

**FY 2021 Q1 Earnings Release Conference Call Transcript  
September 22, 2020**

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**PRESENTATION**

**Operator:**

Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2021 First 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 Mr. 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'd like to turn the call over to Andy Muir, VP, Investor Relations.

**Andy Muir, Vice President, Investor Relations:**

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2021 first quarter results. As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about an hour ago, or at our website, [investors.nike.com](http://investors.nike.com).

Joining us on today's call will be NIKE, Inc. President and CEO, John Donahoe; and Chief 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 will now turn the call over to NIKE, Inc. President and CEO, John Donahoe.

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

Thank you, Andy, and hello to everyone on today's call. Before I get into our Q1 performance, I want to take a moment to acknowledge the passing of John Thompson last month. Coach, as many of us called him, was a beloved member of the NIKE family, having served on our Board of Directors for over 30 years. He was a true leader and an icon in the world of sport and we will miss him.

And here on the West Coast, we're continuing to deal with the wildfires that have hit Oregon, Washington and California. Health and safety remain our first priority, so we closed facilities and stores where appropriate. For those teammates who have been impacted by evacuation orders, we've made additional benefits and support available and the NIKE Foundation has donated \$1 million to provide relief efforts for the Oregon wildfires, focusing on both intermediate and longer-term needs.

Moving to our business results this quarter. We continued to demonstrate NIKE's full competitive advantage. Over the past several months, we've established clear objectives for our business, and we have been relentless in our focus on those objectives and the results are reflecting that. Our revenue trend is improving with Q1 flat to prior year on a constant currency basis. Greater China, EMEA, Japan and South Korea have already returned to growth, but more than the financial results, it's the continued strength of our brand, the response we're seeing from consumers and our unique position to be able to capitalize on our potential that excites me even more.

We're getting stronger in the places that matter most, and even in the midst of disruption, we are on the offense. We have continued our unmatched pace of launching innovative product, generating a continuous flow of brand moments that connect with consumers and open ground-breaking retail concepts as we unlock significant long-term opportunity in a very dynamic environment.

We can navigate, in fact, we can thrive in this environment thanks to our digital advantage and the full breadth of our global portfolio. Building on our foundational strengths, there are three structural tailwinds that play to NIKE's advantage. The accelerated consumer shift toward digital is here to stay. The definition of sport to include all facets of health, wellness and fitness, and it's the deeply connected authentic brands with scale that will win. NIKE's strength amid these evolving conditions help keep us in the lead. These advantages allow us to stay aggressive and it's why I believe that no company is better positioned to emerge from this period than NIKE.

Over the past quarter, we continue to prove this out across four key areas. As always, it starts with product innovation. As I mentioned, our innovation pipeline and cadence has not slowed, even during this uncertain environment.

Second, our brand continues to deeply connect. Through the power of sport, we are creating hope and inspiration at a time when the world needs it.

Third, we continue to take greater advantage of our vast digital opportunities the shift in consumer shopping preferences accelerate, and fourth, this digital focus is guiding how we create the future of retail as we continue to launch seamless premium brick-and-mortar experiences.

Let me briefly touch on each of these four themes. Our belief in innovation is embedded in everything we do. New innovation continues to resonate with our consumers with key innovation platforms becoming an even bigger part of our mix in Q1. We had many product highlights this quarter. Let's just take a look at a few.

We continue to bring fresh points of view to our most beloved footwear, Air Force 1, Air Jordan 1 and our deep lineup of Air Max. By continuously adding new styles, we expand these popular platforms, and we're also focused on fueling a constant cycle of new, scalable, distinct platforms. For instance, we re-energized the iconic Air Max 90 this year and it was one of the quarter's top growth drivers.

We also push what's possible in sport as seen in the latest launch of our NIKE NEXT% Footwear platform. Eliud Kipchoge broke the two-hour barrier in a prototype of the Air Zoom Alphafly NEXT%, and now that consumers have access to this innovation, we've heard from many that they're running their fastest times ever. This summer we also released a training shoe, the Air Zoom Tempo NEXT%, bringing the measurable benefit of NEXT% to runners focused on pace and endurance.

We're continuing to execute on the incredible opportunity we see in Women's apparel. In Q1 we launched NIKE (M), NIKE's first dedicated maternity collection. We also introduced a new NIKE Yoga collection that serves all genders and body types with performance fabric innovation that's the result of more than two-years of development. The response to this best-in-class Yoga collection has been amazing and is already driving incredible growth for our Women's Yoga business.

And last, but not least, our sustainable footwear platform known as Space Hippy saw amazing sell-through in our highest-heat innovation launch ever. Coupled with the popularity we saw for VaporMax 2020, we are seeing real consumer appetite for sustainability, especially with our youngest consumers. Sustainability will continue to be a key aspect of our innovation agenda going forward.

This is how NIKE leads. Innovation is deeply ingrained in this company, and over the past three months, as most companies focused on just surviving, we are continuously bringing forward new, compelling product to market. Our innovation pipeline demonstrates both our strength as well as our endurance. At NIKE, innovation is the systemic approach and it's how we extend our lead.

Second, the power of the NIKE brand continues to be felt all over the world. In all 12 of our key cities, NIKE remains consumer's number one favored brand. In challenging times, we know how to drive meaningful connections with our consumers. You can see this in our market share gains across the NIKE and Jordan brands. Most notably, during the pandemic we've seen an acceleration of share gains in U.S. women's and apparel, two areas of strategic focus, and as always, we connect with consumers through the power of sport. We continue to see strong consumer engagement in the "You Can't Stop Sport" campaign with over 2.6 billion impressions as we've reached more than 800 million unique consumers around the world.

Our latest film celebrates sport as a source of inspiration. From Serena and Venus Williams in "You Can't Stop Sisters" to a spot celebrating Kobe Bryant who continues to inspire athletes all over the world on and off the court. The consumer energy around this broader campaign is testimony to NIKE's brand appeal at a time when so much is going on in the world. And at the same time we create experiences and services that inspire and enable our members to keep pushing themselves further.

In Q1 we saw an all-time high of the percentage of our members working out on the NIKE Training Club App with more than 50% of our members worldwide starting a workout in Q1, and in the NIKE Running Club we've seen four consecutive months of more than 1 million downloads each month of our Audio-Guided Runs. For those that have missed the comradery of group runs during the pandemic, runners are telling us they're enjoying the connection and extra push offered by this feature, and in Q1 for the first time ever, women completed more of these runs than men.

We're also connecting to our purpose and values, as our brand continues to be culturally embedded throughout the world of sport and beyond. Our athletes are doing the same. Just this month, you saw Naomi Osaka give voice to the Black Lives Matter movement by sitting out the finals of the tournament just prior to the U.S. Open before returning to the U.S. Open and winning it. With leadership from global sports icons like Naomi and NBA players like LeBron and Giannis, as well as the thousands of others who have stood up and spoken out, our athletes are having a profound impact in our society.

All-in-all, from the cultural resonance of our brand to our expansion of what sport can mean, Q1 was a quarter that showed a relentless focus on deepening connections with our consumers matters.

Third, I continue to be excited by the opportunity I see for NIKE in digital. We know that digital is the new normal. The consumer today is digitally grounded and simply will not revert back. Our Digital business is already meeting our mix goal of 30%, nearly three years ahead of schedule and we will continue to grow from here. This quarter, our owned digital channel grew 83% on a currency-neutral basis driving almost 900 million of incremental revenue versus the prior year and an acceleration versus the prior quarter, even as our doors at retail reopened.

Our engagement and membership metrics show incredible momentum. For example, we're seeing almost 200% growth in demand for our NIKE commerce app, with triple-digit growth in monthly active users. This is significant for us, as it speaks to the increasing consumer adoption of our apps. And while we've had tremendous success in digital, and quickly pivoted to the accelerated consumer shift, I truly believe that NIKE is just scratching the surface of what's possible. With our breadth and depth no one has the advantage in this space that NIKE has to directly connect with consumers.

NIKE's Digital transformation strategy is not easily replicated. Simply put, scale matters, and NIKE leads, and we

will continue to lead in this space for all the reasons I've already mentioned. Our size, our incredible product, our brand strength and infinity, the direct consumer relationships who deepen each day and our ability to create seamless and differentiated shopping experiences. That is how we drive continued separation.

Now we know this is a multi-year journey and we have a bright future and lots of opportunity, but in many ways, we're just getting started. To date, we've done some impressive things to achieve scale, highlighted by our app ecosystem, our RFID investment and our omni-channel distribution centers. And as part of the Consumer Direct Acceleration, we have some clear immediate priorities including scaling O2O, improving personalization and creating a consistent end-to-end technology platform, and of course, we remain focused on increasing member engagement to unlock value for both NIKE and our consumers. After all, we know a consumer who connects with us on two or more platforms has a lifetime value that's four times higher than those who don't. And, in particular, I'm focused on how we will leverage consumer data and insights in our digital ecosystem to understand and serve consumers better, and ultimately increase our competitive advantage. We'll use data to stay a step ahead and help us create a better product as consumer insights power our business end-to-end toward even greater growth.

Fourth and finally, digital is fueling how we create the future of retail. This is the first quarter since the start of the pandemic where our retail was essentially opened, and as more consumers return to our stores, we saw impressive conversion in-store, even as our digital business accelerated even further. Our store traffic and sales are improving quarter-over-quarter and we're also seeing consumers increasingly self-identify as a member during checkout, or as we call it, a linked transaction, which is leading to even more engagement on our apps and an elevated O2O journey. This is our vision for the marketplace, a digitally connected experience where membership is a true differentiator.

Just as in our continuous product pipeline, we continue to innovate in the retail space. We're accelerating the shift we discussed last quarter to One NIKE Marketplace as part of our Digital PDA Acceleration. As you'll recall, our One NIKE Marketplace approach leads with NIKE Digital and our own stores as well as a smaller number of strategic partners who share our vision to provide a consistent and seamless consumer experience. In fact, during the quarter, we took focused actions to proactively shift the North America marketplace as part of our strategy to serve consumers more consistently and more personally.

Simply put, we're on the offense and accelerating toward this future vision, and this is evident by our new and innovative retail concepts amplified by an elevated O2O consumer journey. Just in Q1 we launched new stores in Guangzhou, China, Seoul, Los Angeles and Paris with two new doors in New York City coming in the next two weeks. These stores range across many different formats from our House of Innovation concept in Paris to a new NIKE factory store in the Watts neighborhood of LA as we deepen our connection in key cities and all of these concepts are underpinned by digital.

I'll go a little deeper in one just as an example. Our new store in Guangzhou is a data-powered store concept that curates a one-to-one personalized shopping journey. We're already seeing member checkout in our Guangzhou store significantly outpace the rest of the fleet. This is just one reflection of how digitally-enabled our future of retail is, and how membership is a critical differentiator.

Personally, one of the things I am most thrilled about is the return to organized sport. In fact, there was a day earlier this month when you could watch the NBA, NFL, Major League Baseball, WNBA, NHL, tennis U.S. Open, a Golf tournament and about six different global football leagues all taking place within the same 24 hours. Though health and safety remain paramount, you can just feel the optimism and excitement of sport coming back, and as we look to the Tokyo Olympics next summer, NIKE remains in a unique position to serve our consumers and fuel their passion for sport.

So, as you can see, even during market uncertainty, we're not slowing down. NIKE is staying on the offense and looking to extend our leadership position. We have that ability, and as I've said before, these are times when the strong can get stronger, and I'm energized by our incredible potential.

In closing, I want to thank our teammates all over the world who continue to innovate, execute and show tremendous resilience throughout a challenging year. I could not be more proud of them and we can't wait to show you what we're going to do next.

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

**Matt Friend, Executive Vice President & Chief Financial Officer:**

Thank you, John, and hello to everyone on the call. NIKE entered the pandemic with unparalleled Brand and business momentum, and while we continue to navigate through uncertain dynamics, sport has returned. Interest in activity and health, fitness and wellness has never been greater. Consumer connection and engagement with our brand is growing, and NIKE is transforming the way we operate, to better serve all consumers. Looking forward, we believe that NIKE is stronger and now even better positioned to drive separation than prior to the pandemic.

As I reflect on the first quarter, there are three key strategic and financial themes that stand out. First, NIKE is recovering faster, fueled by Brand momentum and our relentless focus on execution. Second, we are accelerating investments in capabilities and services that will create value for the consumer while simultaneously accelerating productivity. And third, our consumer-led digital transformation is clearly a catalyst for long-term revenue and earnings growth. Let me take a few minutes to walk-through each of these points.

First, as discussed on previous earnings calls, we implemented an enterprise-wide operational plan at the onset of the pandemic. Our teams have navigated with agility and focus to recalibrate supply and demand, to increase digital distribution capacity, to secure liquidity and to tightly manage costs, all while ensuring the health and safety of our employees and consumers. As a result, NIKE, Inc. first quarter reported revenue declined 1% versus prior year and was flat on a constant currency basis, and reported EBIT grew 13% versus prior year, all a sharp acceleration from last quarter and exceeding our internal plans. There are a few elements that are important for me to highlight here.

Despite ongoing uncertainty, more countries are emerging from containment and have returned to growth. China, Japan, South Korea, the UK, France and Germany just to name a few. Marketplace inventory is healthy and within our targeted guardrails. NIKE inventory levels have improved since May with Q1 inventory growing 15% versus prior year, as compared to 31% growth in Q4, and is on track to be normalized in the next 60 days.

We are reducing excess inventory at lower promotional levels relative to the overall marketplace, highlighting the strength of our brand and the value of our key product franchises, and we ended Q1 in a net cash position, generating positive free cash flow and increasing our liquidity to over \$13 billion. These financial results offer clear evidence of a faster marketplace recovery for NIKE, fueled by consumer demand for all our brands. Our momentum is building and more importantly, our market share is accelerating around the world. We now expect reported revenue to be roughly flat versus prior year in the first half of fiscal 2021.

This leads me to the second theme. We're accelerating investments in capabilities and services that will create value for the consumer while simultaneously accelerating productivity. As you have seen over the last two quarters, our priorities are clear. We will continue to both accelerate investment against our digital transformation and prudently manage other spending. At the same time, we are focused on amplifying our Brand impact.

Over the past two quarters, as we have seen demand for our digital business rapidly accelerate, we've invested to further increase digital fulfillment capacity and inventory visibility. Our new regional service center near Los Angeles went live this month and uses predictive modeling to anticipate consumer demand and ensure the product our consumers want is available and will arrive within one-to-two days. We will achieve this level of service at a lower fulfillment cost over time.

We scaled ship-from-store capabilities in North America's Nike Brand Inline Stores which now represents over 20% of revenue in enabled doors. These capabilities will be enhanced by our RFID investments highlighting dramatic improvement we are making in our O2O service performance.

We are scaling robotics and automation in our logistics operations, accelerating digital throughput and cutting order cycle times by up to 50%. Especially during times of heightened safety measures due to COVID-19, this allows our teams to serve higher-levels of digital demand with greater efficiency and precision. We've already deployed this

automation in North America, Japan and EMEA and will continue to scale these critical improvements further as delivery becomes increasingly important in consumer buying decisions.

While we double-down on the strategic capabilities required to fuel our digital acceleration, we are simultaneously driving a sharper prioritization and sequencing of our investments. For example, we drove significant leverage in our Demand Creation spending versus prior year in the last two quarters, creating fewer, but significantly more impactful Brand campaigns. We were also able to increase the return performance marketing investment, driving accelerated digital demand and greater digital engagement.

The NIKE and Jordan brands are stronger than ever, delivering historic records of engagement through nearly 5 billion social media impressions just this quarter. Another example is how our organizational restructuring will simplify the way we work, eliminate duplication and redundancy and realign our resources to focus on our biggest growth opportunities. While we will incur a nonrecurring charge to affect this plan, in fiscal 2021, this restructuring will also create a similar level of recurring annual cost savings that will help fuel the acceleration of our digital transformation.

In this moment, the pandemic has allowed us to accelerate where and how we will invest. Ultimately, we will drive deeper consumer connections and continue to amplify our Brand strength, using technology to operate more efficiently and at greater scale.

This brings me to my final theme, our consumer-led digital transformation is clearly a catalyst for long-term revenue and earnings growth. Our Digital business grew 83% in Q1 on a currency-neutral basis, and as John mentioned, digital, across owned and partner, now represents over 30% of our total business, up more than 10 points of share versus the prior year, but more importantly, we saw tremendous momentum in the measures of success that matter most to create scale and drive long-term profitability. These include member engagements and owned digital market share.

In Q1, NIKE active members increased nearly 60% with even higher growth in buying members. We also drove strong double-digit growth in contactable members. We saw owned digital market share gains across both the U.S. and key countries in EMEA, which gives us confidence in our ability to sustain and to grow our digital penetration even as physical retail traffic continues to recover.

What's even more important though is that we can see several strategic and financial benefits from accelerating our digital transformation. First, by leveraging data to enhance membership, personalization and consumer oriented O2O services across the marketplace, we can drive greater inventory efficiency and unlock accelerated growth in key opportunities like Women's and Apparel.

Second, in a normalized period, we earn roughly 10 points higher gross margin rate on our Digital revenue versus wholesale, and while we will need to continue investments to expand digital fulfillment capacity, we can improve operational efficiency through predictive modeling tools, data-driven member personalization and inventory staging.

And finally, we will manage digital transformation within our SG&A guardrails. As we accelerate the pace of investment, a technology foundation will enable us to unlock operating efficiency through automation and increase productivity across the organization. Further, as we grow digital engagement and we retain a higher proportion of engaged members with increased buying frequency, we will be lowering customer acquisition costs, increasing our return-on-ad spend and changing the shape of our demand creation investment.

As John said earlier, we know that digital is the new normal and as we drive continued separation in the market, through a connected, seamless and modern consumer experience, we will fuel growth and profitability. Now let's turn to the details of our first quarter financial results and operating segment performance.

NIKE, Inc. Q1 Revenue declined 1% and was flat on a currency-neutral basis, as NIKE Direct grew 13% led by strong digital growth offset by declines in our wholesale business. Gross margin decreased 90 basis points in Q1 versus the prior year as a result of impacts from COVID-19 including higher promotions to reduce excess inventory across the marketplace and higher supply chain costs. These factors were offset slightly by favorable full-price

product margins and the reversal of certain reserves associated with purchase order cancellations due to higher-than-anticipated consumer demand.

SG&A declined 11% in Q1. We tightly managed operating expenses including lower and more effective marketing spend as live sporting events slowly started to resume, while investing to support accelerating digital growth and transformation. Our Effective Tax Rate for the quarter was 11.5%, compared to 12.4% for the same period last year, primarily due to benefits from stock-based compensation, offset by a reserve for a discrete tax matter. First quarter diluted earnings per share was \$0.95 up 10% versus prior year.

With that, let's turn to our reported operating segments. Despite varied recovery curves and macroeconomic dynamics, our geographies have some key themes in common in Q1. First, strong digital growth and increasing member engagement. Second, women's outperformance versus men's and a growing Jordan brand, and third, lower physical traffic in our NIKE-owned stores versus last year although substantially improved versus the prior quarter. Traffic trends were partially offset by higher conversion rates and higher spend per transaction.

In North America specifically, Q1 Revenue declined 1% on a currency-neutral basis and EBIT increased 18% on a reported basis. Digital was up nearly 100% driven by triple-digit growth in full-price sales and fueled by strong momentum in iconic styles like the Air Force 1 and Air Jordan 1, along with Women's Apparel, which grew nearly 200% in the quarter. Demand on the NIKE App grew 150% in Q1 highlighting the continued shift to mobile experiences.

Finally, as we cut purchase orders to recalibrate supply and demand in North America during the first half of fiscal 2021, we shifted product allocations to fuel higher demand at NIKE Digital and our smaller group of strategic wholesale partners. The result was high-single-digit growth in differentiated wholesale offset by a decline of over 20% in undifferentiated wholesale, all with a higher full-price realization versus the prior year. This is a trend that we expect to continue throughout this fiscal year as we change the shape of the North America marketplace.

In EMEA, Q1 revenue grew 5% on a currency-neutral basis and EBIT grew 14% on a reported basis. Recovery in Italy and Spain continues to lag recovery across the rest of Western Europe. NIKE Direct grew over 25% with over 100% Digital growth driven by lifestyle products as the consumer focus on comfort continues. Apparel in EMEA grew 11% on a currency-neutral basis led by the performance categories of running, training, basketball and global football, which featured our biggest club launch ever, with Liverpool FC. EMEA also continues to lead globally with our Express Lane offense, maximizing supply availability and actively managing inventory while capturing emerging trends. Express Lane drove revenue growth and generated higher full-price realization in the quarter.

With that, let's turn to Greater China, which continued its strong momentum with 8% growth on a currency neutral basis with mainland China delivering double-digit growth. NIKE Direct grew over 20% with more balanced channel growth as Digital grew nearly 30% and NIKE-owned stores were up double-digits fueled by key consumer moments like 6-18 where NIKE was the number one sports brand on Tmall. NIKE Sportswear and Basketball grew double-digit growth in the quarter with strong sell-through of key innovation launches like the Alphafly NEXT%, Space Hippiie and the AJ 1 FlyEase.

Retail sales of the China marketplace are accelerating with an increasing proportion of full-price sales. Physical retail traffic continues to grow and is approaching prior-year levels, and we are also well-positioned for Singles Day in November. Finally, in our APLA geography, Q1 revenue declined 12% on a currency-neutral basis, including digital growth that exceeded 90%. We continue to see varied impacts of COVID-19 across countries in the region with growth in the Asia Pacific region being led by Japan, Pacific and South Korea while recovery in Latin America and certain countries in Southeast Asia continues at a slower pace. Performance footwear resonated with consumers in APLA this quarter, as we saw strong results from the Alphafly NEXT% and the Pegasus 37. Jordan has also continued to excite the consumer with locally relevant product like the AJ 34 Rui Hachimura, which was Japan's best-selling basketball launch ever.

As I said last quarter, fiscal 2021 will continue to be a time of uncertainty, because virus containment patterns around the world remain volatile. Therefore, each market recovery will not be linear and the comparisons with prior year will become increasingly less intuitive. We are focused on what we can control. Deepening our consumer connections while we manage risk and uncertainty in this environment. We are tightly buying inventory and are

focused on ensuring the long-term health of all of our brands and our key product franchises, with the first quarter now complete, I will update our full year financial outlook.

Despite the continued uncertainties, we now expect Revenue to be up high-single-digits to low double-digits versus prior year. Stronger than anticipated demand for our brands will be constrained in the near-term due to supply decisions we took in the face of the pandemic, with growth in the second half to be up significantly versus prior year.

Our Gross Margin outlook will continue to be a function of prioritizing a return to normalized inventory levels by the end of Q2. In the second half, we expected again seeing sequential improvement in full-price sales, but we do expect a continuation of higher markdown activity in our factory stores to sustain conversion rates on lower traffic.

For the full year, we now expect gross margin to be flat versus prior year, including 40 basis points of foreign exchange headwinds. We now expect SG&A will be flat versus prior year, including approximately \$200 to \$250 million of nonrecurring execution costs incurred in the first half associated with simplifying our organizational structure.

NIKE is poised to emerge from the current environment stronger and better positioned with a sharper focus, a clearer view of our Brand's long-term future and with a team that is energized to compete and to win. At the same time, we are managing our business to deliver financial results that will set a strong foundation for growth and profitability in fiscal year 22 and beyond. The future for NIKE is bright. I wouldn't trade our position with anyone.

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



## QUESTION AND ANSWER SECTION

[Operator Instructions]

**Operator:** Our first question is from Bob Drbul from Guggenheim Securities. Your line is open.

**<Q – Bob Drbul >:** Hi, guys. Good afternoon. I guess the first question that I have really is if you could spend a little bit more time on the gross margin performance and can you just give us the buckets in the various is there any quantification around the promotions, the supply chain, full price selling...just help us get our hands around the various drivers of the gross margin this quarter? And maybe, Matt, if you could just a little bit more around and you gave some commentary for the full year but maybe just the drivers of that performance for the remainder of the year would be helpful. Thanks.

**<A – Matt Friend>:** Sure, Bob. So, in the first quarter our gross margin was down 90 basis points versus prior year and obviously that was a substantial improvement versus the results we had in the fourth quarter really reflecting the strength of NIKE's market recovery. However, Q1 did benefit from about 55 basis points of one-time accrual reversals that we incurred in Q4, the biggest of which related to factory PO cancellations which we reinstated some supply due to the strong demand we were seeing in the quarter. So, if you add that back you get to a gross margin that's down roughly 145 basis points versus the prior-year and that's driven by markdown activity to work through and normalize our supply.

As we look ahead to Q2, Bob, our margin will continue to be a function of supply and demand management, because our top priority is to normalize inventory by the end of the second quarter and we expect Q2 will probably be more promotional than what we saw in Q1 because of holiday, the seasonal consumer moments like 11-11 in China and then this year we got Cyber Monday in Q2 whereas last year it flipped into Q3, and we also are seeing despite our strong performance a lot of inventory still in the marketplace, and so that's how we're looking at the first half of the year.

As we look to the second half as I mentioned in my remarks, we're expecting sequential improvement with a higher mix of full-price sales and we'll start to see the benefits in our supply chain from exiting the extra storage that we needed for inventory in the first half. We also expect though that we're going to need to maintain an investment in discounts in our factory stores because we're not anticipating traffic to recover to prior-year levels in the balance of the year, and so we're assuming that there will continue to be some promotional activity in the second half of the year to maintain conversion rates and unit velocity as we keep, as we continue to operate through the balance of the year.

**<Q – Bob Drbul >:** Great. Thanks.

**<A – Matt Friend>:** All-in-all, Bob, that amounts to a flat versus prior year.

**<Q – Bob Drbul >:** Perfect. Thanks, Matt. I guess just a follow-up quick question, have you guys considered with the Cactus Jack maybe some sort of collaboration with McDonald's in terms of like, do the happy meal with the Cactus Jack and get a pair of shoes or anything like that? Is that in the pipeline at all?

**<A – John Donahoe>:** Bob, I can give a one-word answer to that question. No.

**<Q – Bob Drbul >:** All right. Thanks very much, and nice quarter, guys. Way to go.

**Operator:** Our next question is from Kimberly Greenberger with Morgan Stanley. Your line is open.

**<Q – Kimberly Greenberger >:** Great. Thank you so much. I appreciated your comments, Matt, on the digital margins. Obviously a very nice, I think you said 10-point higher gross margin than wholesale in your digital channel. I'm wondering if you can just cover some of the key unlocks that you visualize, or that you envision happening over the next few years that will basically allow that digital operating margin to track higher over time. Is it an ever-lower customer acquisition cost, is it more efficient fulfillment of orders or scale? Any of those, any color on that would be helpful. Thanks.

**<A – Matt Friend>:** Sure, Kimberly. You almost answered the question for me there hitting the points, but, yeah, so it starts with where John was in his prepared remarks. We obviously believe that scale for our digital business, is going to drive significant financial benefits as we continue to grow the size of that business and leverage the capability that we continue to develop. I think there's probably three key drivers of operating margin improvement that we see from leveraging scale of our digital business.

The first one just relates to leveraging data and the data that we continue to gather as a growing business to create personalized product offerings for consumers. And the benefit that that will drive is higher full-price realization and less markdowns of product that we're selling digitally to consumers.

The second piece is also kind of connected to data, which is where do we place our inventory and how do we flow it so that we can be closer to the consumer and ultimately lower our fulfillment cost and we believe that will be a driver as well of continued gross margin expansion. And then the third piece kind of ties back to what I referenced on our performance marketing investment and marketing. We have got to move deeper into the funnel, moving from attracting and acquiring new members to retaining members, knowing those members and driving more engagement and frequency-of-purchase within our existing member base. And we believe that by running that offense, we will see more productivity in our demand creation spend and a higher return on our demand creation spend, and by doing that, we should be able to also drive additional operating margin expansion.

**<Q – Kimberly Greenberger >:** Fantastic. Thank you.

**Operator:** Our next question is from Michael Binetti with Credit Suisse. Your line is open.

**<Q – Michael Binetti >:** Hey, guys. Thanks a lot for taking my question, and nice job on the quarter in a very tough backdrop. I guess looking at the North America and maybe EMEA, EBIT dollar growth significantly outpacing revenue growth in those markets, I guess dovetailing off Kimberly's question, how helpful was improving digital margins, I'm sorry digital margins in those markets in this quarter? Is that something that's already on the move as you see the growth rates that you're seeing in those markets with the digital business?

**<A – Matt Friend>:** Yes, Michael. So, we are seeing a benefit from increased digital penetration on our margins within those two geographies, but I would also want to highlight that the strategy and the focus on shifting the marketplace, exiting undifferentiated wholesale distribution and focusing on our direct business and our strategic partners drove higher full-price realization as well in both of those markets in the quarter, which also fueled our gross margin, and so those two factors in particular were large drivers of gross margin performance in the quarter, and then we also had some SG&A leverage in those geographies in the quarter as we were managing spend and working through new ways of working from a corporate perspective and that also helped to fuel EBIT growth relative to revenue growth in the quarter.

**<Q – Michael Binetti >:** Gotcha. And then I guess as a follow up, as you look at North America, John, as you've gotten into the business and had a chance to kind of think about the different regions, the sales growth in North America has been very strong for a couple years, that of \$2 billion over the last few years but the margins been fairly stagnant there. Despite the brand being very strong, obviously, gaining momentum as you saw a more pronounced shift in the business in wholesale here in the quarter. Some of that probably forced on you by the macro backdrop, but what do you think about the margin evolution in North America from here as we normalize and get on the other side of this COVID period and look out to the second-half of this year and into 2022?

**<A – John Donahoe>:** Well, Michael, if I step back, I would say the North America market, the North America retail market is the most fragmented and least far along of where it needs to get to of the major markets in the world, and so in this world, where consumers want a seamless, digital and physical experience, they want to know who they are, they want consistent premium, modern experiences; the North America retail market today is the furthest away from that so that's what's driving our One NIKE Marketplace where we lead with digital, directly connect with them for all the reasons Matt's already described. We then follow with our NIKE Direct where we have very premium experiences that are often digitally-infused, and then we work with fewer strategic partners who see the world the same way we see the world and want to provide this consistent experiences for our consumers, want to provide the same level of knowledge and understanding so consumers know who they are, regardless of where they're

shopping. Consumers want what they want when they want it and how they want it, so we're simply accelerating that transition. We're accelerating what probably would have happened in the retail environment naturally in the next four to five years. We're going to try to drive it for our business in the next one to two years and that will for all the reasons Matt described, that'll have financial benefits, it'll have profitability benefits in addition to having growth and market share benefits which is what we're really focusing on.

**<Q – Michael Binetti >:** John, thanks a lot for the help.

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

**<Q – Omar Saad >:** Thanks for taking my question. Thanks for all the information. In a quick clarification on the digital trends, I believe last quarter, when you spoke to us, I think to the exit rate was triple digits in June. Obviously it's still a huge number for the overall quarter but maybe just help us understand that digital rate slow as the stores and the conversion came back and the brick-and-mortar part of your DTC business, and I'd also love an updated view and outlook on the return of team and organized sports, the NBA playoffs and NFL is back. Do you think this is going to continue to build over time even at the youth and collegiate level as well and how are you guys capitalizing on your integration and deep roots in all those sports? Thanks.

**<A – Matt Friend>:** Sure, Omar. Why don't I take the first part and maybe John will grab the second piece of it? So, yes, when we had our last earning call we referenced that we were seeing strong triple-digit growth in digital in the month of June, and what I'd say is that in North America, EMEA and APLA we continue to deliver above or at triple-digit growth in digital in the quarter. The place where we saw more balanced growth in-quarter was in Greater China, where retail traffic has recovered closer to prior-year levels and is approaching prior-year levels. But Digital was still the fastest-growing channel in that marketplace at over 30% growth, so the only thing that I would say that might even remotely sound like a deceleration is Greater China growth as the marketplace has normalized, but we continue to believe that digital will lead the way of growth for Greater China.

**<A – John Donahoe>:** And, Omar, on the second, how cool is it to be able to on a weekend to watch literally within hours, NBA, NFL, MLB, NHL, college football, U.S. Open Tennis, a major golf tournament? First thing I just have to congratulate the commissioners of the major sports leagues who have just done a fabulous job of bringing sport back safely, safely for the players and coaches and then providing what are unprecedented viewership opportunities and so we are thrilled about that. We're trying to work very closely with them to help encourage that wherever possible. We think that's good for consumers and it's ultimately good for NIKE. Does that continue and does it cascade down to college and high school and youth? I say my prayers every night and hope so. I think I'd say safety is paramount and the more you get in a distributed environment and a less controlled environment obviously the more challenging that is and so we completely embrace balancing safety but also return-to-sport and I think the other part of this is not organized sport but we're seeing is and I think these things are related. People are more engaged as sort of this movement toward health and fitness and wellness which I think started with people being confined to their homes. We're seeing it continue to accelerate. You watch a game on TV, and you want to go out for a run, right? Or you go shoot baskets in the driveway, and so I think sport is so healthy for the world right now and we're going to do everything we can, including, by the way, some of the brand moments that we're trying to celebrate to reinforce. I just love the Venus and Serena spot. It just celebrates the power sport has in connecting with consumers so you hear the excitement in my voice and I can tell you, all 75,000 people here at NIKE love sport, love sport coming back, and we're cautiously optimistic that'll continue until we get through this pandemic.

**<Q – Omar Saad >:** Thanks, John. Thanks, Matt. Best wishes.

**Operator:** Next question is from Jim Duffy with Stifel. Your line is open.

**<Q – Jim Duffy>:** Thank you. Hello, everyone. Terrific rebound in the business. My question, I'm hoping you can provide an update on the RFID implementation and any benefits you've seen with inventory management and demand forecasting and then maybe talk about how these benefits materialize in the model and coming quarters and years. What are some of the key metrics we should watch for the progress on that?

**<A – Matt Friend>:** So, Jim, in the quarter, we continue to roll out RFID across both our supply chain and our stores. And given where things are staying in the pandemic at this point in time, we were able to leverage the

inventory visibility in order to be able to take advantage of some of the, take advantage of the demand that we had across the marketplace and across our retail stores.

We now have 100% of our footwear as I think we've told you before and 75% of our apparel tagged so we've got over 1 billion units at 99.99% readability which enabled us to see our inventory now across all of our factory stores and they're live in our own doors and they help to accelerate our O2O capabilities by providing a clear line of sight to the inventory levels. RFID is going to drive improved inventory holding costs and it's also going to help us reduce our transportation costs, both in direct and in wholesale, and we believe that's going to be a critical enabler in order for us to create a fully connected marketplace for NIKE products across both our owned stores and our strategic partners.

**<A – John Donahoe>**: And I'd just build on that what Matt talked about last quarter. The real story is data, the way data then infuses that with the select acquisition, where we're able to forward deploy inventory, be able to predict demand reliably enough where we can forward-deploy inventory so it's within one-to-two day ground shipping to a large number of consumers across the country and again that's where this scale competitive advantage comes from in our supply chain because we'll be able to forecast demand, get the right inventory in the right places, to get it to consumers quickly both for ourselves and maybe even over time as an added benefit for our strategic wholesale partners.

**<Q – Jim Duffy>**: Very helpful. Thank you, guys.

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

**<Q – Jamie Merriman>**: Thanks very much. John, and Matt, you both talked about some of the examples of the digital investments that you made so far, the app ecosystem, the omni-channel fulfillment capabilities, RFID so I'm wondering as you think about the business from here, Matt, you talked a lot about continuing to invest, are there particular areas where you feel like you need to invest further? Is it greater data capabilities? Is it just building out more fulfillment options like the one you have on the West Coast or are you now at the point where you can start to leverage some of the investments behind data and RFID? Is it really just a matter of scale?

**<A – John Donahoe>**: Jamie it's interesting, because I have a little bit of an outside point of view of this and I'm say from a Board perspective, I saw the investment NIKE was making in digital and boy, you see the result of that, the fact that we've a clear digital advantage today. That said, having had a technology background, I feel like there's so much opportunity remaining that we're still just scratching the surface of what's possible. And so in particular, the way we think about it is, consumer-facing digital. Demand-sensing, little things. This quarter, we turned on machine learning on search and a little bit of improvement drove greater conversion. By the way, that's continuous so the ability to use AI and machine learning, digital demand sensing, insight gathering, digital marketing, membership personalization, even inventory optimization. I think we still got ample benefits and ample opportunity in the consumer-facing side of things and those are things like in technology, they're not big bangs. It's a whole series of continuous and ongoing improvements that by the way are very measurable and enhance growth or improve profitability.

Then beyond that where I think we still have huge opportunities we now have one integrated technology roadmap and we're applying that across our entire company end-to-end and so whether it is the manufacturing through supply chain and the automation opportunities that exist, whether it's using robotics or other ways to improve the efficiency and effectiveness. Our whole product creation area.

One of the people that is most excited about the opportunity to digitize is our head of design, John Hoke, and just how digital can really enhance not only the productivity but also the creativity of our designers. And so we now have a clear three-year roadmap that to bring technology to every element of our operation and every element of our end-to-end business and the nice thing about that is in almost every case, you can define measurable benefits, whether it's enhanced growth, deeper connection with consumers, or improved efficiency with automation and use of intelligent use of technology, so I think all of us view this as a real opportunity.

**Andy Muir>**: Operator, we have time for one more question.

**Operator:** Our last question comes from the line of Matthew Boss with JP Morgan. Your line is open.

**<Q – Matthew Boss>:** Great. Thanks, and congrats on a nice quarter. So on the financial algorithm, and as we think through the accelerated shift to digital, and I think you had said within the guardrails of SG&A that you've outlined, are there any offsetting headwinds constraining your ability to potentially outpace your outline high-single-digit top-line and mid-teens earnings growth rates as we think moving forward?

**<A – Matt Friend>:** Well, hey, Matt. Thanks for the question. As I mentioned in the last call, we believe that the Consumer Direct Acceleration is clearly a tailwind or a fuel to our long-term financial model. Our goals and our principles related to how we financially manage the business are really unchanged to deliver sustainable profitable and capital efficient growth over time.

Obviously, right now we're in the middle of quite an uncertain moment and pandemic, and while we're sharing with you our perspectives on the opportunities that we see as we look towards the future, the reality is that this environment right now is quite uncertain, and so what we're going to be focused on over the next 90 to 120 days is continuing to clean our inventory, continuing to create those consumer connections like we've been talking about, and really focused on our One NIKE Marketplace strategy, exiting undifferentiated wholesale distribution and focusing on the opportunity that we see for NIKE Direct and our strategic partners. And we believe that this strategy will fuel growth and profitability in-line with the long-term financial model that we've previously communicated.

Obviously, there are a number of factors that are outstanding that may create disruption over periods of time as we look at it and the most obvious one right now is just the pandemic and the impact it has on consumer demand and consumption in the near-term. And so we're continuing to focus on the strategy and the shift because we think it's the right thing to do long-term and that's where our focus and attention is going to be at this time. We're investing in building this business for the long-term and that's where our focus is.

**<Q – Matthew Boss>:** Great. Congrats. Best of luck.

**Andy Muir>:** Thank you, Matt. So, thanks, everyone, for joining us today. We look forward to speaking with you next quarter. Take care.

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