

PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q4FY20 NIKE, Inc.

June 25, 2020

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Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2020 fourth 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 Andy Muir, VP, Investor Relations. Before I turn the call over to Ms. Muir, 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 Andy Muir, VP, Investor Relations.

Andy Muir:

Thank you, operator.

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

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

Joining us on today's call will be NIKE, Inc. President and CEO John Donahoe, and our Chief

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Financial Officer, Matt Friend.

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 one. 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. President and CEO John Donahoe.

John Donahoe:

Thank you, Andy, and let me congratulate you on your new role leading Investor Relations. I also want to congratulate Matt on becoming our CFO and express how deeply confident I am in Nike's financial management under Matt's leadership.

Before I get into our Q4 performance, I want to take a moment to acknowledge the environment in the U.S. right now. Over the past month, we've seen racial tragedies expose systemic prejudice and injustice in America. Nike has a long history of standing up against inequality, driven by our values and rooted in the power of sport. Today, we are uniting around our Black athletes, teammates and community, as Nike continues to lead with purpose. And we are taking action to help create lasting change to address systemic racism in our society, including a combined \$140 million commitment from Nike, Converse, the Jordan Brand and Michael Jordan. And while we continue to lead externally, we also strive to be even better internally to meet the high bar we set for ourselves to be a truly diverse and inclusive company and culture.

We are also continuing to deal with the COVID-19 pandemic, which has had a profound impact on the lives of so many across the globe.

And throughout all this, we have led with our values. We have executed with empathy and decisiveness. We prioritized the health and safety of our teammates by closing stores, offices and other facilities. We committed to provide pay continuity for all of our teammates even while our facilities remained closed or had altered schedules – and we have maintained this important

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investment over the past 12 weeks. Our innovation teams designed and delivered personal protective equipment to health systems across the country. We've donated footwear and apparel to help frontline workers around the globe. And we've committed more than \$25 million for COVID-19 response in our communities.

I must say that I have been so impressed and inspired by how our Nike teammates around the world have come together and responded to this crisis. They have moved with speed and empathy, and have demonstrated creativity, courage and true resilience. I could not be more proud of everyone on the Nike team.

As we look back on this quarter, it demonstrated once again that Nike's competitive advantage is driven by our team and by our brand's ability to connect with consumers. This is fueled by our strategy, the Consumer Direct Offense. And it is why I continue to believe no one is better positioned than Nike to navigate the current environment.

Matt will go deeper on Q4 in a minute, so I'll just hit on five quick observations from the quarter.

First, the power of the Nike brand continues. Leading with our values is drawing us closer to consumers. We used our ecosystem of Nike activity and commerce apps to directly engage with consumers in their homes, as they focus on health and wellness. During this difficult time, Nike has inspired and offered hope. And as a result, worldwide affinity for our brand deepened during COVID-19, with our "You Can't Stop Us" campaign receiving more than 2 billion impressions to date. Across all 12 of our key cities, Nike remains consumers' #1 favorite brand.

Second, Greater China has returned to currency-neutral growth. Over the quarter, we've strengthened our consumer connections and translated them into meaningful relationships. In March and April, China's monthly active users on the Nike Training Club app increased over 350% since the beginning of the calendar year. This direct engagement with consumers allowed our business in China to return to growth in Q4.

Third, we are seeing a true step-function change in our digital transformation. As you know, this has been an area of investment over the past few years as we have built our digital advantage,

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but COVID-19 has accelerated the pace. In Q4, Nike digital grew 79%, and we surpassed \$1 billion in annual digital revenue in both Greater China and EMEA for the first time. We have seen this strong digital momentum continue throughout the quarter and into early June, even as stores have begun to reopen.

Looking at our app ecosystem in Q4, a couple stats jump out as we see an extraordinary leap in digital demand and engagement:

- Workouts on the Nike Training Club app more than tripled, peaking in April at nearly 5 million workouts per week during the month.
- Since February, the Nike commerce App has been downloaded more than 8 million times – an increase that's triple last year's levels, proving the power of our investment in digital.
- And in fiscal year '20, SNKRS reached an impressive milestone, exceeding \$1 billion in global demand for the first time.

Fourth observation, the Jordan Brand resonated deeply in Q4, with the airing of ESPN's "The Last Dance" documentary. The response we saw – from the cultural conversation around each episode to the rapid sell-through of the AJ5 Fire Red – demonstrated the love for the Jordan Brand all over the world. In fact, the Jordan Brand in Greater China grew more than 50% in FY20, approaching \$1 billion in annual revenue.

Women's has played a key role in Jordan's growth, and we see significant opportunity for Jordan to achieve even greater scale, as we create more products for women, expand lifestyle offerings, and grow the business internationally.

And even during a pandemic, Jordan drove some of the quarter's biggest launches, including the AJ1 and AJ13 – a reminder of the continued strength of our consumer demand.

Fifth and finally, innovation continues to be Nike's greatest competitive advantage.

We continuously bring fresh, new product to market, supported by compelling storytelling that helps drive consumer demand. In Q4, we saw strong demand for the Pegasus 37, particularly

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with women, and for the Air Max 2090, a new sportswear silhouette that re-imagines the future of Air. We also launched Space Hottie in our international geographies during June, with the early success offering more proof of the global consumer appetite for sustainable product. And our unmatched investment in product innovation, even during a pandemic, will be proven with our most sustainable product ever, the VaporMax 2020, launching in July.

As I said earlier, Nike is in a position to emerge from the COVID-19 pandemic even stronger thanks to our Consumer Direct Offense. The global pandemic has made it clear that consumer behavior is changing rapidly, providing the opportunity for us to accelerate the pace of our transformation.

Over the past few years, we have shifted from a legacy wholesale distribution model to investment in a model that gives our consumers a more premium shopping experience. This is a change that has catalyzed our Digital growth, as part of our Consumer Direct Offense. And COVID-19 has shown our strategy is sound.

As we look to the future, here is what's not going to change:

- Our purpose will continue to guide us.
- The power of sport will always be at our center.
- And product innovation will continue to drive distinction for our Brand.

With these strengths in mind, we plan to accelerate our focus and investment in the key areas that put an even sharper point on our highest growth opportunities.

So today, we are announcing a new digitally empowered phase of our Consumer Direct Offense strategy: The Consumer Direct Acceleration. We aren't settling for our current leadership position with consumers or in digital, we're pursuing even further separation. We are transforming Nike faster to define the marketplace of the future. Now is the time to act.

Let me walk you through three areas of strategic acceleration: the marketplace of the future, our new consumer construct and our end-to-end technology foundation.

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First, we will create a marketplace of the future, one more closely aligned with what consumers want and need.

Digital has redefined the industry over the past several years, and Nike has led that change. You'll recall that in FY18, we set a goal to reach 30% digital penetration, both owned and partnered, by FY23. We will reach that goal more than two years ahead of plan this coming year. And looking ahead, we now expect our overall business to reach 50% digital penetration.

As we look at opportunities to build deeper and more meaningful relationships with consumers, our vision is to create a consistent and connected digital marketplace to match. Consumers want modern, seamless experiences – online to offline – so we're accelerating our approach.

Our "One Nike Marketplace" strategy leads with Nike Digital and our owned stores, and a smaller number of strategic partners who share our vision to provide a consistent, premium shopping experience.

Connected data, inventory and membership will give consumers greater access to the best of Nike and more speed and convenience than ever. We've talked about membership as a growth driver and differentiator before. But now we will realign our business to make it central to everything we do.

As part of this strategy, we will scale our investment in smaller-format, digitally enabled monobrand stores with integrated online-to-offline capabilities. We believe this will be additive to what's in the market. These monobrand stores will accelerate the growth trajectory of Nike's largest market share opportunities like women's and apparel, driving long-term profitability.

Second, under Consumer Direct Acceleration, Nike will operate under a new, simpler consumer construct.

We know that our consumers don't see themselves as only runners or yoga practitioners. They don't think in terms of performance vs. sportswear. Instead, we know how they shop: across Men's, Women's and Kids. So, we will realign the company to reflect this simplified Men's, Women's, Kids approach. Our category focus will be more specialized across this consumer

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construct.

Importantly, this consumer construct will allow us to significantly simplify our organization and focus more of our resources on the capabilities and opportunities that will forge our future. In particular, we will be reinvesting in our Women's and Kids businesses. These intentional organizational focuses will touch every area of our business including innovation, product creation, marketing, merchandising and distribution.

Through this new consumer construct, we can serve performance sport with more specificity, while also broadening the definition of sport. This approach allows us to better focus on the individual consumer and unlock new opportunities to more nimbly serve their exact needs.

And last, we will invest in digital capabilities and our end-to-end technology foundation to accelerate this transformation.

We will more aggressively leverage technology to make Nike better. This single integrated technology strategy across our business will accelerate how we serve consumers. Specifically, we will speed up and unify our investments across demand sensing, insight gathering, inventory management and more. This simplified approach will unlock more efficiency for the business, while driving speed and responsiveness as we serve consumers globally.

Consumer Direct Acceleration is more than the next phase of our strategy. It's the spark that will ignite and empower our entire company to serve consumers, our business and our teams better. As we shift our operating model to fuel this energy, Nike's leadership position will become even stronger in the future as sport continues to resonate with consumers amid a global shift toward health and wellness.

In the end, over the past months, we have navigated unprecedented conditions, but our purposeful actions will allow us to emerge from it stronger and better than before. The strength of our brand, our deep connections to consumers and our unmatched product innovation continue to give us an advantage to create and define our future. Fueled by the Consumer Direct Acceleration, Nike will shape the marketplace and extend our brand leadership for years

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to come.

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

Matt Friend:

Thank you, John, and hello to everyone on the call.

I also want to take a moment to welcome Andy Muir to her first call as she expands her responsibilities and provides leadership over Investor Relations.

Before discussing our fourth quarter results, I must recognize and thank our incredible team around the world. I've personally been inspired to watch everyone come together to face our current challenges, embracing new ways of working, and decisively taking actions to serve our consumers in the face of unprecedented conditions, I could not be prouder to be a part of this team.

This quarter was certainly like no other in Nike's history. As John mentioned, to protect the safety of our employees and to help prevent the spread of COVID-19, 90% of our owned stores, outside of Greater China and South Korea, were closed from operation for roughly 8 weeks in the quarter. Similarly, our wholesale partners largely followed this same pattern, and the sale of product through physical retail channels came to a halt.

Digital quickly became the primary channel that we could engage with and serve consumer demand and Nike was well positioned to respond. We accelerated growth of our Digital business to 79% on a currency neutral basis and drove nearly triple-digit acceleration in member digital demand. All told, Nike Digital represented nearly 30% of our total business in the fourth quarter and reached \$5.5B for the full year.

The net result of these two marketplace dynamics was that NIKE, Inc. Q4 Revenue declined 38% on a reported basis.

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And yet, even in the midst of this global pandemic, we saw the power and distinction of the Nike Brand translate into growing business momentum throughout the quarter, continuing into June. Greater China returned to growth in Q4. Nike Digital growth also accelerated each month in the quarter, including triple-digit growth globally in May, even as physical retail re-opened. These trends have sustained through the first three weeks of June, and in some markets digital growth has accelerated even further.

We believe this digital acceleration is more indicative of a strategic shift towards a new, future marketplace rather than a reflection of temporary challenges to the mostly physical marketplace of the past.

Now, as we look ahead to FY21, three key themes stand out from a financial and operational perspective: Nike's supply and demand management, Nike's financial strength, and Nike's Digital acceleration.

Let me take a few minutes to unpack each of these. First, at the end of Q4, inventory increased 31% versus prior year. In mid-March, we immediately went into action to rebuild our plans to recalibrate marketplace supply and demand around the world. As we have said before, Supply and demand management is critical to sustaining a healthy, premium Brand, and over the past three years we have enhanced our capabilities to manage through situations like this.

Let me share a few specifics regarding what we have already done:

First, we modified our near-term inventory buying plans and proactively canceled Pre-COVID factory purchase orders for the Fall and Holiday seasons by roughly 30%, on a unit basis. While this had a negative impact on gross margins in Q4, it was the right decision to tighten future inventory movement through our supply chain and utilize the inventory we have on hand.

Second, we implemented a plan for a "seasonless" flow of inventory by shifting product offer dates so we can use relevant Summer and Fall product to meet near-term demand. We also edited product lines by up to 15% to improve SKU productivity.

Third, we quickly shifted available inventory to Digital, and we increased digital fulfillment

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capacity by more than three times in North America and EMEA.

And finally, we've invested in targeted promotions and markdowns, to accelerate liquidation of excess inventory while we protect the long-term health of our product franchises including increasing the volume of liquidation through our factory store fleet.

In Greater China, this playbook has worked, and we expect our business will return to normalized marketplace health metrics by the end of June. In fact, we are already seeing inventory levels globally improve as well and with our deliberate actions, we are confident that Nike inventory will be right-sized and in a normal position in Q2.

This leads me to the second theme – Nike's financial strength enables us to stay focused on the long-term, creating even greater competitive advantage in times of dislocation.

In an environment where most companies are solely focused on survival, Nike's financial strength, scale and adaptability allows us to make appropriate near-term decisions while investing to fuel long-term growth.

We finished the quarter with \$12.5 billion dollars in total available liquidity, including nearly \$9 billion dollars of cash and short-term investments, all supported by a strong investment grade credit rating and high return on invested capital. We continue to operate from a position of strength, and I would not trade our position with anyone.

Our current focus is to reduce discretionary spending while we invest in the digital capabilities necessary to further our competitive advantage in the marketplace. This includes improving the user experience on our digital platforms through enhanced digital commerce analytics, marketing technology for better consumer targeting and segmentation, online to offline marketplace capabilities, and enhanced inventory, pricing and supply management tools.

We will continue to increase the scale and efficiency of our digital fulfillment capabilities. In Q4, we already pivoted our new Adapt distribution facility in North America to fully support digital demand. And we plan to open a new regional service center on the West Coast before the Holiday season, to forward deploy digital inventory leveraging advanced analytics and demand

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sensing capabilities from our acquisition of Celect.

Simply put, we have operating principles in place to prudently manage costs in the short-term while we scale investment in key capabilities underpinning our Digital transformation. We will continue to do this while managing SG&A tightly in the first half of FY21.

And last, a more digitally connected Nike is a more valuable Nike.

The underlying value proposition of Nike's Consumer Direct Offense is that the consumer adoption of digital across all aspects of life now provides Nike with an opportunity to create deeper, more direct consumer relationships at scale, without disintermediation.

As we've said before, the transformation to a more digital and direct business is financially accretive to Nike. Our business results over the last seven quarters, pre COVID-19, prove this point: As compared to our long term financial model, Nike has driven higher constant dollar revenue growth and roughly double the annual gross margin expansion on an operational basis, excluding the impacts of foreign exchange headwinds and tariffs.

The current economics of this transformational shift illustrates my point. On average, a sale of an incremental unit via digital generates double the revenue versus a sale to wholesale, with a higher gross margin, translating into two times the operating income dollars.

And so, to reiterate what John said and why this is so important, we now see that our owned and partnered Digital could grow to 50% of our total business in the foreseeable future. Plus, our measured investment in monobrand stores will further catalyze Digital growth and create new distribution for our largest growth and market share opportunities in Women's and Apparel.

We are calling this next phase of the Consumer Direct Offense an acceleration for a reason, because it will drive greater growth, it will scale Nike's direct consumer connections in our most profitable channels driving higher consumer lifetime value and it will enable us to reposition our resources to accelerate our transformation to a digital first company.

Now, let's turn to the details of our fourth quarter financial results and operating segment

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performance:

- NIKE, Inc. Q4 Revenue declined 38%, down 36% on a currency neutral basis reflecting the impact of Nike-owned store closures and lower wholesale shipments...partially offset by growth in Nike Digital.
- Gross Margin decreased 820 basis points in Q4 as higher full price average selling prices, despite increased wholesale discounts, were more than offset by higher product costs, including factory cancellation charges and increased inventory obsolescence reserves, as well as the adverse rate impact of supply chain fixed costs on lower wholesale shipments due to COVID-19 dynamics.
- SG&A declined 6% in Q4. We reduced cost through clear enterprise-wide cost management principles, including reduction of marketing spend due to cancelation of live sporting events and retail store closures. It's important to note that the decline in SG&A in the quarter included a roughly \$180 million charge related to bad debt reserves.
- Our Effective Tax Rate for the quarter was 1.7% compared to 20.4% for the same period last year due to the mix of earnings taxed in the US and favorability attributable to the use of foreign tax credits.
- Fourth Quarter Diluted Net Loss Per Share was \$0.51, reflecting lower revenue and gross margin related to COVID-19, partially offset by lower SG&A expenses.
- Full year Diluted EPS was \$1.60, which includes a one-time, non-cash charge associated with the anticipated strategic distributor partnership transition in South America, which reduced EPS by \$0.25.

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

Last quarter we discussed how each of our markets would progress from a business perspective as they emerge from the COVID-19 outbreak: first a Recovery period including the ramp-up of store re-openings; second, a period of Normalization of demand and supply and

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third a period in which we Return to Growth.

In Q4, Greater China and South Korea returned to growth. North America, EMEA and the remainder of APLA are still in the Recovery period as stores began to re-open throughout May and early June.

In North America, Q4 revenue declined 46% on a currency-neutral basis.

However, Nike Digital grew 80% and the Nike App grew triple digits and now represents 30% of our North America Digital business. Women's full-price apparel grew 200% and was powered by strong new member growth with women representing over half of new member acquisition in the quarter.

As retail began to re-open in mid-May, we saw strong double-digit growth in retail sales for our brand across the total North America marketplace. These trends have continued into early June, including Nike Digital growing triple digits. Physical retail traffic remains below prior year and is being offset by higher rates of conversion due to promotional activity, as well as significant shifts to owned and partner digital.

As of today, approximately 85% of Nike-owned stores are open.

In EMEA, Q4 revenue declined 44% on a currency neutral basis.

Digital grew nearly 100% with continued Brand momentum and significant new member acquisition and engagement across the Nike Training Club and Nike Running Club apps, with active member growth of over 200% and more than 18 million workouts logged in the quarter.

And Nike gained market share across both footwear and apparel, becoming the #1 apparel brand during Q4 in key markets for the first time.

As retail began to re-open in May, we saw slight growth in total retail sales versus prior year across the marketplace, with better performance in Germany, France and the UK offset by slower recovery in Spain and Italy. Retail sales have accelerated in June, including triple digit Nike Digital growth. Traffic levels, conversion trends and consumer shifts towards digital are

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similar to what we are seeing in North America. As of today, approximately 90% of Nike-owned stores are open.

With that, let's turn to Greater China, where we returned to growth of 1% on a currency neutral basis and the sixth consecutive year of double-digit growth.

Growth improved each month of the quarter, including strong double-digit growth in May on a currency neutral basis. Digital grew 53% outpacing the industry. The Nike App, which launched in Q3, is already resonating with consumers with nearly 11 million downloads, driving over 10% of total Digital demand in the fourth quarter.

As of today, 100% of Nike-owned stores are open. In June, we have seen a return to positive comparable store sales in Nike-owned stores with higher conversion and higher units per transaction more than offsetting lower traffic. Nike Digital growth has accelerated to triple digits.

Finally, in our APLA geography, Q4 revenue declined 39% on a currency neutral basis. We saw varied COVID-19 impact across countries in the region, with South Korea emerging the fastest delivering 8% growth in the quarter. And Digital growth was nearly 80% led by strength in Japan, Korea and Brazil, with Women's growing two times the rate of Men's on Nike Digital.

As of today, approximately 65% of Nike-owned stores are open with a higher percentage in South Korea, Japan and Australia while stores across Latin America remain largely closed due to efforts to contain the spread of COVID-19.

FY21 will continue to be a time of uncertainty as economies rebound from the effects of COVID-19 and seek to contain further outbreaks of the disease. We will be agile and resilient because we understand that each market recovery will not be linear. We remain focused on what we can control so that Nike can manage risk and aggressively attack opportunities created in this environment.

Given the uncertainty that still remains, we will not be providing specific guidance. Today, however, I will share the approach we are taking to fiscal year 21 planning. In general, we expect to see sequential quarterly improvement in our financial results as retail re-opens and

PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q4FY20 NIKE, Inc.

June 25, 2020

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each market normalizes supply and demand.

We expect Revenue in the first half of the year to be below prior year levels, but less of a decline than experienced in Q4, as we continue to re-open stores and fuel our digital business. We expect Revenue in the second half to be up significantly versus prior year, with a healthy marketplace and normalizing full price sell-thru across our channels. For the full fiscal year, we expect Revenue to be Flat to Up versus prior year. And of course, we will have greater clarity on our full year outlook 90 days from now.

Gross Margin will continue in the short-term to be a function of our supply and demand management actions as we prioritize the return to normalized inventory levels in Q2. As I said earlier, we have tightened our buys in the first half and are focused on moving through the inventory we have as profitably as we can.

We expect SG&A to decline versus prior year.

The financial and operating principles that will carry us through these unprecedented times are the same ones that have guided us over the decades. And our brand momentum and deep consumer connections, our differentiated product and continuous flow of innovation, our digital advantage, and our operational capabilities have never been stronger.

In addition, consumer interest in sport, fitness, health and wellness has never been greater – leaving Nike's market opportunity larger than ever.

And though we can't predict short-term trends due to the dynamic nature of this pandemic, interestingly enough, we can now see our Brand's long-term future even more clearly.

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