

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY21 NIKE, Inc.**

*December 18, 2020*

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### **Operator:**

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2021 second quarter conference call. For those who want to reference today's press release you'll find it at <http://investors.nike.com>. Leading today's call is 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 2021 second 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).

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

### **John Donahoe:**

Thank you, Andy, and hello and Happy Holidays to everyone on today's call.

Before I get into our Q2 performance, I want to acknowledge the global environment right now. We continue to deal with the COVID-19 pandemic, with surges across the U.S. and in many countries around the world.

In fact, consistent with social distancing norms, Matt, Andy and I are doing this call from our homes. So, if this audio sounds a little different, that's life in the zoom world. And we're feeling optimistic with positive news on vaccines but in the meantime, we hope everyone stays safe out there.

Looking at Q2, our strong business results reflect our relentless focus on our objectives. I'm going to talk this quarter about the same themes I talked about last quarter. And most probably next quarter, I'll talk to you about them again.

The reason for this consistency is that our strategy is sound. Our strategy is working. And we're excited by what we're seeing as we continue to execute it.

In Q2, we returned to growth of 9%, on a reported basis. This revenue improvement reflects Currency-neutral growth across all of our Geographies, Nike Digital up 80% globally, and Women's growth outpacing our overall growth.

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But beyond any one quarter's results, the clear momentum we have right now is evidence of our product innovation and brand strength that allows us to connect with consumers worldwide.

I've said it before, these are times when strong brands get stronger. The structural tailwinds we're seeing including permanent shifts toward Digital, athletic wear and health and wellness continue to offer us incredible opportunity. And of course, as organized sport returns around the world, that energy creates yet another tailwind for Nike. For example, we were excited to see so many runners participating in the Shanghai Marathon two weeks ago.

Speaking of Greater China, the growth we saw there in Q2 is evidence of the progress we've made toward our end-to-end digital transformation, which allows us to better manage volatility and deliver strong growth. As a result, in Q2, Greater China grew 19% on a currency neutral basis and 24% on a reported basis.

Our success in Greater China was also driven by a triumphant Singles Day, in which Nike yet again was the number one sport brand with the highest store demand and highest traffic on Tmall. This growth underscores how we engaged with consumers on Singles Day, bringing more than 4 million new members to Nike. Overall, Singles Day drove more than a half a billion dollars in digital demand.

More broadly, this holiday season also was highlighted by the record-setting digital sales we saw during Black Friday Week which has shown the power of our digital transformation all over the globe.

Digital is now woven into everything we do as a company. It's how we operate and prioritize: from how we engage with members to how we operate our supply chain to how we serve consumers in the marketplace.

Today, I'd like to focus on two key areas of increasing competitive advantage for us: our leadership in innovation and our incredible brand momentum.

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Let's start with product and innovation. Innovation has always been our lifeblood at Nike. It's what continues to create separation between us and our competition. Our return to growth this quarter was fueled by a relentless innovation pipeline. In the last 90 days, we've introduced exciting products at an impressive pace, and this will continue going forward.

Through innovation, we are serving consumers in ways no other brand can.

- We're using digital to connect product to consumers like never before,
- We're bringing more athletes into sport through inclusivity,
- And we're scaling sustainable materials further in our product portfolio.

The quarter's launches in Basketball, including the LeBron 18 and the Kyrie 7, have sold incredibly well. I'm particularly excited that both were launched digital-first. The LeBron 18 was introduced in September through an integrated livestream with Tencent in Greater China, driving deeper connection to local hoops culture. And we launched the Kyrie 7 by announcing four colorways available only as mystery purchases through the SNKRS app.

In Women's, our (M) Maternity collection is connecting with consumers in the marketplace, with 100% sell-through of tights in the first two days. Due to high consumer demand for our new maternity wear, we're bringing more units into the marketplace and rolling out more content and inspiration for women pre- and post-partum on our activity apps. This is a great example of how we start with product and then scale further through engagement to deepen our connection with consumers.

We also grow sport through inclusivity. For example, we continue to extend our size offerings as we give more consumers access to sport. For example, in Women's, we now have more than 100 styles of extended-sized apparel across Nike and Jordan, and we will continue to further increase our offering. And this quarter, we launched extended sizing in our Kids business in North America with a plan to increase to 25% of our Kids assortment next summer.

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Finally, sustainability will always be core to our innovation efforts. Eighty-five percent of our recently launched ACG apparel collection contains more than 90% recycled materials. And we'll also continue to scale sustainability through our Sportswear icons. In fact, just this past quarter, we launched our new sustainable Crater foam in both Air Force 1 and Waffle Racer. The demand for these products, and more, shows that consumer hunger for sustainability continues to accelerate.

We're proud of this innovation pipeline, and we have no plans to slow down. In coming quarters, new innovations will include:

- Exciting new Women's product in Jordan Brand
- A new running style designed to help reduce injury
- And our first performance shoe in our sustainable footwear platform

Innovation differentiates Nike. We don't settle for the lead, and our ability to innovate remains unrivaled. It's so fundamental to us that we increased our investment in innovation during the uncertainty of the pandemic to create even further separation. This is how Nike stays in the lead.

Moving to our brand strength, our deep connection with consumers through authentic brand moments at global scale also continues to expand our leadership position.

As I've said earlier, the strong are getting stronger, and our scale is unmatched. In Q2, Nike generated over 7 billion brand impressions across social platforms globally, directly connecting with consumers on the platforms where they spend their time. For example, our "Never Too Far Down" film became the #1 ad that consumers chose to watch on YouTube during 2020.

And these touchpoints led to over 400 million social engagements. It's clear we're not just reaching our consumers. We're creating dialogue and opportunities for action that continue to exceed our own internal benchmarks.

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This deep and meaningful connection has a direct result on Nike membership. Since the pandemic began, we've added more than 70 million new members globally. And we're deeply focused on the member funnel outcomes including new member buying, reactivation and retention and it's working. Importantly, buying member growth is outpacing new and active member growth and growth in member demand is outpacing total digital growth.

As we drive our membership efforts, we continue to innovate how we serve members. This quarter, Nike hosted our first-ever globally coordinated Member Days, which demonstrate how we continue to create value for Nike members. This unique retail moment offers first access to product rewards for activity and exclusives across stores and digital. This event reached over 60 million members across 25 countries, driving higher engagement and conversion metrics for the quarter.

And in Q2, we once again used the SNKRS app to push digital retail to the next level. SNKRS remains one of Nike's greatest competitive advantages, delivering truly innovative features for consumers. For example, this quarter we launched SNKRS Live with our first-ever product drop via livestreaming resulting in 100% sell-through of the Air Jordan 4 PSG in under two minutes. This livestreaming capability is now fully launched in both North America and EMEA, with plans to expand in Japan. Live interaction creates stronger member engagement with Nike, giving them better access to our best products and experiences. We see so much value here, that we opened a brand-new livestreaming studio in Greater China just in time for Singles Day.

Simply put, the Nike brand is strong. We have a scale that's unparalleled, and the brand is creating meaningful connections everywhere the Swoosh exists. Just look at our results this quarter – our brand's power this year has been second to none.

Before I wrap up, I want to give a little more context for a number I mentioned earlier: our 80% Nike Digital growth this quarter. We've now had three straight quarters of roughly 80% digital growth. As we've said, this growth won't always be so uniform. But we are growing the pie and taking share from competition. This is the sharp point of our strategy. The consumer shift to digital is permanent, and our digital penetration will only increase in years to come.

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Across the quarter, our innovation pipeline and brand strength positioned us to continue to navigate a dynamic environment with agility. We have a proven playbook, led by digital. The foundation of this playbook is our commitment to product and consumer connection. The fundamental truth of Nike is that our innovation and brand strength continue to set the pace.

Now, Matt will give more detail on our playbook but before he does, I'd like to finish by saluting our teams around the globe. Since the start of the pandemic, we've said that we would stay on the offense, and the credit for that continued effort and execution goes to our team. Around the world, in every facet of our business and our organization, they continue to demonstrate commitment, resilience and creativity. I could not be prouder of everyone on the Nike team and I genuinely thank them.

And now I'll turn things over to Matt.

### **Matt Friend:**

Thank you, John, and hello and happy holidays to everyone.

As I said on our last call, Nike is recovering faster fueled by our unparalleled Brand momentum and sharp focus on operational execution. Consumer engagement with our Brands continues to grow in frequency and depth, through the power of our product franchises and fresh storytelling delivered through improved digital and physical experiences.

Our financial results in the second quarter and for the first half of fiscal '21 is proof that Nike has recovered and is moving forward. We have a new consumer offense and a clearer vision for how we will engage and serve consumer demand for our Brands through digital, leveraging a technology enabled operating model which is being built for greater speed, efficiency and effectiveness.

While uncertainty due to the global pandemic persists...our teams are now better equipped than ever to navigate through the dynamics we face. We continue to leverage our operational playbook, and we learn more every week. Our leadership momentum and trajectory in Greater China is helping to shape decisions we are making around the rest of the world. Our teams are

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sharply focused on the key metrics that matter most to accelerate the pace of our recovery and return to sustainable, profitable growth.

In June we set clear measures of success for the first half of this fiscal year. And now six months later, we've exceeded those goals. Let me share a few of the highlights:

- We said inventory would return to a healthy and normalized level by the end of Q2. And now, through intentional supply and demand management actions, marketplace health has been restored across all Geographies without compromising the value of our Brands and product franchises and Nike owned inventory is clean, ending Q2 down 2% versus prior year while delivering 9% revenue growth on a reported basis.
- We said the digital acceleration brought on by COVID-19 was indicative of a new, future marketplace and not a temporary phenomenon. In Q1, we exceeded our digital penetration goal of 30%, across owned and partnered, almost three years earlier than planned. Now, in Q2, our momentum continues, with 80% Nike Digital revenue growth on a currency neutral basis. And we increased our digital penetration further by improving product availability through search optimization, moving inventory across marketplace channels, and increasing digital fulfillment capacity through scale and automation.
- We said we would tightly manage costs. And in the first half of fiscal 21 SG&A declined 6% versus prior year. Over the course of the last six months, we have reduced discretionary spending in non-priority areas, while accelerating investment to support our digital transformation and re-aligning our organization to a new consumer construct.
- And finally, we said our product pipeline would remain robust. And you've seen us continue a consistent flow of innovation and new storytelling around our most important product franchises. This has translated into deep consumer engagement with our Brands and market share gains driving first half revenue growth of 4% versus the prior year.

Simply put, we've executed on our plan, and Nike is now even better positioned to compete and serve consumers than prior to the pandemic.

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Now, as we look ahead to the second half of fiscal '21 and beyond, I want to share some perspective on how we will strategically and financially manage the company. You've heard me talk about these principles before and I will continue to reiterate them as we execute against our strategy and transform our business.

First and foremost, despite the short-term uncertainty, we are managing the business and making decisions for the long-term. Consumer interest in sport, fitness, health and wellness has never been greater and Nike's market opportunity is as large as ever. While short-term consumer demand may continue to be impacted, we are focused on moving faster against the most important elements to position Nike for the long-term: deepening relationships our three Brands have with consumers, scaling direct connections with contactable members, expanding capabilities to manage a rapidly growing digital business, and transforming and elevating the marketplace.

Second, we will continue to optimize supply and demand with speed and agility, maintaining healthy inventory levels and increasing full price realization. Capabilities like Express Lane, now operationalized in all four Geographies and representing almost 20% of our total business, enables increased flexibility and responsiveness in serving consumer demand while driving higher profitability.

Third, we will capitalize on the relative speed of our recovery and our financial strength by accelerating investment levels from the first half. Our investment priorities will be focused on a few key areas:

- We will begin to rebuild investment in Demand Creation, activating against major sports moments, athletes and innovation, and expanding the reach and impact of significant growth opportunities in Women's, Apparel, Digital and our Jordan Brand. We expect Demand Creation as a percentage of revenue will gradually increase versus recent quarters, although new capabilities and a member-focused digital marketing model will enable greater return on investment over time.

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- We will create a digital-first supply chain built on a strong technology and analytics foundation, in order to optimize service, cost, convenience and sustainability. We already see return on our investments in North America, where we ramped up our new regional service center in Los Angeles to serve peak holiday demand aided by capabilities from our Celect acquisition. As a result, we delivered over 100% Nike Digital revenue growth in Q2 in North America while lowering digital fulfillment cost per unit versus the prior year.
- We will accelerate the technology enablement of our operating model, to change the speed with which we directly engage with and serve the consumer – from online to offline services, digital marketing, personalization and digital supply and demand management. In North America, we leveraged new tools to make dynamic pricing decisions during Black Friday. We also continue to scale RFID capabilities across our stores in EMEA, enabling better product allocation and replenishment, and we began testing consumer facing RFID capabilities like self-checkout in our stores in Korea.
- In the marketplace, we will increase the pace of opening new stores as we create an elevated, differentiated and digitally connected experience for our consumers. In Q2 alone, we opened two Nike Live and six Nike Unite stores, which is our next generation factory store concept. And we plan to open an additional 30 stores in the second half of this fiscal year, and even more in fiscal year '22, enabling accelerated growth in Women's, Digital and Apparel.

And finally, we will drive strong free cash flow growth and consistent balance sheet management, as we target leverage down towards pre-pandemic levels. We recently announced a 12% increase in our annual dividend, and when appropriate, will resume share repurchase activity.

The underlying benefits from our business shift towards Nike Digital and Nike Direct are becoming increasingly clear. And these principles will enable us to move faster towards our long-term strategic vision of Consumer Direct Acceleration.

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

- NIKE, Inc. Revenue grew 9% in Q2, up 7% on a currency neutral basis, as Nike Direct grew 30% led by strong Nike Digital growth of 80% and partially offset by declines in our wholesale business.
- Gross Margin decreased 90 basis points in Q2 versus the prior year resulting from higher promotional activity to reduce excess inventories. Performance in the quarter was impacted by non-recurring costs associated with the organizational re-alignment, which reduced gross margin by approximately 30 basis points.
- SG&A declined 2% in the quarter as disciplined expense management and lower marketing spend on brand and sports events was partially offset by increased investments in digital marketing. This quarter, SG&A was also negatively impacted by approximately 135 million dollars of non-recurring costs associated with the organizational realignment.
- Our Effective Tax Rate for the quarter was 14.1% compared to 10.7% for the same period last year primarily due to changes in our earnings mix and an increase in tax associated with recently finalized U.S. tax regulations and increased benefits from stock compensation.
- Second Quarter Diluted Earnings Per Share was \$0.78, up 11 percent versus the prior year.

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

In North America, Q2 revenue grew 1% and includes non-comparable items in the prior year, such as the sale of Hurley and the transition of our NFL licensed business to Fanatics. And Q2 EBIT increased 17% on a reported basis.

Q2 provided more clear evidence on the state of our marketplace transformation and shift in channel mix. Despite a 14% decline in wholesale revenue and traffic in Nike-owned stores remaining well below prior year levels, North America was able to grow 1% overall due to more

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than 100% growth in Nike Digital.

Nike Digital now represents nearly 25% of our North America business, and it continues to serve a broader consumer base. In Q2, Member Days drove records for weekly member metrics and engagement, with strong Nike Digital performance in Women's, Apparel, and sub-\$100 product all areas of significant growth opportunity.

Within wholesale, we continue to shift the marketplace towards differentiated retail. And to give you some context on our progress leading up to pandemic, over the last three years we have reduced the number of undifferentiated accounts in North America by roughly 30% while still delivering mid-single digit growth on average. And in Q2, as we managed product supply in response to the pandemic, we took further steps towards account and channel consolidation by re-prioritizing product allocations to benefit our strategic partners and Nike Direct. As a result, undifferentiated wholesale revenue declined at an even faster rate compared to total wholesale. Looking forward, over the next two years we will more aggressively accelerate change with larger undifferentiated accounts, as we and our strategic partners together re-profile the shape of the marketplace and recapture short-term demand dislocation.

In EMEA, Q2 revenue grew 12% on a currency-neutral basis and EBIT grew 29% on a reported basis.

Despite a resurgence of COVID-19 and lockdown restrictions in November, EMEA continued to drive momentum in Q2 through strong weekly sales growth and higher full price realization.

Nike Direct grew 25% on a currency neutral basis and wholesale grew 6% in the quarter, led by strong double-digit strategic partner growth in JD Sports and Zalando, partially offset by double digit declines in undifferentiated wholesale. Nike Digital grew nearly 100% driven by Cyber Week that broke records across revenue and member engagement. In our Nike-owned stores, we continued expansion of services to consumers. We piloted virtual expert sessions at Niketown London driving increases in conversion and basket size with plans to scale this capability across EMEA. And we utilized digital queuing and additional self-checkout options to improve the consumer experience and safety.

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Our Express Lane offense in EMEA once again drove significant growth in Q2, increasing more than 30% versus the prior year. This is a key enabler to navigating the current environment through a more flexible inventory strategy. We lowered futures bookings for holiday and leveraged Express Lane to replenish inventory on a significantly shorter lead time and responding to current retail trends.

And with the recent lockdown measures announced this week, we will be agile and manage ongoing uncertainty by leveraging our operational playbook.

With that, let's turn to Greater China, which achieved its first \$2 billion quarter and grew an incredible 19% on a currency neutral basis in Q2, with EBIT growth of 28% on a reported basis.

As John mentioned earlier, Singles Day drove significant growth in the quarter with over a half a billion dollars in digital demand. In order to fulfill the record level of orders, we implemented several initiatives to maximize flexibility and responsiveness in our supply chain. From enabling multi-node network fulfillment to employing robot delivery and green packaging, the Greater China team was prepared to deliver on elevated consumer expectations. And it paid off as we shipped out all units within 48 hours and delivered nearly half with same day or next day delivery.

And Digital wasn't the only growth driver across Greater China. Every marketplace channel grew versus last year, including year-over-year growth in traffic in our Nike-owned stores the first quarter to achieve this since the start of the pandemic all while continuing to expand conversion rates versus the prior year.

Finally, in our APLA geography, Q2 revenue grew 5% on a currency neutral basis and EBIT grew 12% on a reported basis.

Nike Digital grew more than 90% on a currency neutral basis as we significantly expanded our Digital footprint with the local launch of Nike dot com in Mexico and through key digital partnerships across Mexico, Japan, and Southeast Asia.

We opened the first Nike Unite store globally in Korea and this generated the highest revenue in

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the first ten days of any Nike store opening ever. Nearly 90% of transactions were linked to a member and its indicative of the broader engagement we are seeing across the Geography and the strength of our membership offense.

In December, we successfully transitioned our business in Brazil to a strategic distributor model in partnership with Grupo SBF, the largest Sporting Goods retailer in Brazil and across Latin America. We look forward to continuing to serve our consumers in Brazil through a more efficient and profitable operating model. That being said, Nike and Grupo Axo have mutually agreed to terminate the Sale and Purchase Agreement for the transition of Nike's business in Argentina, Chile and Uruguay. We will continue to own and operate the businesses in this region in the near-term while we assess future prospects to move to a distributor model in all three countries.

I will now turn to our financial outlook. Fiscal '21 continues to be dynamic, including a new wave of government restrictions implemented across Europe and parts of North America. We remain focused on what we can control, deepening our consumer connections while we manage risk and uncertainty in this challenging environment, we are tightly buying inventory and are focused on ensuring the long-term health of all of our Brands and product franchises.

With that in mind, we are increasing our full year outlook for Revenue and now expect low teens growth versus the prior year. In the second half, we will continue to take a cautious approach to supply and demand to maintain healthy marketplace inventory amidst continued uncertainty and to ensure that we set a strong foundation for growth and profitability in fiscal year '22 and beyond.

Our Gross Margin outlook is also improving, with stronger than planned return to normalized inventory levels and lower than expected markdown activity across our portfolio. For the full year, we now expect gross margin to expand up to fifty basis points versus the prior year, including 35 basis points of foreign exchange headwinds. We expect to continue to see quarterly sequential improvement, with Q3 gross margin expansion to be roughly flat versus the prior year.

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q2FY21 NIKE, Inc.**

*December 18, 2020*

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The following material represents prepared remarks for NIKE, Inc.'s earning conference call and is not an official transcript. These remarks are provided only for reference purposes until an official transcript is made available. These prepared remarks do not reflect questions asked by participants in the conference call or responses from NIKE, Inc. management, and information presented by NIKE, Inc. during the conference call may differ materially from these prepared remarks. Information contained in these remarks was current only as of the date of the conference call and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in these prepared remarks and disclaims any obligation to do so.

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For the full year, we expect SG&A will now grow low single digits driven by increased variable costs associated with our improved revenue outlook, as well as amplified investment in Demand Creation to further strengthen our Brands and drive higher member engagement.

Across gross margin and SG&A, we continue to expect approximately 315 million dollars of non-recurring execution costs associated with simplifying our organizational structure, of which approximately 220 million dollars was incurred in the first half of this fiscal year.

And last, we expect our Effective Tax Rate to be in the mid-teens range reflecting an increase in tax associated with finalized U.S. tax regulations.

Nike is navigating the current environment with an even clearer vision of our Brand's long-term future, along with a sharp focus of near-term and long-term priorities. The team is highly engaged and executing with a passion to win.

While we expect continued volatility in the short term due to the pandemic, a faster first half recovery has mitigated the largest operational risks. We are now better positioned to accelerate investment in our business and create even greater competitive separation as we pursue our full potential with consumers around the world.

I could not be more excited about the future.

With that, let's open up the call up for questions.