FY 2021 Q3 Earnings Release Conference Call Transcipt
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PRESENTATION

Operator:
Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2021 Third 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 our 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 third quarter results. As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about 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'll 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. First and foremost, like all companies around the world, we're pleased by the recent positive news of the vaccine rollout. We remain optimistic, though we're prepared to operate through continued volatility until the virus is fully contained. Our teams have proven their agility to operate through uncertainty, while also staying focused on the long-term, and we once again demonstrated that agility in Q3. It's why I wouldn't trade our position with anyone.

The Power of NIKE is our consistency and the strength of our global portfolio. Throughout the pandemic, we have stayed focused on our unique advantages and we've been resolute in fueling innovation, and our brand is as strong as ever. I'm proud of our results this quarter. Q3 saw us continue to deliver consumers new products, new campaigns, the energy from our roster of athletes, and more. Our strategy puts the member at the center and keeps us in the lead, and we will continue to drive even further competitive separation.

And still, we push our own expectations of ourselves. Last week, we released our 2020 Impact Report and announced our new 2025 purpose targets. Our new five-year purpose targets offer a roadmap to 2025, outlining clear goals, action plans, and accountability. And for the first time, that accountability now includes linking executive compensation to our purpose goals.

Our 2025 targets will keep us focused on accelerating our efforts against a wide range of priorities, from sustainability to representation, to investing in the future of sport in communities around the world. I encourage everyone to take a look at the report at purpose.nike.com.

Ultimately, this isn't just the right thing to do, it makes great business sense. Setting purpose targets for ourselves creates long-term value, raises the bar for our industry, and redefines our own potential for positive impact in the world.

Our commitment to constant improvement is why I continue to be so amazed by this team. I have never been more confident in our leadership and teams around the world as we stay on the offense, accelerating our long-term strategy. And as I said, this continues to be a dynamic external environment, but I am proud how adaptable NIKE is. No matter what happens, COVID spikes, forcing store closures, port congestion on the West Coast, and more, this team responds with solutions. We adjust and we win.

Our brand continues to deeply connect all over the world. We remain consumers' number one favorite brand in all 12 of our key cities in both Men's and Women's businesses. We're also seeing particularly strong connections in Greater China, where our strong portfolio of brands, including Jordan and Converse, is helping to extend our leadership position. All over the world, the relationships we have with consumers cannot easily be replicated.

Our brand differentiates us driven by the unique competitive advantages that we enjoy. First, NIKE's connections with consumers are driven by sport and cultural authenticity. Our roster of athletes is the greatest in the world. Naomi Osaka continues to emerge as a truly global sport icon, having won four Grand Slam titles at only 23 years old. Kylian Mbappé became the youngest footballer ever to score 25 Champions League goals, leading Paris Saint-Germain into the quarterfinals. The NBA All-Star game was proof, yet again, of our dominance in basketball with LeBron's team taking on KD's, Giannis winning MVP, and a young core of Jordan Brand superstars led by Zion and Luka. And the energy of March Madness tips off today with Jordan and Nike Schools making up 10 of the top 16 women's teams and 15 of the top 16 men's teams. No brand connects with consumers with the power and culture of sport like NIKE, and we pride ourselves on our leadership role to drive hope and inspiration all over the world.

Second, our brand is powered by our global scale. This is a particularly critical advantage as we continue to fuel our digital transformation. We've had tremendous success in digital, quickly pivoting to serve consumers as they shift to digital channels. But even as this consumer shift is felt across industries, NIKE's digital transformation remains a unique advantage. Scale matters. The strength of our brand allows us to stay personal, at scale, with consumers in all of our geographies, and more than ever, the portfolio effect of being a truly global brand is powerful.

Third, we stay at the front of the pack thanks to our compelling consumer experiences. Last quarter, we announced the launch of SNKRS Live, our first product drop via live streaming. In Q3, we doubled the number of countries with live streaming adding Japan, Germany, and Italy. We're seeing phenomenal engagement for this live interaction with average viewing duration doubling to over 15 year – 15 minutes, I wish it were 15 years, well-above the industry norms. We're also creating content to connect members to the sport and sneaker community, content that drives the highest engagement on SNKRS. So whether it's through the SNKRS App, our activity apps, platforms like TikTok and more, we continue to find compelling ways to deliver an authentic NIKE experience in digital.

And fourth, the Jordan Brand had a very strong quarter, growing double-digits in Q3. This growth was broad-based led by our biggest growth opportunities: digital, international, apparel, and Women's. In fact, Jordan's Women's business was up nearly triple-digits, a strong statement of how the brand continues to serve a broader set of consumers. Q3 also saw the launch of the Air Jordan 11 'Jubilee', one of the largest and most successful footwear launches ever, with more than $175 million in revenue. We're incredibly confident about the continued growth opportunity for the Jordan Brand moving forward.

As always, our brand is propelled by our unmatched innovation investment and pipeline. Innovation is at our core, reflecting not just our foundational values, but the values we share with consumers. We don't just innovate for the elite athlete, we use innovation and design to solve problems for all consumers, no matter their sport or style of play. And we consistently bring fresh, new product to market supported by compelling storytelling that helps drive consumer demand.

At the core of our innovation engine is our edge in performance and we continue to use this edge to evolve some of the most popular products for everyday runners. This quarter, we focused on a key problem for runners with new footwear that continues our mission to unlock injury prevention. The ZoomX Invincible Run offers a brand- new look for NIKE Running with increased foam in the mid-sole. This creates a soft ride that makes running feel easy with incredible energy return, and it's designed to help reduce running-related injuries.

We also just launched the React Escape, a shoe specifically designed for the female runner. The React Escape's silhouette, materials, and design details are all aimed at new runners, and it's seeing great sell-through as it encourages more women to pick up the sport.

We're also driving our sustainability agenda through strong product innovation. We've set ambitious goals around the use of sustainable materials throughout our line and we'll continue to invest in new materials and methods of make to maintain our leadership position here.

Last month, we launched Cosmic Unity, our first performance shoe under our Move to Zero initiative. This initiative, which moves us toward zero waste and zero carbon, embraces circular design as a guiding principle. Cosmic Unity, which has already been worn on court by some of the NBA's best, including

Anthony Davis, is NIKE's first performance shoe made out of at least 25% recycled content by weight and offers just a hint of our future with sustainable product.

We're also resolute in our pursuit of making sport a daily habit for all athletes. A great example of this work is the Nike GO FlyEase. Its easy on, easy off design solves for an ambitious North Star, the creation of a truly hands-free shoe. This is a shoe for everyone, from elite athletes to parents with their hands full. We're initially launching Nike GO FlyEase first for our most engaged members with broader consumer availability coming later this year.

And we continue to push our industry in creating product through better consumer insights. This quarter, we acquired Datalogue, a data integration platform that will help us process, analyze, and act on the data we enjoy thanks to our scale advantage. This lets us harness the full power of our data, turning it into more actionable insights and enabling greater speed. As part of our recent organizational realignment, we also put our data teams alongside the creative teams to unlock this opportunity. NIKE has always married the art and science of product creation, and the move toward deeper and more dynamic insights, along with our talent and investments in data science and machine learning, creates a capacity that no other brand has.

Let's quickly talk about the Tokyo Olympics and Paralympics. Despite the unique circumstances surrounding the games, we look forward to leveraging that world stage to showcase our innovation and purpose commitments. Our pipeline and cadence has continued its pace, including some new innovations in the scaling of a few of our recent innovation platforms. This summer in Tokyo, we look forward to sharing the next-generation of FlyEase and its mission of inclusive innovation as well as delivering some new and exciting women-specific innovations.

The last thing I'd like to discuss is digital. We're taking even greater advantage of our vast digital opportunity as we create the future of retail. We know that our consumers want a consistent, seamless, and premium experience. And so alongside our strategic partners, we continue to consolidate the marketplace to give our consumers that premium experience. Our owned digital business is thriving, with growth of 54% on a currency-neutral basis during the quarter. This growth was led by North America, which had its first-ever quarter with $1 billion in digital revenue.

As you know, we set a bold vision for digital across owned and operated and partnered being 50% of our business in the long-term. We have made significant progress to-date, increasing the digital mix of our business by more than 10 points in Q3 versus the prior year.

NIKE's ability to sustainably grow digital for the long-term is rooted in our member connections and compelling experiences that only NIKE can offer. And our members are more engaged than ever with an over 60% increase in monthly engaged users for the quarter led by our SNKRS App, where we're seeing four times the engagement in monthly active users versus last year.

This heightened engagement is translating into buying. We're seeing continued member growth outpace total digital growth as buying members increased 80% versus the prior year, and these connections extend beyond digital. In our owned stores, member demand penetration rates are seeing meaningful increases, enabled by robust store training programs, member-specific promotions, and enhanced account linking capabilities. This is critical as we strategically focus on better serving and driving repeat engagement with active high-value members across all of our channels.

In the end, NIKE is staying on offense and we're focused on extending our leadership position. We have a proven playbook led by digital, and everything we've seen makes us more confident in our future. Our focus is on the long-term, and we're not slowing down.

And with that, I'll turn the call over to Matt.

Matt Friend, Executive Vice President & Chief Financial Officer:

Thank you, John, and hello to everyone on the call. As we've entered into a new calendar year filled with new opportunities amidst pandemic-related challenges, our focus has not wavered. We continue to position NIKE to win today and over the long-term.

We are now one year into managing through these dynamics, and we have met every hurdle with leadership and decisive action. While we are optimistic about the pace o vaccine distribution and how this will enable safe reopening of the global economy in the near future, the effects of the virus continue to create short-term volatility in our business performance.

For example, in Q3, disruption in the global supply chain due to container shortages, transportation delays, and port congestion has interrupted the flow of inventory supply. The result has been supply shortages relative to continued strong marketplace demand. In North America specifically, inventory supply was delayed by more than three weeks, impacting the timing of wholesale shipments and growth in the quarter. In EMEA, additional COVID-related lockdowns caused a higher number of physical retail stores to be closed and/or operate on reduced hours versus the prior quarter.

But our operating priorities remain unchanged, and we're focused on what we can control: optimize marketplace supply and demand with speed and agility, accelerate the pace of direct connections with consumers, and exert our financial strength to move faster towards our long-term strategic vision of the Consumer Direct Acceleration. I am proud of how our teams continue to respond, demonstrating how to win in a dynamic and rapidly changing environment, and our results reflect our team's unwavering commitment to serving our consumers.

John couldn't have said it any better, we adjust, and we win. This is the mentality that will propel us forward as we focus on the future.

Now, as I reflect on the third quarter, I want to highlight two important points. First, NIKE's brand momentum is as strong as ever and we are driving focused growth in our largest opportunities. Our innovation and product franchises are resonating with consumers. This translated into double-digit retail sales growth over the holiday season. We drove a higher proportion of full-price sales with lower markdown activity, and this retail momentum has continued into the spring season.

At our core, NIKE’s a growth company, and we delivered another strong quarter of performance against our largest long-term growth opportunities. Greater China set the pace for our geographies, growing revenue 42% on a currency-neutral basis. We set another record for Chinese New Year, with digital demand doubling versus fiscal 2019.

NIKE Digital grew 54% led by strong growth across our mobile app ecosystem. Demand on the NIKE App grew 90% versus the prior year. Women's drove over-indexing revenue growth for the quarter, including nearly 90% growth in NIKE Digital, and with high double-digit retail sales growth across the marketplace, we are increasing NIKE's market share across our key markets. And last, the Jordan Brand grew 15%, delivering its third consecutive quarter of double-digit growth with incredible brand momentum and a clear formula of growth for the future.

We are exceeding pre-pandemic levels of business and our brand momentum is clear. From our relentless flow of new product and storytelling to our deep consumer connections, our extensive portfolio of athletes and teams, and the scale of our digital platforms, NIKE's positioned to drive high-quality, sustainable, and profitable growth across our portfolio.

Second, this quarter demonstrated how a more direct, digitally-enabled NIKE will fuel long-term strategic and financial value. Our Consumer Direct Acceleration strategy is driving a meaningful and broader marketplace shift and it is transforming our financial model. Our own digital business has grown more than 70% year-to-date and our mix of owned and partner digital now exceeds 35% of our total business.

This quarter, we increased member buying frequency and grew retained buying members versus the prior year and the prior quarter. Looking ahead to fiscal 2022 and beyond, we expect digital to continue to be our fastest-growing marketplace channel, with digital mix increasing towards our 50% vision.

NIKE physical stores are another key enabler to drive our Consumer Direct Acceleration, and our mono-brand store expansion strategy creates an incremental market opportunity for NIKE. New retail concepts such as Live, Rise, and Unite: will create distinctive, authentic, and premium NIKE consumer experiences in the marketplace. They will accelerate NIKE member acquisition at scale, while unlocking higher retail productivity. They will recapture displaced consumer demand as we restructure the wholesale marketplace with our strategic partners. And most importantly, they will accelerate NIKE Digital growth by scaling online to offline capabilities as our physical presence reaches a greater number of consumers.

A great example of this are the two new NIKE Live concepts we opened in Greater China this quarter where member checkout rates reached 90%, paving the way for connected member journeys and member-led digital growth. We look forward to scaling these new retail concepts into fiscal 2022.

As I've said before, this strategic shift to increasingly direct and personalized connections with consumers unlock strategic and financial opportunity for NIKE. This quarter, NIKE Direct gross margins contributed to our overall gross margin expansion of 130 basis points, being fueled by a higher mix of digital, which carries a higher gross margin rate as well as optimization of new pricing capabilities using advanced analytics in North America.

We are also continuing to test and learn within our full-frontal digital marketing activities and our pace of learning is accelerating with so much opportunity ahead. During Q3 in North America, we leveraged data to identify consumer cohorts and feature personalized product recommendations to members, to both activate members who have never purchased and increase repeat purchasing. We expect Datalogue to amplify our speed in analyzing consumer data and inform products marketing, and service recommendations; ultimately increasing member buying frequency, basket size and member retention rates. It is clear that our shift to a more direct member-centric business is beginning to drive strategic and financial value for NIKE, and we are confident we are making the right investments in the areas that matter most.

Now, let's turn to the details of our third quarter financial results and operating segment performance. NIKE, Inc. revenue grew 3% in Q3, declining 1% on a currency-neutral basis as NIKE Direct grew 16% led by strong NIKE Digital growth offset by declines in our wholesale business due to the timing of wholesale shipments caused by global supply chain challenges in North America and mandatory store closures in EMEA.

Gross margin increased 130 basis points versus the prior year resulting from higher full-price product margins due in part to geography mix and favorable NIKE Digital mix partially offset by lower NIKE Direct rate as we continue to manage inventory levels due to COVID-19 as well as foreign exchange headwinds. SG&A declined 7% in the quarter as we shifted certain demand creation initiatives to better align our investments with product delivery timelines and market conditions along with lower operating overhead due primarily to lower wage-related costs versus the prior year and continued expense management.

Our effective tax rate for the quarter was 11.4% compared to 3.9% for the same period last year due to decreased benefits from discrete items and a shift in earnings mix in part due to the impact of the COVID-19 pandemic.

Third quarter diluted earnings per share was $0.90, up 70% versus the prior year. As a reminder, prior year EPS included a $0.25 non-cash FX-related charge associated with the planned transition to a strategic distributor model in South America.

With that, let's turn to our operating segments. In North America, Q3 revenue declined 11% on a currency-neutral basis and EBIT increased 4% on a reported basis. We saw strong retail sales growth over the holiday season and drove clean marketplace inventory due to our first-half supply and demand management actions. However, starting in late December, container shortages and West Coast port congestion began to increase the transit times of inventory supply by more than three weeks. The result was a lack of available supply, delayed shipments to wholesale partners, and lower-than-expected quarterly revenue growth. We expect to capture this delayed revenue in the fourth quarter.

NIKE Direct, however, grew 15% on a currency-neutral basis, led by NIKE Digital growth of more than 50%, and we have seen this momentum continue into March. This quarter, we accelerated analytics capabilities to dynamically adjust pricing and fulfillment alternatives as we balance consumer demand, inventory availability and profitability. We also prioritized available product supply to NIKE Direct and our strategic partners.

Inventory in North America grew 31% versus the prior year with extraordinarily high levels of in-transit inventory due to increased transit times. Inventory units in our distribution centers declined nearly 20%. With strong consumer demand continuing through the spring season and marketplace inventory down high double-digits versus the prior year, we expect continued full-price momentum, despite the short-term supply disruption and elevated levels of in-transit inventory related to ongoing global supply chain dynamics.

In EMEA, Q3 revenue declined 9% on a currency-neutral basis and EBIT declined 7% on a reported basis. Across most countries in Western Europe, government restrictions caused an acceleration of store closures with approximately 45% of our NIKE-owned stores closed over the last two months of the quarter. We have leveraged our supply and demand playbook and specifically Express Lane to recalibrate marketplace inventory.

Excess inventory in EMEA is manageable and lower than during the first wave of lockdowns. Assuming lockdown restrictions begin to ease by mid-April, we expect EMEA inventory to be normalized in the first quarter of fiscal 2022.

As of today, approximately 35% of our NIKE-owned stores are closed, and this situation continues to be dynamic. But in markets where our stores have reopened, we are seeing strong consumer response and continued brand momentum with higher conversion rates and strong comp sales growth year-over-year, complementing strong digital growth.

With NIKE-owned and partner stores mostly closed, we leverage the strength of our NIKE Digital business which grew 60% on a currency-neutral basis led by the NIKE App, which grew triple-digits in the quarter. And NIKE Digital demand has continued to grow triple-digits in March.

With that, let's turn to Greater China, which achieved its second consecutive $2 billion quarter and grew 42% on a currency-neutral basis with EBIT growth of 75% on a reported basis. NIKE Direct grew 52% versus the prior year with more than 40% growth in digital and nearly 60% growth in NIKE-owned stores as the retail market largely returned to normal, including strong double-digit growth in partner retail stores, widening our market lead as the favorite brand with consumers.

As I mentioned earlier, Chinese New Year was a key highlight and through our Express Lane offense, we created and delivered hyper-local products to celebrate the moment, including the Dunk Low and the Women's Dunk Disrupt, which both instantly sold out. Our Women's business grew more than 60% versus the prior year and our two new NIKE Live stores are resonating deeply with her since opening.

In digital, we focused on engaging and serving members across multiple platforms, including live stream and social media. During Chinese New Year, we doubled our number of high-value members, while also increasing member retention. We're excited by the opportunity we see ahead, and so we are accelerating investment in Greater China, including in the local consumer digital experience, new retail concepts, and omni-channel integration with our owned and partner stores.

Finally, in our APLA geography, Q3 revenue declined 8% on a currency-neutral basis and was temporarily impacted by the transition of our business in Brazil to a strategic distributor model, partially offset by continued strength in South Korea and Pacific. And Q3 EBIT grew 5% versus the prior year on a reported basis.

NIKE Digital grew nearly 70% on a currency-neutral basis and we focused on member engagement and the scaling of consumer services like member days. In Japan, we drove record weeks of member buying, launched our interactive live streaming on SNKRS, and activated new O2O capabilities. In Mexico, we more than doubled our digital growth and we plan to launch the NIKE mobile app in the first half of fiscal 2022.

I will now turn to our financial outlook. This past year has been one of the most dynamic operating environments in our history, and Q3 was no exception. Despite these continued challenges, we remain focused on serving the consumer, while making clear operating decisions with speed and agility. We can see the near-term operating environment with increasing clarity, yet we remain focused on what's required to win for the long-term.

With that in mind, we are now more confident in our full year outlook for revenue and expect low- to mid-teens growth versus the prior year. Specifically, for Q4, in our least comparable quarter of the fiscal year, we expect revenue growth of roughly 75% versus the prior year. This reflects government-mandated restrictions in Europe starting to ease in April and inventory transit times slowly improving in North America.

We now expect gross margin to expand up to 75 basis points versus the prior year, reflecting the continued shifts we've seen to our more profitable NIKE Direct business, partially offset by higher logistics and freight costs and higher markdowns to liquidate excess inventory in EMEA. Foreign exchange is now estimated to be a roughly 35 basis point headwind on the full year.

We expect SG&A dollars will be slightly up versus the prior year as we rebuild investment levels and demand creation towards pre-pandemic levels and continue to invest to accelerate the pace of our digital transformation.

We expect our effective tax rate to be in the low- to mid-teens for the full year. And finally, we will resume moderate levels of share repurchase beginning in the fourth quarter. We are confident in our outlook for strong free cash flow growth, which enables us to accelerate capital returns, while making the necessary investments to enable our Consumer Direct Acceleration.

Looking ahead to fiscal 2022, as I said earlier, we are already exceeding our pre-pandemic levels of business, and I expect the momentum we are seeing to translate into continued strong revenue growth. I will provide more specific guidance for fiscal 2022 on our next earnings call.

As a growth company, our offense is working. NIKE's brand momentum is as strong as ever. Our product is resonating. The pipeline is strong, and our brands are more deeply connected to consumers than ever before. The pace of our digital transformation is also accelerating, and we are investing against the large market opportunity we see. We are converting more consumers into members and connecting more deeply, more frequently and more meaningfully via our digital platforms and ultimately also through our One NIKE Marketplace strategic partners. My optimism for NIKE's long-term potential has never been higher.

And so, with that, let's open up the call for questions.

QUESTION & ANSWER SECTION

[Operator Instructions}

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

<Q – Bob Drbul>: Hi. Good afternoon.

<A – Matt Friend>: Good afternoon, Bob.

<Q – Bob Drbul>: I guess, I was wondering on the inventory, I think the delayed flow of inventory, you talked about your confidence in essentially just moving everything into the fourth quarter. Can you just give us a little bit more color in terms of will that be largely into the wholesale, where you sort of missed some of the sales? Are you going to move it to more the apps or the online, the SNKRS App, the nike.com app? Just can you give us a little more color around the plans to move that inventory in the fourth quarter? Thanks.

<A – Matt Friend>: Sure. Well, as I mentioned, we saw an extension of transit times of inventory by up to three weeks, and what that means is that across the marketplace, we were anticipating to have more available supply in the third quarter than ultimately what we were able to have to satisfy demand across both the direct side of the business and across our wholesale partners.

We've now effectively absorbed the longer lead times through our third quarter. And so we do expect a more consistent flow of inventory in the fourth quarter, recognizing that transit times are elevated versus the prior year, but we expect a more consistent flow of inventory from here.

I mentioned, Bob, in my prepared remarks that we continue to see strong demand across the marketplace, and we're seeing stronger demand – we continue to see stronger demand in differentiated retail, which is our strategic partners than we're seeing in undifferentiated retail. And so we will continue to prioritize inventory for our strategic partners and for NIKE Direct. And when we look at where marketplace inventory is today, it's down high double-digits versus where it was a year ago. And so there is strong demand for that inventory across our strategic partners and NIKE Direct, and we intend to continue to fulfill that demand in both of those locations.

<Q – Bob Drbul>: Great. Great. And if I could just ask a follow-up question.

<A – Matt Friend>: Sure.

<Q – Bob Drbul>: So I recently had a chance to re-watch The Last Dance, and I think the original budget for the Jordan's was at what, $4 million or $3 million in year four. They did $126 million in year one. I was wondering if you could tell us who was responsible for the budget that year, and maybe if you could just give us a little bit more flavor on how different your forecasting is these days, I think that might be of interest.

<A – Matt Friend>: Well, Bob, I've been at NIKE for a little over 12 years, and so I might suggest that you go back and reread Shoe Dog. You might be able to figure out who was back there at that point in time, who was making those decisions.

<Q – Bob Drbul>: All right I'll do that.

<A – Matt Friend>: And I surely hope our forecasting is better than that.

<Q – Bob Drbul>: Sure, Matt.

<A – John Donahoe>: We dreamed big and we delivered.

<Q – Bob Drbul>: Thank you.

<A – Matt Friend>: Thanks, Bob.

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

<Q – Michael Binetti>: Hey, guys. Thanks for taking our questions. And Matt, I wanted to ask you, I think you just said that you raised the revenue growth rate for the year. Obviously that helps add a lot of confidence to your ability to unlock some of that inventory, but I think you've previously described that the SG&A for the year at up low-singles, and now you're saying up slightly, while you're raising revenue growth. But you did say there was some reinvestment in demand creation there too, so I'm trying to put just at a high-level the picture together. It seems like there's either much more efficient demand creation going on that we can think about as the model kind of builds back post-COVID longer-term or better leverage on the operating overhead expense line, maybe you could just help us think about why the SG&A is able to stay at fairly manageable level there, while you keep raising the revenue line?

<A – Matt Friend>: Sure. Well, I should start by saying that as we get into the fourth quarter, the comparisons start to get pretty challenging as you look year-over-year. The comparisons aren't going to be linear as compared to where we've been in prior quarters nor will they be intuitive. But when I talk about investment levels, I need to start with the core principle, which is NIKE is a growth company. And so as we continue to see the market opportunity in front of us, we are poised and in a position of strength to be able to accelerate investment against the things that are most critical in order to enable and drive our Consumer Direct Acceleration strategy.

Now in the middle of COVID, we got extremely focused on what matters most and we reallocated resources, tightly and from a disciplined perspective, managed our expenses, so that we could continue investing against the things that matter most to our strategy like our tech, end-to-end tech transformation, digitizing our supply chain and ultimately investing in the marketplace. And so we've continued to do that, while we've been able to manage other expenses more tightly as a result of the environment we're in.

As we start to look at coming out of the pandemic, we don't intend to just add it back in, okay? Every dollar we're putting back in, we know, is going to create or we have a plan to create a return on it. And so we're taking advantage of the moment to be able to do that. And we will continue to accelerate investment against those levels. But to your point, historically prior to COVID, we were at about 33% of revenue in terms of our SG&A levels, and we've been able to manage through the first three quarters of this year closer to 29%, and demand creation has been a source of leverage over this period.

The reduction in sport activity in the first half of this year, as well as some work that we did to sharpen certain areas of historical marketing investment, and as a result of that, demand creation investment was driving some leverage for us. Prior to COVID, we were at something like 9% or 10% of revenue and it fell to about 7% in the first half. But what I mentioned on the last earnings call is that we don't think these are sustainable levels for demand creation as we look forward. And so given the speed of our recovery in the first half, our plan was to start accelerating investment back towards pre-pandemic levels.

We won't get there in one quarter, we will get there over a period of time, but we believe that that's the right thing to do from a position of strength and given the size and scale of our brand and our recovery. So we had planned to spend more in the third quarter, but when we started to see the supply chain shifts occurring, we decided to shift some of that marketing investment into the fourth quarter in order to be able to balance and have those marketing investments occur at the time of the product was available in the marketplace.

We're going to be accelerating investment in Q4 against our biggest growth opportunities, Women's, we're going to continue to be investing internationally as I mentioned against – we're going to be investing behind Jordan. And we are going to continue to invest against digital. But we do believe longer-term, Michael, that digital will be a source of leverage for us as we drive a greater return on ad spend and see more effectiveness in our full-frontal marketing. And that will be a source of leverage over time.

<Q – Michael Binetti>: Okay. Thanks, Matt. And then, John...

<A – John Donahoe>: Yeah.

<Q – Michael Binetti>: ...if I could ask one follow-up, you speak about the physical store strategy globally, it sounds like there's a lot of new interesting concepts. And I guess in North America market that grew up long ago as more of a wholesale model and you made the biggest effort to transform the marketplace there. I'm curious how you see the segmentation effort as a lot of undifferentiated retail has come out of your business, but you still do have strategic partners with stores through the US. In the past, we've seen you segment by House of Hoops, Track Club, the big installations at Dick's Sporting Goods those kind of things. How do you think about the next round of segmenting the market if you're going to be bringing more NIKE Brand stores into the market now in a backdrop that has some of the wholesale partners still out there that are generating good business?

<A – John Donahoe>: Well, Michael, we start with the consumer. We start in every case with the consumer, and the consumer is really clear that they want to get what they want when they want it, how they want it and they want a seamless, premium, digital and physical experience. In fact, in many cases, they don't see a difference between digital and physical, whether they bought it on digitally and had it delivered at home or whether they bought it digitally and picked it up in-store, whether it was one of our stores or one of our strategic partner stores. And so we do see a need and a really important role for a strategic physical presence, both ours and our partners.

And the way we'll go forward is we are driving starting with our own digital and our own stores, the seamless premium experience that's centered on the member where we know who the member is. That member expects us to know who they are whether they are in our stores or our partner stores. And so we'll work with a smaller number of strategic partners that see the same future we do, and that want to and are willing to share membership data so that we can, together, deliver a very seamless experience, a very personalized experience for our consumers.

And the whole One NIKE Marketplace will allow us to have consumers to get what they want, when they want it, how they want it. And so as we segment it, it's we're leaning in with those partners that see the world the same way we do, and those are the ones and the good news is they do, and the good news is those are the partners that have the most robust business with our shared consumers today. So, the consolidation will continue. And again, I think you'll see even more movement from undifferentiated retail into a smaller number of partners and our own stores to provide that seamless premium experience.

<Q – Michael Binetti>: Thanks a lot, John
<u>Operator:</u> Our next question is from Erinn Murphy with Piper Sandler. Your line is open.

<Q – Erinn Murphy>: Great. Thanks. Good afternoon. John, for you, I was hoping you could speak a little bit more about the strength you've seen in China. Maybe a little bit on the consumer behavior as well as the product trends as that economy has picked up. Is there anything that you're looking or that you can learn from what you're seeing there for the rest of the world as we all open up?

And then Matt, just for you, a clarification, would you be able to quantify kind of what you think the port miss was on the North American segment in the quarter? Thank you.

<A – John Donahoe>: Well, Erinn, on China, it's just really clear and it's sort of interesting. I'm on my, I guess, 14th month, but I so distinctly remember and fondly recall my first week at NIKE was in China, as you recall, on the streets of Shanghai and Beijing, seeing the incredible connection that the Chinese consumer has with the NIKE, Jordan and Converse brands. And frankly seeing really high-quality physical retail to my prior – to the prior question, prior answer, the merchandising, these are all mono-brand stores as you know with us, our direct ones and our partners. And when you see what a outstanding physical merchandised experience can be and link that to a seamless digital experience, it's quite powerful. And we're probably furthest along in the world on that in China. And I will say that our Chinese team has just done a fabulous job in the past year of not just building a great business but showing the way for other parts of the company. They obviously have done that through the pandemic being constantly three-to-six months ahead, including today being back at work, side-by-side and the energy that comes with that, including today having physical retail open and seeing traffic getting close to historical levels.

But they're also leading on that seamless experience. An example I'll highlight is just one I think Matt mentioned this in his remarks, on our new doors there, they're getting 70%, 80%, 90% of consumers in physical doors to either identify themselves as members or sign-up and become members, and that allows that seamless experience for a consumer. So they're not – they're completely indifferent about whether they buy it, have it shipped to home, buy it online and pick it up in the store, whether they're within the store and they buy it and have it shipped home. And so I think that strong connection we have with consumers brand-wise, but also that when we talk about the consistent premium seamless experience, online-to-offline to deliver consumers, we're furthest along, we're furthest along in China, and I give that team huge credit and we're rapidly following that in our other geographies and regions.

<A – Matt Friend>: I'd maybe just jump in and say on the China piece that we continue to scale the Express Lane in China, and I referenced a couple of examples in the quarter related to Chinese New Year, specific product, but we doubled the Express Lane in the quarter and it continues to have significant impact, not only on localizing products, but also – localizing product, but also speed and agility in the marketplace through our fulfillment models.

And then, Erinn, maybe one other indication vis-à-vis China being ahead of other places, as the world has opened up, sport is returning and so just the energy that we're seeing with sport returning, we're seeing our performance business continue to grow significantly as well as our Kid's business in that market and it gives us a lot of optimism as we're looking ahead to reopening occurring in North America, Europe and other places.

Specifically on your question about North America, what I would just say is we were on track to deliver our internal plans and we were seeing momentum that was consistent with the type of momentum that we've been seeing year-to-date, as we're shifting, creating the marketplace shifts and continuing to lead with NIKE Direct and our strategic partners.

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

<Q – Omar Saad>: Good afternoon. Thanks for taking my question. Hey, John, I wanted to follow up on an interesting comment you made about merging art and science when you were talking about putting the data people alongside the creative people. Maybe if you could dive into that a little bit more, what your vision is and what areas are you applying data? Is it just a customer analytics, or is it in design and marketing and other areas? I'd be really curious to see how you're doing that.

And then my follow-up question is around Women's. It kind of seems like a recurring theme, you guys are doing really well in a lot of areas in the Women's business. What are the key drivers? What's the difference from the past? NIKE's been focused on Women's a long time, this seems to be inflecting and maybe of you could update us on where Women's is in the mix and how big maybe that could be over time. Thanks.

<A – John Donahoe>: Great, Omar. And Matt, why don't I take a cut piece and you can fill in. Omar, in data, data will ultimately improve our ability to deliver great experiences throughout our value chain. Now, the most obvious place is in the consumer-facing front, right? So even in this quarter, we saw use of data to deliver more targeted communications to consumers and more personalized experience. And I would say relative to what's possible, we're just scratching the surface there, so on that sort of consumer-facing side, data played a really – has played an important role and will continue to play an important role.

The second area that plays an important role is – one part of the consumer experience was getting the right product in the right place at the right time, and so this is where our Celect acquisition has allowed us to fairly impressively pivot to a more direct-to-consumer supply chain. And I again give our supply chain team enormous credit for what they've done over the last year as we've pivoted toward digital. But what that's all about is knowing what inventory have resident in local, regional warehouses so that you can get it delivered more rapidly and often through ground transportation.

By the way, both of those are scale games. The more data you have if you're the leader and you have more scale, it allows you to deliver better experiences and have better efficiency. And as you described, data will ultimately also be able to help us do better design and create better product. Some of the people that are most excited in our company about what data and technology can do are John Hoke, who runs Design, and Phil McCartney and Aaron Heiser, who run Footwear and Apparel, they're like, with the data that we now have from our digital sites and that we can get from our consumer insights group, it just means that we can design footwear and apparel that's even more focused and more targeted on what the consumer wants. And so I'd say we're into our data journey but there's so much more opportunity to come and I think the entire company sees it and is excited about it.

With respect to Women's, the Women's business is having a great momentum. It was the, I think, eighth straight quarter where Women's growth out-indexed overall growth. And that's across both NIKE and Jordan Brand and that at 86% growth in NIKE Digital and physical retail, marketplace retail grew to high double-digits and we're gaining share in Women's both on footwear and apparel.

And while we're seeing success in Women's to-date, this move toward the consumer construct that we've described with a real dedicated and focused Women's team means that we can increase our investment. So, we've doubled our investment in Women's innovation over the past year. And that extends end-to-end. And so a wonderful example of what that can produce is what I referred to earlier, this React Escape, because we launched it this quarter. This running shoe takes into account the physiological differences between male and female bodies, and so its silhouette, its materials, its design details are all aimed at the new female runner. And we think it's just a wonderful example of how we can take sharper insights and a greater focus end-to-end across our organization to really continue to turbocharge our Women's business.

<A – Matt Friend>: I would just add that some of the comments John made earlier as well just about our store strategy, the NIKE Live concept is a concept that's intended to unlock significant growth in the Women's marketplace and it would be hard, Omar, to size the opportunity because the Women's market is so large and we see the opportunity relative to where our business is penetrated today. And so while we continue to take share, those definitions are within the refinement of the way people define the market from an athletic footwear and athletic apparel in this, but what we're also seeing is athletic taking share of the broader Women's marketplace, and so those are going to be fuel for growth for us as we continue to invest behind this exciting opportunity.

<A – Andy Muir>: Operator, we have time for one more question.

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

<Q – Jamie Merriman>: Thanks so much. John, I think we've talked on several calls about the investment in data and even on this one, and so I was just wondering if you can talk a little bit more about the Datalogue acquisition? And then I think, Matt, on prior calls, has talked about the margin advantage of digital, but it seems to me that there's some real P&L benefits from the scaling of data. So, if you kind of had to dream the dream, what do you think the opportunity is there? Thank you.

<A – John Donahoe>: Well, Matt, maybe I'll dream the dream around the consumer, and you can dream the dream around the income statement. I think they're very linked. Jamie, it's – I'd say we're just scratching the surface, I mean, so yes, Datalogue is our fourth data and analytics acquisition over the past couple of years, and they use machine learning to help automate translating raw data into critical and actionable insights and doing it real-time at enterprise scale. And so as I said earlier, you're beginning to see whether it's improved and personalized search results, whether you're seeing more personalized recommendations of what, if you bought this you should buy this, if it's anticipating on the timing of when you're due for potentially some new footwear or some new apparel.

Data just allows us to have a more personalized experience with consumers and it's what consumers want and expect from a brand like NIKE. There are an awful lot of brands out there or platforms where they don't want people. They don't want people to know them well. NIKE is a brand and Jordan, where consumers want us to know them well and offer that even better experience.

And then as you said and as I said a minute ago, almost across every step of our value chain, data enables us to one, deliver the right product, right place, right time to that consumer, as I described earlier, and two, it drives efficiency and productivity. But our focus will be on the consumer, and that's one of the things that I think has always been a hallmark of NIKE is the consumer is absolutely at the center, and so we're going to prioritize that and continue to invest heavily in technology enablement and data.

And as you said, scale matters. Scale matters because you get the most actionable data. It's true in the technology industry, it's also true, I think, in our industry, and so we'll have a scale advantage in data, and it will drive both better consumer experience and efficiency.

Matt, do you want to comment, add to that?

<A – Matt Friend>: Yeah, so I'll dream the dream on the financial side of it. We think that as I've said for several quarters in a row and Andy said before me, that the financial value of data and technology are significant for us, and we're already starting to see some of it, Jamie, in our current performance, but the opportunity in front of us is significant.

It's being right more of the time, and where you'll see it drive financial value through our P&L is making better pricing and merchandising decisions; where we place our inventory, how we choose to fulfill demand, all of those things will result in and we see how a much more scientific and data-driven and machine learning approach to this is taking – is using human judgment with great analytics to enable us to make those decisions.

And then I think more broadly as an enterprise, as we continue to automate the way we work and leverage technology end-to-end, there's going to be productivity in the manual processes and work that we do as a company today. And so, I think you'll also see productivity in SG&A over time as a result of us being able to leverage this type of capacity versus working in a more legacy type of fashion. And so we're investing heavily towards all of those opportunities.

<A – John Donahoe>: Hey, Matt, I'm going to just maybe add one final comment before we wrap-up, because I do want to – we had two to three data questions in a row, but as you said, Jamie, art and science. The science, the science of what we're doing, it's been done, it's doable, but the thing that makes this company remarkable is the art. It's the creativity of our apparel designers, of our footwear designers. It's the creativity of our brand teams and the storytelling they do. And so data doesn't displace art, it's both. Data and technology help enhance it and supplement it, but this – the core of this, the heart and soul of this company is an amazing wellspring of creativity and innovation and the mindset in everything we do, and so this can make it a little bit more direct-to-consumer and make it a little bit more efficient, but we will never lose sight of the art of what NIKE, Jordan and Converse do.

<A – John Donahoe>: So, with that, Andy, time to wrap up?

<A – Andy Muir>: Yes. Thank you, Jamie, and thank you, everyone. We appreciate you joining us today, and we look forward to speaking with you next quarter. So take care.

Operator: This concludes today's conference call. You may now disconnect.