sort of consumer technology lens where we learn that consumers want to get what they want, when they want, how they want it, and they don't think about, oh, I'm going to make a digital purchase or a physical purchase.

A consumer may often start shopping on their mobile device, they may go into a store and have it shipped at home, they may order online and pick it up in a store, and what we're seeing in Japan, China and Korea is that seamless digital physical experience is responding to what consumers want. And I might note as our business comes back in those three markets, we're outperforming our competition consistent with our mantra of ensuring that we come through this period in even stronger position and extend our leadership position.

So, in the US, obviously, we're in much – we're earlier in the cycle. We closed the stores. We're taking care of our employees. We digitally connected with consumers over the weekend around health and their activity, so our brand is present day-in and day-out with them. As Andy mentioned, we're seeing very strong digital growth even in these dark days, and we're managing our inventory so that we can be ready when our target comes.

None of us can predict perfectly how long the containment phase is going to take in the US and Europe, but what we can know is when stores start reopening, or while stores are closed, we're going to be there digitally. We're going to be there digitally with activity apps and commerce and when the stores start reopening, we're going to be leveraging our strengths, our unique strengths with strong compelling product, a digital connection with consumers that is unmatched, the seamless digital and physical experiences at both NIKE Direct and our partners. We're working very closely with our partners, and in fact, in the last three days, I've talked to the CEOs of Zalando, JD, Foot Locker in the last couple of months, met with DICK'S CEO, the CEOs of our two Chinese partners, we're working together to be ready when things recover, and then our brand.

So, I think it's going to accelerate what was already going to happen with digital transformation. Consumers will continue, digital is a more prominent role in their lives. You'll see more digital growth, and I think the shape of the future marketplace where differentiated retail thrives, undifferentiated retail struggles, that'll simply be accelerated so we intend to drive both.

<Q – Omar Saad >: Thanks for the color and your thoughts. Good luck.

Matt Friend: Thanks, Omar. Okay. Operator, next question?

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

<Q – Jamie Merriman>: Thanks very much. John, just on two of the topics you just mentioned, and specifically how you're thinking about working with partners, can you just comment on how you think about inventory in the wholesale channel as stores do eventually reopen, and maybe that by geography? And then also on the topic of integration of online and offline, can you just update us on how specifically those traditional physical partners are thinking about their own investments and working with you on some of the initiatives you put in place like RFID? Thank you.

<A – John Donahoe>: Well, Jamie, I'll sort of blend it a little bit and then maybe Andy you can talk through, as you've been working actively with our partners over last week on inventory. What I can tell you is what I said earlier is that, our strategic partners who are our strongest partners and the one committed to creating seamless digital and physical experiences of the future. Our focus with them is on the future and coming back strong together and coming back in as healthy a marketplace as possible. And so, we engage with them both around

their physical stores and around online.

In fact, I was on the phone this morning with the CEO of Zalando who is obviously a very – Zalando is a very innovative e-commerce company in Europe, and we are sharing data in very innovative ways around consumers so that we can offer the best experiences to consumers in a differentiated way in the markets across Europe. And so the conversations around the future, I think, all of them see the same blended or seamless digital and physical experience together that we're committed to creating, and I think we all believe that this is going to become an era of differentiated retail versus undifferentiated and they see opportunity. We have to work through this challenging period together which we will, but I think all of them see the opportunity to emerge stronger and to accelerate the transformation of the marketplace. Andy, you want to comment on the inventory-specific conversation?

<A – Andy Campion>: Sure. Yeah. So, Jamie, what I'd say is while obviously there's some elements of these current circumstances that are unprecedented, we came into this circumstance with a strategy, and you know our strategy was 2X Direct.

That was a strategy that was not a NIKE-only strategy. It was really focused on driving more direct connections with our consumers leveraging digital both in our own stores, online and with our partners and through their online presence. That's accelerating for everyone right now. So if you think about the North American marketplace in Europe, with most stores closed both our own stores and most of our retail partners, what's really accelerating is that perspective on the opportunities to connect with consumers digitally from a brand perspective, but also expand our ability to connect with consumers from a product and service perspective.

When we say partnership, it's not just transactional, it's not a back and forth transactional type of dialogue with our partners. We're talking to our partners about both how we come through this period and then what we build for the long-term, and there are a couple of things that we're building. We're all expanding our digital pipe, so to speak. We in North America have already doubled the ability, the capacity to distribute product one-to-one to consumers through our distribution centers in just several days. So, it's really accelerating what we saw as a future in terms of digital penetration.

From an inventory perspective, right now, digital is where the water is flowing so to speak, or where the product is flowing. And so, we're working closely in partnership with folks like Zalando in Europe as John mentioned. We already had an inventory partnership program with Zalando where we transact via their site and via their digital ecosystem and our digital ecosystem while leveraging each other's inventory, and we're working with our partners in the US in a similar regard managing the inventory they have on hand, the inventory we have on hand relative to them, and how best to flow that through their digital pipes as well as ours. So, I think, in summary what I'd say is, as John said, it's accelerating quite a bit of change in consumer behavior, it's also accelerating quite a bit of change in our partners' behavior.

<Q – Jamie Merriman>: Really helpful. Thank you.

Matt Friend: Okay. Operator, next question?

Operator: Our next question comes from Alexandra Walvis with Goldman Sachs. Your line is open.

<Q – Alexandra Walvis >: Good morning, and thanks very much for taking the question. Good evening, rather and thanks for taking the question. So, a tremendous amount of color there and we really appreciate all of the insights. So, my question is on some comments related to gross margins. You mentioned rebates to wholesale partners and higher costs related to factory cancellations in your gross margin comments. I wondered if you could elaborate a little bit more on those, and would you expect those effects to intensify as the issues related to demand reach more of the revenue base?

<A – Andy Campion>: Sure. I'll take that question, Alexandra. I think what we're finding is that there are several levers from the perspective of resetting inventory or supply as one might say, relative to the pace of expansion in digital demand, the reopening of stores, and then the amount of traffic going to those stores and the amount of conversion. And so, there isn't a sort of one-size-fits-all or not just one lever. So, what we're doing with our own inventory and with our partners is we're looking at a lot of different levers. We're looking at realigning our product

offer dates. So not only do we have some inventory going into these circumstances, but we've got a great pipeline of product, and we can move some of those product offer dates out to some extent as we work through the inventory that we'll build over these weeks in which we're dealing with these circumstances in each market. We are primarily talking to our partners about managing inventory movement and the generation of cash flow with a view towards getting back to 14 to 16 weeks or so on hand in the market, and 14 to 16 weeks or so on hand of inventory for NIKE and strong full-price sell-through.

Some of the levers we'll employ in that regard will impact gross margin negatively, that's somewhat obvious, that could be promotion, it could be cancellation of orders. At the same time, none of those data points will represent a trend. So what you're likely to see in the near-term is a focus on supply-and-demand management that will impact revenue, may have a negative, will have a negative impact on margin, but that is part and parcel, goes with resetting that foundation for strong profitable growth. It's not a new trend. It's not a reflection of the strength of our product. In fact, John mentioned, some of the launches we've had in China, we've actually had some product launches in the US over the last couple of weeks that have sold through at full price. So, it'll be a blend of working through inventory which does have some impact on margin, and a blend of bringing innovation and fresh compelling new product to consumers. So probably we'll be looking for energy and inspiration and optimism.

<Q – Alexandra Walvis >: Fantastic. Very clear. Thanks so much, and all the best.

Matt Friend>: Thank you. Okay. Operator, we got time for one last question.

Operator: Our last question is from Matthew Boss with JPMorgan. Your line is open.

<Q – Matthew Boss >: Great. Thanks. So maybe on North America, your 7% adjusted underlying constant-currency growth I think translates to a mid-teens two-year stack. Maybe can you speak to what's driving the domestic inflection, and Andy maybe pre-COVID-19, a little bit of insight how you were thinking about the North American marketplace over the next 12 months, and just larger picture on the curve where we stand today on the move to differentiated retail?

<A – John Donahoe>: Matthew, maybe I'll just make a comment or two and then Andy you can flush out. But I've spent time now in several of our markets across the US, and I've seen firsthand how NIKE's key city strategy is paying off. Andy mentioned the growth in New York, growth in LA being double-digit, and that is because both with NIKE Direct and with our partners we're getting closer to the consumer. And I'll just take a couple of examples. I had a chance to visit the Foot Locker very innovative store in Washington Heights neighborhood in New York, where the entire display of the inventory and the merchandise and the whole focus is being of the neighborhood, and you can just see consumers responding, and that store is experiencing significantly greater growth than other comparable stores that Foot Locker has in the area. So, it's a great example of differentiated retail and the future of retail. We're doing the same with some Latino communities in LA, providing retail concepts both through NIKE Direct and with our partners that are getting close to what consumers want in those markets and give a more personalized feel. And when you wrap that around with a digital connection with membership and the other digital tools, you can feel the energy and momentum. And so, I think at its core this key city strategy that NIKE has put in place in the US and beyond is absolutely paying dividends.

<A – Andy Campion>: Yeah, I'll just add Matthew, that there are a few really important drivers to highlight. I appreciate you recognizing that that growth, it has been consistently strong in North America. And obviously, one of the things I should say is, we are entering these challenging times in a position of strength. And as John said, strong brands get stronger during these times. So, we think we'll emerge even stronger. For a little bit of context on the strength we had entering this fourth quarter, NIKE Digital continues to fuel strong growth in North America, up a relatively extraordinary 33% in the quarter. We've talked to you about this significant opportunity that we think in terms of the women's business. Our women's business grew at a rate that was nearly double that of men's, both in footwear and apparel. So, we're seeing strong growth there.

Now, across Footwear and Apparel, our growth was relatively balanced both in the mid-single-digit, and that's even taking into account the divestiture of Hurley which was a largely apparel business and the shift in our business model with respect to the NFL, which is also largely an apparel business. So what you can infer from that is we've told you we think we have an epic growth opportunity in digital, in women's and in apparel, and when you take into

account those non-comparables in the quarter, all three including apparel are over-indexing in terms of growth. So again, we feel great about the position of strength that we had and have from a brand perspective as we work through these challenges, and we'll be doing everything we can in terms of managing demand and supply and fueling our brand so that we emerge even stronger.

<Q – Matthew Boss >: Great call. Congrats on the progress, and best of luck.

Matt Friend>: Thank you. And thank you, Matt, for your last call. Thanks, everyone, for joining us today. And we look forward to speaking with you all next quarter. Take care. Stay healthy and stay safe.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.