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 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 the 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, 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 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.

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 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, 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 the 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. 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 Single's 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 engage with consumers on Single's Day, bringing more than 4 million new members to NIKE. Overall, Single's 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 and innovation and our incredible brand momentum. Let's start with product and innovation. Innovation has always been our life blood 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. This 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 live stream with Tencent in Greater China, driving deeper connection to local hoops culture, and we launched the Kyrie 7 by announcing four color ways 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 know of 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 kid's business in North America with a plan to increase to 25% of our Kid's assortment next summer.
Finally, sustainability will always be core to our innovation efforts. 85% 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 slowdown. In coming quarters, new innovations will include exciting new women's products 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 unrivalled. 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 of global scale also continues to expand our leadership position. As I 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 number one 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.

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.

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 live streaming, resulting in 100% sell-through of the Air Jordan 4 PSG in under two minutes. This live streaming 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 live streaming studio in Greater China just in time for Single's Day.

Simply put, the NIKE brand is strong. We have a scale that's unparalleled and a brand is creating meaningful connections everywhere the swoosh exists. Just look at our results this quarter. Our brand 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.

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 you more detail on our playbook. 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, Executive Vice President & Chief Financial Officer:**

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 2021 are 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 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 that 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 2021 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 realigning 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.

Now, as we look ahead to the second half of fiscal 2021 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 and 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.

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 select 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 2022, 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, we’ll 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.

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 nonrecurring costs associated with the organizational realignment 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 of nonrecurring 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% 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 license 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 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 of our progress leading up to the 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 manage product supply in response to the pandemic, we took further steps towards account and channel consolidation by reprioritizing product allocation 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 reprofile 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 and 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 utilize digital queuing and additional self-checkout options to improve the consumer experience and safety.

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 leader time and responding to current retail trends. And with the recent lockdown measures announced this week, we will be agile in managing 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.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 the first 10 days of any NIKE store opening ever.

Nearly 90% of transactions were linked to a member, and it's indicative of the broader engagement we're 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 2021 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 2022 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 50 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.

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 of nonrecurring execution costs associated with simplifying our organizational structure, of which approximately $220 million 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 for questions.
QUESTION AND ANSWER SECTION

[Operator Instructions]

Operator: Our first question comes from Adrienne Yih with Barclays. Your line is open.

<Q – Adrienne Yih >: Good afternoon, and congratulations on the progress. Really nice to see the inventory ahead of plan. Sort of sticking with that thematic on inventory, I was wondering if you could talk about the quality or the mix of the inventory entering this next quarter. Are the promotional aspect of it behind, were they, was the promotional piece of the business in the sub-$100 category or were there any characteristics that we can glean from the promotional activity? And then as you look forward to the inflection sort of the global reopening, how are you thinking about the capacity to chase inventory particularly in the high-heat product? Thank you very much.

<A – Matt Friend>: Sure, Adrienne. Thanks for your question. As a starting point, as we mentioned several quarters ago our focus has been on managing supply and demand and we talked specifically about our focus of trying to normalize inventory by the end of the second quarter, and so the work that we’ve done around the world, not only to cut supply, but also to work with our marketplace partners and to try to capture and drive demand over these past six months has been significant in order to be able to put us in this position that we're in today.

I mentioned in my remarks that we've seen markdown levels which continue to be worse than the prior year, but better than we had anticipated and better broadly than what we're seeing across the rest of the marketplace, indicative of the strength of our brand, and so as we finish this quarter, the health of our inventory and the health of the inventory across the broader marketplace is exactly where we were hoping for it to be.

As we look forward, we're obviously still in the midst of a pandemic and so I've said a couple quarters in a row now that we continue to take a cautious approach to supply and demand management as we look at the second half. We're still in a pandemic and we know things won't be linear until we see the pandemic and the virus under control or contained, and so what we've been focused on is ensuring that we protect the value of our brands and our product franchises and ensure that we set the company up for healthy growth and profitability in fiscal year 2022 and for the years after that, so that's really what's been guiding our approach.

I did mention the Express Lane in my remarks and it's a tool that we've been using around the world that's almost 20% of our business today. It's not equally 20% across every geo, it's largest in EMEA, as we've been talking about for several quarters and it's absolutely a useful tool for us that we continue to intend to use to grow as a larger portion of our business, but also, as a really critical lever to be able to manage supply and demand as we're reading the marketplace on a weekly basis. So that's going to end up being a critical component of our future as we look forward in a much more responsive way than the way we've been able to operate in the past.

As far as high-heat product and those things, we're managing those styles and those franchises the same way we manage the rest of our franchises, and so we continue to have plans and we use those as great tools to create brand energy in the marketplace but also to give consumers what they love and we're not managing those franchises any differently than we would manage any other franchises in this time. We're managing them for the long-term and that's what we will intend to do in the second half.

<Q – Adrienne Yih >: Very helpful. Best of luck, and Happy Holidays.

<A – Matt Friend>: Thanks. Same to you.

Operator: Our next question is from Bob Drbul with Guggenheim. Your line is open.

<Q – Bob Drbul >: Hey, guys. Good evening.

<A – Matt Friend>: Hi, Bob.

<Q – Bob Drbul >: Hi. Just the first question that I have, I guess when considering the call date, what were the gating factors between choosing Friday evening or Saturday morning?
Well, we called your assistant and we asked her when you would be most available, and she thought this would be a better time.

Always, I wouldn't miss it, wouldn't miss it. So, I guess the other question that I have is can you talk, in your specifically, the play between some of the lockdowns and the various countries and your digital and your brick-and-mortar, can you just talk about how that's really materializing? And if you could maybe just talk through a little bit here in the U.S. what you're seeing in some of the markets where the virus is spreading and impacting the stores over the last few weeks. Thanks.

Sure, Bob. So what I would say is that the situation has been dynamic since March, and we've watched wave after wave of the pandemic hit different markets in different timelines around the world and really, the only marketplace where we've seen continued sort of trajectory in terms of managing the virus has been China, but we expect the marketplace to continue to be pretty dynamic. I think I mentioned that we're seeing waves of more restrictions happening across Europe and in parts of the U.S., and we're expecting that the situations going to continue to be unique here as we finish the holiday season and enter into the later part of winter. However, we are looking at and have raised our guidance to low-teens revenue growth because we feel like the momentum that we have, the brand strength and the playbook that we're employing is giving us confidence that we can continue to manage through this. As it specifically relates to what we're seeing now, our retail sales across the marketplace for holiday have continued to track very well versus the prior year, but in Europe, where we're seeing more restrictions of shutdowns, physical retail continues to be the area where we're seeing the largest impact. Stores continue to open and close on different cadences. They have to manage through traffic capacity constraints, and at this point in time, as of today, about 80% of our stores are open in EMEA, but many of them are still operating under modified and/or reduced hours. So the situation is dynamic to say the least.

We're also watching carefully potential bottlenecks in the supply chain, and to-date we've been able to continue to meet EDDs with consumers on our Digital business, and we're leveraging the relationships that we have with carriers and otherwise in order to manage our business through this time, but it's definitely something that we're watching, Bob, and it's dynamic.

I guess where I'd probably finish is just to say that we know the path isn't going to be linear, and we've been saying that for several quarters, but we think we're better-positioned at this point to manage through the uncertainty probably than we were prior to the pandemic. We've learned so much over the last nine months and the way that we're operating as a team gives us a lot of confidence that we can continue to manage through this, and as I said earlier, we're just focused on setting a strong foundation for growth and profitability in fiscal year 2022 and beyond and so we're making decisions in the midst of the uncertainty here to do that and to position ourselves to accelerate once the pandemic is behind us.

And, Matt, maybe two things I'd just add on. One is just a shout-out to our stores, our direct team and our stores team, who have just been just amazing through this period of the open-close, open-close. Our stores athletes, and our frontline store athletes, and our entire storage team, and supply chain and distribution team and they've been sort of the unsung heroes I think through what has been a very dynamic time. And as Matt said, while we're opening and closing physical retail, digital is open, 7 days a week, 24 hours a day, and what's fascinating to watch is the consistency of the growth across Digital, and so I think there's increasing evidence of when a consumer wants to get something if physical retail is closed they're coming to us digitally and our ability to reach consumers digitally in a variety of manners is just getting better and better as this pandemic goes on.

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

Hey, guys. Thanks for all the detail here today and taking our questions, and congrats on a nice quarter. I want to ask you, John, on North America on wholesale, I think you mentioned or I guess, Matt, you mentioned down 14% in the quarter a bit of a deceleration from last quarter, and you did talk about accelerating the strategy and transforming the end-markets, but I know there was a very purposeful focus on getting the inventories aligned. So I'm curious, as you look at the North America wholesale outlook, is second quarter, is it smart to think
that that might be the peak of the pullback in the near-term and that drag gets a little better from here with the inventories more aligned? Or would you say that to think about it still being down at that level as you go forward, you kind of keep working on the marketplace?

**<A – Matt Friend>**: Sure, Michael. I'll take that, and then, John, if there's anything you want to layer in here, please do. Yeah, so to overall wholesale was down 14% in the quarter and we referenced that we had to make some real-time decisions in the quarter in order to address, in order to address the realities of the situation in the marketplace, and I think in the last call, I said something along the lines of or maybe it was two calls ago I said something along the lines of as we were adjusting forward-looking supply, we took a more aggressive action in North America because we did not believe the recovery curve in North America was going to look the same as what we expected to see in China, Asia or even in Europe, given the way that we were seeing the different country's responses to the virus.

And so when we got close to the second quarter and into the second quarter, we had to make some decisions about how to allocate that inventory and we focused it on our strategic partners and serving consumer demand through NIKE Direct, and so we saw a greater reduction in undifferentiated wholesale.

As we look forward, we're going to be more aggressive in adjusting our plans with undifferentiated wholesale, but what I would tell you is that we believe that we, and our partners, are very well-positioned to capture demand that gets dislocated from changing the profile and the shape of the marketplace and so I think looking at this quarter, I think this quarter was more indicative of the way we manage supply and demand in the face of the pandemic and the challenges that that created in the short-term versus it's an indication of trend for that line of channel of business, okay?

As we look forward, we are going to be more aggressive with larger, undifferentiated customers that we have been working with and we're working closely with our strategic wholesale partners in a city-by-city, mall-by-mall, street-by-street basis to work together to determine how we're going to recapture that demand. And that's absolutely our plan because we believe longer-term as we've said before, we believe that a premium consistent experience for consumers across the marketplace connected to digital is the type of market foundation that we think we need as a premium brand to create and to be the foundation for long-term growth in the North America marketplace.

**<Q – Michael Binetti >**: Could I follow that with a question on China? It's nice to see the EBIT margin there return back to expansion in the quarter. Some of our work suggests there's quite a bit of inflation in that market in areas like freight but more so in marketing and digital customer acquisition cost. Does the top line trajectory there offset a lot of that inflation? Are the prior peak margins that we saw in that market still attainable? Or is it – do you feel like that market more appropriate to focus on profit dollar growth than margin expansion back to historic levels as we come past COVID here?

**<A – Matt Friend>**: Yeah, it's a great question, and as we've been working our way out of COVID in China, the thing that we're just reminded of is how large of a market opportunity that is for us, and we continue to see it again this quarter. We're not able to meet the full demand that we see in that China marketplace and we continue to see the strength of our brand increasing quarter after quarter.

I think that as it relates to cost, we've been in a really high, we've been driving, and forgive me for forgetting the number, but in the 10's, 20s of quarters of double-digit growth in that Greater China marketplace and we've done it while maintaining a very strong profit profile. So, what you saw over the last two quarters was more indicative of us working through the dynamics in China, with inventory and those things as a result of managing through COVID versus there being an underlying theme of profit erosion long-term.

I think we believe that the China marketplace continues to be a great opportunity for us, and we manage the business top to bottom, Michael, so we're looking at pricing. We're consistently looking at opportunities to grow the business in dimensions where we have less of share, but we're really pleased to see the growth in our market share in that marketplace and we believe that profits will continue to grow at an accelerated rate over time.
<Q – Michael Binetti >: That's great. Thank you.

<A – John Donahoe>: Matt, what I'm talking about is the strength of our brand in China. Both NIKE and Jordan, very, very strong, and I think that is partly what's driving the share gain there.

<Q – Michael Binetti >: Thanks a lot, John.

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

<Q – Kimberly Greenberger >: Okay. Great. Thank you so much. That digital growth is really impressive and sustaining at such a high-level consistently. I'm wondering, do you think that's a function of just the additional digital touchpoints you've acquired this year or a more savvy digital marketing strategy? I'm just wondering if you could hypothesize about some of the drivers there, and when you take a look at that digital P&L, I think you mentioned over 100% growth, for example, here in North America or in the U.S., helped by the new LA Regional Service Center, are you hitting the point where you're starting to see sort of inflection in your incremental margins in that business either for scale or because of some of the unlocks like in that regional service center? Thanks so much.

<A – John Donahoe>: Matt, why don't I take the first part of Kimberly's question and you take the second?

<A – Matt Friend >: Sounds good.

<A – John Donahoe>: Kimberly, yes. Our Digital business has been experiencing tremendous growth 80% globally, 100% in the U.S. Our NIKE app grew 200%. Our NIKE mobile app grew 200% this quarter, and I think what's underlying that is that digital is the new normal in consumer behavior and we believe the trends that we're seeing are here to stay. In fact, as we said now in a couple of quarters, we believe that we've well-passed the 30% of our overall business and we think it'll be more in the range of 50% in the near future, and it's an area we have a clear lead.

When you ask about what's driving it, again, we go back to a simple mindset through the eyes of the consumer, which is consumers want to get what they want, when they want it, how they want it. And that means, obviously great digital experiences mobily through our Apps, SNKRS and others, online, but also consumers actually, they don't differentiate digital and physical in the same way they used to, so they may want to Buy Online Pick Up In Store, they might want to buy online, have it shipped from store, they may want to go try it on and then have it shipped home, and so we are driving our digital transformation end-to-end. So, yes, it's impacting our digital experiences, no doubt, that's getting better and better where it's better search, the digital experiences are getting better each quarter. I'll come back to membership which I think is key. As Matt said, we're building on our stores working with our strategic partners that offer that consistent, seamless experience that consumers expect and frankly, the supply chain, don't underestimate the impact of this digital on translating our supply chain. Matt talked about what we've done in Greater China, 300% increase in digital fulfillment capacity in North America, 400% in EMEA. Robots played a huge role over 1 million boxes shipped by robots and the productivity that comes from that, so to be a great digital company you've got to be end-to-end, but I would say if there's one thing I'd highlight is the backbone is membership, right? Having a direct connection with consumers, and we are growing our membership and it's simple.

How do you bring more people into the top of the funnel and establish a direct connection with them? How do we engage them, engage through engaging whether it's NIKE Running club, Nike Training Club, SNKRS app, live streaming is the way to engage consumers, and what we know is more engaged consumers buy more. And one of the most I think exciting things we saw in the quarter was these member days where it's really the first time we have really targeted our members, provided more personalized recommendations, we've allocated scarce product for them, offered them first access and the conversion rates were very impressive and so I think this is a virtuous cycle that if we get better and better at the whole membership funnel, the whole funnel, we can have a more direct connection with consumers, we can offer more personalized and targeted offerings. I think the opportunity to expand with women digitally is significant, so it's no one thing. And I learned this from my days in the digital world, it's a lot of little things that make a difference to be a great digital company and we're a clear leader here, I think we're extending our market share lead digitally and we're going to continue doubling down.

Matt, you want to take the second piece of Kimberly's question?
Yeah, sure, I guess what I'd say Kimberly is your question specifically about the regional service center and John sort of hit it. Our focus at the start is capacity. We needed more capacity because we were watching demand shift rapidly to digital, and so not only did we open that regional service center in LA, but we leveraged omni-channel capabilities in our existing distribution centers in order to be able to do the 300% or 400% increase in volume that John referenced to fuel that business.

As I think about the impact on the financial model, and I've probably said this a couple times before, but I'll use a frame that John just used. Getting consumers what they want, where they want and how they want. We're investing in technology in the supply chain, so that we can better-predict where to put inventory, where we think consumers want the inventory, and the benefits for us in that are in gross margin. It's more full-price realization, it's lower-cost to fulfill, and frankly, it's better for the environment because it's less shipping and its less moving stuff around so it's better. We're investing in technology, to create O2O capabilities in the marketplace, and while we don't have the largest store footprint today relative to maybe pure vertical retailers, we are investing in stores with the intentionality of having stores in more places with O2O capabilities with capabilities like buy-online-pick-up-in-store, more pick up points, shipping from store, shipping to store, so that we can serve that demand more closely to consumers. Again, lower-cost, better for the environment, better sustainability.

And then I guess the last thing I'd probably hit on, and John referenced it vis-a-vis member days and the member funnel we're spending, we're investing a lot of money in digital marketing today, but the marketing, the opportunity that we see with greater acknowledgment of who our consumers are and how they shop across the marketplace is more personalization and it's a greater return on those marketing dollars because we're moving deeper into the funnel. We know who those consumers are, and we have the ability to react and reengage them at a lower-cost to us or a lower acquisition cost which should improve either create leverage in our demand creation over time and/or enable us to use the dollars that we're using to drive a greater revenue plan, so those are some of the things that we're excited about.

Those are, are we seeing fruit of it today? We're starting to, but what you are seeing, Kimberly, is we can see more clearly though where the biggest pockets of opportunity are, and that's where we're focused and that's where we're investing to create capability, so that we can drive these outcomes as we look several years out. So, this is where we're focused as a team and it's what's going to fuel our financial model over the next several years.

Fantastic. Thank you so much.

Operator, we have time for one more question.

Our last question is from Paul Trussell with Deutsche Bank. Your line is open.

Happy holidays, and great quarter, team.

Thank, Paul.

Wanted to ask about margins. Maybe a little bit more detail and color on the factors impacting both GPM and SG&A, both in terms of the second quarter and also your second half guidance, in particular, I would love to hear a little bit more about demand creation, which was obviously down double-digits this quarter and sounds like it's going to inflect up a bit, and then also, the profile of profitability of your DTC and digital business. Obviously, that's accretive, but certainly, to the extent that you are scaling, obviously, meaningfully on the top line, and also, earlier, you highlighted that you're finding ways to reduce per unit fulfillment cost. I'm just wondering, to what extent is that channel's margins actually seeing improvement overall? Thank you.

Now, Matt, that is a great last simple question for the year and I'm going to give you full permission to answer that in a very concise manner.

Well, I guess where I'd start, Paul, is when we look at our margins in the second quarter, we're very pleased with where gross margin performance landed. We said gross margin in the short term would be more
of a function of how we manage supply and demand and so we were more focused on the quality and health of our franchises and restoring inventory levels and that's ultimately what drove our operating plan for the last six months.

We're probably even more so pleased with the speed of recovery because it puts us in a position now where we can look forward and say how do we want to manage the business as we move forward, and as I said earlier today, we're incredibly focused on the things that are required in order for us to achieve that vision of Consumer Direct Acceleration.

So, as we look ahead, our gross margins are going to be roughly flat, is what our guidance is for the third quarter, and that's another quarter of sequential improvement in margin. That's being driven by a higher full price mix in the third quarter and lower discount activity, and that's going to be offset to some degree by factory store liquidation that we talked about last quarter, where we're still planning for more markdowns in that specific channel because we continue to see traffic lagging behind the prior year in that specific channel, so that we can keep conversion rates up.

In the third quarter, I should also say that we're going to, we're expecting to see about 55 basis points of FX headwinds, so we've had about 30 per quarter in the first two quarters of this year, and we're expecting 55 basis points in Q3 and so FX-adjusted the margin looks even better sequentially. And what I'd say maybe as just a little side point on this, is that we think the third quarter will end up being the trough on FX for us. So we've started to see benefits in translation on the top-line, but FX has continued to be a headwind in EBIT through the second quarter, will be through the third quarter, and it'll lessen as we get into the fourth quarter, and then that's where we expect to start to see some inflection from a weaker U.S. dollar and strong growth outside the U.S.

I think that's probably where I'll stop, and I know our team can follow up with you with more questions specifically on the modeling, but thanks, and happy holidays.

Andy Muir: Thank you, Paul. John, were you going to say anything?

A – John Donahoe: Matt and I and Andy want to extend happy holidays to everyone on the call. Thank you for doing the call on a Friday afternoon. Hopefully this frees up a little of the holiday week next week, and please, everyone, have a very safe and happy holiday. And thanks again to all the NIKE teammates around the world for incredible teamwork, resilience and commitment this year. Happy holidays.

Andy Muir: Thank you, all.

Operator: This concludes today's conference call, and you may now disconnect.