FY 2021 Q4 Earnings Release Conference Call Transcipt
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PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2021 fourth quarter conference call. For those who want to reference today's press release you'll find it at http://investors.nike.com. Leading today's call is Andy Muir, VP, Investor Relations. Before I turn the call over to Ms. Muir, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC including the annual report filed on Form 10-K.

Some forward-looking statements may concern expectations of future revenue growth or gross margin. In addition, participants may discuss non-GAAP financial measures, including references to constant-dollar revenue. References to constant-dollar revenue are intended to provide context as to the performance of the business eliminating foreign exchange fluctuations. Participants may also make reference to other non-public financial and statistical information and non-GAAP financial measures. To the extent non-public financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliations will be made available at NIKE’s website, http://investors.nike.com.

Now I would like to turn the call over to Andy Muir, VP, Investor Relations.

Andy Muir, Vice President, Investor Relations:

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2021 fourth 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.:

Thanks Andy, and hello to everyone on today's call.

Looking at Q4 and the full fiscal year we just concluded our strong business results prove yet again Nike's unique competitive advantage. Our relentless focus on our objectives is clear, and our strategy is working. We're excited by the momentum we continue to see.

In Q4, we saw growth of over 95%, which translates to 19% growth for the fiscal year. This full-year growth was led by our owned digital business, which has now more than doubled versus FY19, prior to the pandemic.

I've said before that these are times when strong brands can get stronger and each quarter this reality becomes even more clear. Today, we are better positioned to drive sustainable, long-term growth than we were before the pandemic. Our team has proven their ability to be unrelenting in executing against the macro complexities, while also building the future.

We saw broad-based growth this quarter, led by North America at over 140%. Greater China's currency-neutral growth of 9% was impacted amidst marketplace dynamics, with improving trends as we exited the quarter. One of Nike's strengths is our diverse global portfolio – and through the power of that portfolio, we once again over-delivered on our expectations for the quarter.

As we look ahead to FY22, the opportunity ahead of us is significant. We remain very confident in our long-term strategy and our growth outlook. The structural tailwinds we've discussed before, including the return to sport and permanent shifts in consumer behavior toward digital and health and wellness continue to create energy for us. And we remain focused on our largest growth drivers, including our Women's business, Apparel, Jordan and International.

Nike sets the pace through a continuous flow of new innovation, the world's greatest roster of athletes and compelling experiences for consumers that create lifelong relationships with our brand. Our strengths and proven playbook give us the confidence to move even faster, to invest at an even more accelerated pace against the opportunities we see ahead.

As the world's largest athletic footwear and apparel brand, we take seriously our leadership position to promote sport participation and an active lifestyle through inspiration and innovation. Our goal isn't merely to take market share. Our goal is also to grow the entire market.

Nike's growth has been, and will continue to be, the result of three areas I'll walk through today:

- Connecting with consumers through compelling Brand experiences across Nike, Jordan and Converse,
- Driving product innovation against our greatest growth opportunities,
- And expanding our Digital advantage.

First, let's discuss how we've served consumers. As sport continues to return, Nike leads with our unique, rich heritage and our deep roster of global superstars and up-and-comers who connect us with consumers everywhere.

Euro 2020 started two weeks ago, with Cristiano Ronaldo becoming the leading scorer in Euro's history. England, France, Portugal and the Netherlands are among the teams with great momentum heading into the tournament's next stage. And we're proud that more goals have been scored thus far wearing Nike boots than all other brands combined. On the club side, Chelsea won the Champions League on the men's side, and Barcelona was the top team on the women's side.

In the U.S., the WNBA season is underway with the Seattle Storm in first place, led by Sue Bird and Jewell Lloyd. And in the NBA, a captivating playoffs has showcased our unmatched roster of the game's greatest players across Nike and Jordan, including KD, LeBron, Luka and Jokic and several that are still in the hunt like Giannis, Chris Paul, Devin Booker and Paul George.

And earlier this week, I was in Eugene for the U.S. Track and Field trials and got to see incredible performances from Sha'Carri Richardson, Michael Norman, Ryan Crouser and many others. We remain excited for the power of sport on full display during the Olympics and Paralympics in Tokyo this summer and in Beijing next year.

This authentic connection with consumers is also fueled by our belief in redefining how we open access to sport for consumers everywhere. Our recent campaign, "Play New," launched in May, kicking off our largest-ever invitation to Gen Z and marking the ignition point of a month-long rally around finding joy in movement and play.

We focused "Play New" on TikTok and Snapchat to show Gen Z that, in their words, sport is a change accelerator. And their response has been remarkable. The apps' augmented reality lenses, featuring yoga, dance and surf, led to more than 600 million Gen Z impressions in just the first two weeks. Earlier, I mentioned our goal to grow the market. Well, by inspiring people to try something for the first time, we vastly expand the community of athletes.

And we continue to bring the emotion and power of our brand to life through our Digital ecosystem, which is led by the SNKRS app. In Q4, SNKRS grew over 90% in demand and saw nearly 80% growth in monthly active users. We are now offering this growing audience of high-value members an almost daily flow of compelling content and product launches. For Air Max Day in March, six different livestream events gave SNKRS Live its highest viewership ever. So whether it's through SNKRS Live or user-generated style inspiration, SNKRS is the perfect intersection of content, community, and commerce.

Moving to my second point, our relentless pipeline of innovative product continues to create separation between us and our competition. Our product is fueled by sharp consumer insight, supported by marketing data and analytics as we continue to invest in our digital transformation. Through our new operating model, we are bringing more precision to the art of product creation as we blend the heart and science of innovation.

For Q4, let me touch on two great examples of how we're investing in our top growth opportunities: our Women's business and Jordan Brand.

We're investing and focused across the entire value chain to unlock the vast opportunity we see for Women's. For the full year, our Women's business drove outsized growth of 22% versus the prior year. And despite the tremendous momentum we're seeing in Women's, we know there's even greater growth ahead as we move even faster with our new organization structure and invest far more resources in serving Women end-to-end.

For instance, in the marketplace, we continue to provide a more compelling retail environment through our Nike Live format. In fact, this past year, we opened nine new Nike Live doors, which offer personalized experiences and services for female consumers.

Our investments also mean a larger, sharper focus on Women's-only insights, services and product innovation. And we're already seeing this work come to life. Consumer insight from our female consumer drove the new Pegasus 38, which kept the best cushioning innovations from this popular franchise while improving and tailoring comfort and fit that she wants. The Peg 38 has sold extremely well, and we continue to be energized by the potential we see in footwear for her.

For the WNBA's 25th season this year, we created the most comprehensive player, team and fan apparel collection in league history. The new WNBA uniforms were completely re-engineered to deliver the exact fit, movement and comfort players said that they want from their jersey and short. The players love them, and consumers have agreed, with sales growth well above our expectations. And that heightened demand extended to the larger product assortment, with the WNBA 25th anniversary tee selling out in one day. This is just one example of how we drive energy for women's sport across the marketplace as we remain excited by this enormous opportunity looking forward.

Next, let's discuss Jordan Brand, whose momentum continues to be driven by its unique blend of heritage and innovation, as well as its deep connections to consumers and communities around the globe.

In FY21, Jordan Brand grew 31%, propelling the business to nearly $5 billion. This growth was driven by continued energy for Jordan's most coveted icons, including the AJ1 and AJ11, as well as new product dimensions.

For example, Jordan's Women's business nearly tripled in Q4, fueled by compelling product such as the Flight Essentials apparel collection. We are also increasingly excited about our delivery of exclusive access for Women through collabs like the Aleali May AJ1, which drove over 40% female buyers – more than 10 points higher than the average AJ1 buyer profile.

In Q4, Jordan also launched Zion Williamson's first signature shoe, the Zion 1, as well as the apparel collection. As the first Gen-Z signature shoe in Jordan Brand's history, Zion offers both transcendent athletic possibility as well as a deep, personal connection with fans. The strong sell-through of Zion's signature shoe collection demonstrates the continued love for the Jordan Brand's roster of athletes, all over the world.

Quickly looking to this summer in Tokyo, in the next few weeks we'll be officially launching more of our Olympic product, including our USA Women's basketball and football uniforms, our four skateboarding federation kits and a new medal stand shoe featuring our hands-free FlyEase technology. We're excited by the strong reaction we've seen for our Olympic product thus far.

And we're also thrilled to see our innovation continue to separate us. In running, this includes our Vaporfly NEXT% 2 for distance runners as well as our best-in-class track spikes. As you've probably heard, our spikes are creating dominant performances at the U.S. Track & Field trials not just for Nike athletes, but competitor athletes as well.

From performance, to the medal stand, to sustainability, we're excited for the world stage this summer in Tokyo to put a global spotlight on our advantage in innovation.

One final observation on innovation: I recently got the chance to see the long-term product plans that our teams are developing against our new consumer construct of Women's, Men's, Kids and Jordan, with sharpness against sport performance and sport lifestyle – and I could not be more excited. It's safe to say that we are more confident than ever in our product pipeline, as our focus on the "consumer of the future" drives our relentless innovation engine. And as we start welcoming employees back to work in our new, state-of-the-art design and innovation centers, I know that our innovation pace will only quicken as we reinvent what's possible.

My third and final point is increasing our Digital advantage. As I said earlier, our owned Digital business has more than doubled over the last two years to over $9 billion. At the center of our digital ecosystem is our suite of apps, which in Q4 reflected over 40% of our owned digital business. This is the result of deeper consumer connections, fueled by compelling product and content.

A key differentiator for us is membership – it has proven to be a compelling driver of repeat engagement and buying across digital and physical retail. In Q4, we continued to see growth in member demand outpace total Digital growth, hitting a new record of $3 billion. This member demand growth was underscored by strong results across the consumer funnel, including member engagement, average order value and buying frequency.

And this fiscal year, we met the goals we set at our last Investor Day around membership a full year early, and now have more than 300 million Nike members. More importantly, buying member growth is outpacing new member growth, signaling progress on a deeper member-led commerce funnel.

We're always looking to elevate our unique member proposition, whether that means expanding the number of member-exclusive products or creating new and meaningful retail experiences through Member Days, our Nike-only retail moments. And this engaging membership experience fuels a virtuous cycle, feeding insight to product creation, inventory optimization and more.

Knowing and serving our members drives greater competitive separation. Today, we're the clear leaders in our industry, and we continue to see digital as our leading channel for growth in FY22. The combination of owned and partner digital revenue is now nearly 35 percent of our total business, more than three years ahead of our prior plan. We see no sign of this shift slowing. In fact, we believe we will achieve 50 percent digital mix of business across owned and partnered in FY25.

As part of our overall One Nike Marketplace, we are also actively engaged with our strategic wholesale partners who share our vision. Today, we are working closely with large strategic partners like Dick's Sporting Goods, Foot Locker and JD Sports as well as compelling local, neighborhood partners who are authentic to sport performance and lifestyle. Together we are driving change in creating a new, more-connected and seamless experience for consumers around the world, which is exactly what consumers want.

It's a shift that speaks to our belief that the strong get stronger. We are supercharging how we serve consumers with convenience, innovation, content and services. This is how we stay ahead of the pack and expand our lead.

Finally, as we end our fiscal year, I want to thank our global Nike teammates. We've all been through a lot this past year, and at Nike that's included store closures, supply chain challenges, a digital transformation, a new accelerated strategy and more. And throughout it all, our team has delivered for our consumers and communities. So, I just want to take a moment as I close to recognize and personally thank our 75,000 Nike teammates. You've demonstrated creativity, teamwork and resilience and you are the reason Nike leads. I've said it before and I'll say it again: the people of Nike are our greatest competitive advantage.

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 today.

Before I begin my prepared remarks, I too want to take a moment to thank our incredible team. They delivered extraordinary results over the past year.

I also want to take a moment and recognize Andy Muir. This will be her last earnings call as Vice President of Investor Relations after recently becoming CFO of our Jordan Brand. Thank you, Andy for your leadership, and specifically for your support in my transition to CFO last year. I wish you the best of luck in your new role…I know you will do great.

Backfilling Andy in this role is Paul Trussell, who many of you already know. Paul joins us from Deutsche Bank and we're excited to welcome him to the Nike team.

Now, I'd like to begin today's call with a baseline on where we are in our recovery. Just as we anticipated, Nike is emerging from the pandemic stronger and better positioned to serve the consumer.

And the reason for this is clear, Nike's Consumer Direct Acceleration is fueling a deeper consumer connection with our Brands and driving business results, all while highlighting greater strategic and financial opportunity ahead.

Over the past fifteen months, we have navigated through this challenging environment with outstanding execution of our operational playbook. We have faced every challenge head on, focused on what we could control, all while keeping the consumer at the center.

These actions have helped set a strong foundation for sustainable growth and profitability, with business performance now exceeding pre-pandemic levels.

- In the fourth quarter, we delivered over $12 billion dollars of reported revenue, our largest quarter ever.
- Our Nike Direct business is now approaching 40 percent of total Nike Brand revenue.
- Nike Digital represents 21 percent of total Nike Brand revenue…a milestone we've reached several years ahead of our prior plan.
- And finally, our fiscal 21 EBIT Margin reached 15.5 percent, reflecting more than 300 basis points of expansion when compared to fiscal 19.

These metrics now become the new baseline, from which we expect to grow.

As we recover from the global pandemic, it is clear that our Consumer Direct Acceleration strategy is transforming Nike's financial model. So later on the call, I will share our financial outlook through fiscal year 25, reflecting a more-direct, member-centric business model.

However, first, I would like to provide additional detail on our extraordinary fourth quarter results and operating segment performance.

NIKE, Inc. Revenue increased 96 percent and 88 percent on a currency neutral basis. This was driven by strong wholesale shipments and Nike-owned store performance as we anniversary pandemic-related store closures. Even as physical retail reopened, we continued to see strong growth in Nike Digital of 37 percent versus the prior year.

Gross Margin increased 850 basis points versus the prior year, driven by favorable Nike Direct margins and the anniversary of higher costs, including actions taken to manage supply and demand in the face of the COVID-19 pandemic.

SG&A grew 17 percent versus the prior year due to higher levels of Brand activity connected to return of sport, Digital marketing to drive digital demand, technology investments to support our digital transformation, and higher wage-related expenses.

Our Effective Tax Rate for the quarter was 18.6 percent compared to 1.7 percent for the same period last year, due to decreased benefits from discrete items in the prior year and a shift in earnings mix, primarily related to pandemic recovery.

Fourth Quarter Diluted Earnings Per Share was $0.93 and full year Diluted Earnings Per Share was $3.56, up 123 percent versus the prior year.

Now let's move to our Operating Segments.

In North America, Q4 revenue grew 141 percent. This also marked the first ever $5 billion quarter for North America, driven by notable improvement in full price sell thru as the marketplace re-opened and sport activity returned. Demand for Nike remained incredibly strong, and as we expected, delayed revenue from the global supply chain disruption in the third quarter, was recaptured during the fourth quarter.

Nike Direct grew over 120 percent as Nike-owned stores returned to positive sales growth versus pre-pandemic levels. More importantly, Nike Digital grew over 50% while physical traffic continued to improve across the marketplace. Nike Direct performance was propelled by our members across both digital and physical retail. Member demand nearly doubled versus the prior year and the number of buying members grew roughly 80 percent.

Across the total marketplace, we continue to see strong retail sales growth and consumer demand for our Brands exceeding marketplace supply, with marketplace inventory down double digits versus the prior year.

Nike-owned inventory declined 7 percent, with double digit declines in closeout inventory. In-transit full-price inventory remains elevated as we continue to experience longer end-to-end lead times for supply. We expect supply chain delays and higher logistics costs to persist throughout much of fiscal 22.

In EMEA, Q4 revenue grew 107 percent on a currency-neutral basis, with strong growth across the region, including the UK and Ireland, France, Germany and Italy.

Nike Direct grew 57 percent, despite government restrictions requiring nearly half of our Nike-owned stores to remain closed for the first two months of the quarter. In May, as restrictions eased, we saw a strong consumer response with incredible pent-up demand. This momentum has continued into June.

Nike Digital grew nearly 30 percent versus the prior year. Through our Member Days, we saw strong engagement with member demand outpacing total Nike Direct revenue growth, with all-time highs for female active members during AirMax week. In the fourth quarter, we also expanded the Nike mobile App to more than 10 new countries across the region.

During our last earnings call, I shared our expectation that inventory in EMEA would normalize in the first quarter of fiscal 22. We have exceeded that goal due to stronger than anticipated consumer demand, ending fiscal 21 in a healthy and normalized inventory position.

In Greater China, Q4 revenue grew 9 percent on a currency neutral basis. For the full-year, Greater China delivered its 7th consecutive year of double-digit growth, demonstrating our consistent brand strength and commitment to serving the consumer.

Nike Direct grew 2 percent in Q4 with strong growth in Nike-owned stores, partially offset by declines in Nike Digital. As John mentioned earlier, Q4 business results were impacted by marketplace dynamics. After a strong March, our business in Greater China was impacted in April and we adjusted our operations by suspending marketing activities and product launches. We then began to see a recovery trend, improving to a single digit decline in May and sequentially improving into June, with month to date retail sales trends approaching prior year levels. And for the 6.18 consumer moment, our flagship store on Tmall ranked #1, driving the highest demand across the sports industry.

Building on our 40-year history in Greater China, we continue to invest in serving consumers with the best products Nike has to offer, in locally relevant ways. We also continue to invest in the creation of a premium, seamless consumer digital experience and supply chain capabilities, and we plan to open a new digital technology center in Shenzhen to better serve Chinese consumers.

We have an experienced local team in Greater China who helped create our operational playbook at the beginning of the pandemic. They have proactively managed marketplace supply and demand in order to navigate through these dynamics, and we expect inventory to be normalized by the end of Q2.

Now moving to APLA. Q4 revenue grew 76 percent on a currency neutral basis with growth across all territories, led by Japan, SOCO, and Mexico. Korea grew double digits this quarter, on top of the 8% growth they delivered in the fourth quarter of last year.

Nike Digital grew more than 50 percent, enabled and amplified by our membership offense. This was highlighted by Member Days, which drove all-time highs for member demand. This momentum also extended to our marketplace partners in APLA, as they returned to growth versus pre-pandemic levels and achieved their highest level of full-price realization since the beginning of the pandemic.

During Golden Week in Japan, the Express Lane assortment was heavily influenced by member insights and delivered a sell thru rate that was two times the rate of the rest of Nike Digital in Japan…showcasing the power of blending art and science that John referenced earlier. APLA was the last geography to launch our Express Lane offense and we see significant opportunity to leverage these capabilities to drive deeper, authentic consumer connections across the region.

Now, as we look ahead to fiscal 22 and beyond, I want to provide a new financial outlook through fiscal 25, as we emerge from the pandemic, accelerate our consumer direct strategy, and transform the operating model of the company.

First of all, Nike is a growth company…and we expect to sustain strong revenue growth going forward. This is based on the significant market opportunity that we see for our Brands across the portfolio, as well as our accelerated shift to a more direct, member centric business model. As a result, we expect

Revenue growth to inflect upwards to a range of high single digit to low double digit growth on average, with outsized marketplace opportunities in Women's, Apparel, Jordan, Digital and International.

Growth will be led by Nike Direct and our strategic marketplace partners. Earlier, I mentioned Nike Direct is approaching 40 percent of our Brand business today, and we expect it to represent approximately 60 percent of the business in fiscal 25…led by growth in Digital. And as John said earlier, we expect owned and partnered digital to achieve 50 percent business mix in fiscal 25, with Nike owned Digital to represent 40 percent of the business.

We will continue reshaping our wholesale business portfolio, which includes divesting from undifferentiated retail while investing in our strategic wholesale partners for healthy growth. Overall, we expect wholesale revenue to remain roughly flat versus fiscal 21. We will support partners who continue to authenticate our Brand, as well as those who have the scale to create a consistent, premium, digitally-connected experience for consumers across the marketplace.

Our longer-term Revenue outlook reflects higher growth expectations across several operating segments. We will continue to leverage the power of our diverse global portfolio and we expect, on average,

- North America to grow mid-single to high-single digits,
- EMEA to grow high single digits, and
- APLA to grow low double digits.

And with respect to Greater China, while marketplace dynamics still exist, we are optimistic that we can continue to grow low-to-mid-teens over the long-term. We remain committed to investing in the local consumer experience and inspiring the next generation of athletes in China. We will continue to serve consumers with Nike's performance innovation and sports style product franchises, while also increasing local customization of style and fit for consumers.

For several quarters now, I've highlighted that the strategic and financial benefit of shifting to a higher mix of business through Nike Direct, led by Digital, and leveraging enhanced data and analytics capabilities to optimize inventory, drive higher full price realization and lower Digital fulfillment costs. We now see Gross Margin rate reaching the high 40s by fiscal 25.

We will continue to re-allocate resources and invest to enable our digital transformation and fuel the long-term growth and profitability opportunities that we see. Having said that, we expect to invest in

SG&A at a rate that drives leverage versus pre-pandemic levels, which averaged roughly 32 to 33 percent of revenue.

As a result of all of this, we see our EBIT margin reaching high-teens by fiscal 25, with earnings per share growth of mid-to-high-teens, on average, over this period.

As we drive toward a more direct business model, we remain committed to create long-term value for our shareholders through serving consumers and sustaining our disciplined financial management. We expect to

- deliver strong growth in free cash flow,
- maintain annual capital expenditures at roughly 3 percent of revenue,
- drive Returns on Invested Capital above prior guidance of the low-30 percent range,
- and deliver consistent returns to shareholders through dividends and share repurchases.

Now that I've discussed our updated financial outlook through fiscal 25, I will provide guidance for fiscal 22.

As I've already said, we enter the fiscal year strong…confident that our deep consumer connections and Brand momentum will continue despite being in a dynamic operating environment. Our confidence is rooted in the fact that consumers in key cities rate Nike as their favorite brand, and retail sales continue to grow strongly on lean marketplace inventory, and our organization is aligned against our new consumer construct, which will help us accelerate even faster against our largest growth opportunities.

In Fiscal 22, we expect Revenue to grow low double-digits and surpass $50 billion dollars, reflecting strong consumer demand across our operating segments as we lead with Digital, scale Nike-owned physical retail concepts and grow with our strategic partners. It's important to note, as we normalize our post-pandemic business and continue to reshape the marketplace, we do not expect quarter by quarter growth to be linear. Therefore, we expect first half growth to be slightly higher than second half growth.

We expect Gross Margin to expand 125 to 150 basis points, reflecting our continued shift to a more profitable Nike Direct business and sustained strong full-price realization, partially offset by higher product costs, supply chain investments and the annualization of certain one-time benefits in fiscal 21. Foreign exchange is estimated to be a tailwind of roughly 70 basis points.

We expect SG&A growth to slightly outpace Revenue growth as we normalize spend with return to sport and more consistent store operating schedules, as well as investment focused against our largest growth opportunities which I have shared previously. However, we do expect leverage relative to pre-pandemic rates of investment.

And last, we expect the fiscal 22 Effective Tax Rate to be mid-teens.

As we begin our next fiscal year, Nike continues to navigate through a dynamic and rapidly changing environment. At the same time, we are on the offense and accelerating our strategy to serve more consumers, personally and at scale. Our unmatched innovation continues to enable world class athletes to reach new levels of performance as sport returns to the main stage. Our product pipeline is strong, and we are even more deeply connected to consumers than before the pandemic.

We are building upon the strong foundation we set in fiscal 21 and accelerating our pace for the next leg of the race. We have a clear vision for our Brand's long-term future and we are focused on what it will take to get there.

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

QUESTION & ANSWER SECTION

Operator: Our first question comes from the line of Bob Drbul with Guggenheim Securities.

<Q – Bob Drbul>: Yeah, good afternoon. And Paul Trussell, congratulations, and Andy, best of luck and thanks for all the information today. I guess the first question that I have, can you spend a little more time on China, exactly? I mean, you gave us a lot of detail around how it's progressing. I guess I would be curious just to hear when you think about the inventories and you think about how you're planning the next few quarters from a flow perspective. If you could give us a little more color just how you would plan China on the revenues, I guess either quarterly or just for the year based on the trends. Thanks.

<A – Matt Friend>: Sure, Bob. And hello, and thanks for the question. As we think about the dynamics that we're managing through in China right now, we're optimistic as we continue to see improvement sequentially each month. As we think about fiscal 2022 and the guidance we provided, we're planning for continued recovery throughout fiscal year 2022, but we don't expect it to be linear.

And what I would say is longer-term, we're optimistic given our history of operating in China and our connections and relationship with consumers that over the long-term we'll be able to deliver low-to mid-teens growth.

<Q – Bob Drbul>: Great. And just have a question sort of I guess it would be a North American question as a follow-up. But with LeBron out and KD out, you still have Giannis, and I just wondered if you think this is his year and you think he can bring the trophy home?

<A – John Donahoe>: Well, we certainly hope so. And if not, LeBron, Devin Booker, and if not Devin Booker, Paul George or many of the other NIKE athletes in what's been one of the great NBA playoffs. I know we've all enjoyed the games. It's so great sport's back. It's so great that the stands are full, so the excitement that we feel with the entire NBA and frankly all the great sports going on right now is palpable.

<Q – Bob Drbul>: Great. Thank you very much.

<A – Matt Friend>: Thanks, Bob.

Operator: Your next question comes from the line of Kimberly Greenberger with Morgan Stanley.

<Q - Kimberly Greenburger>: Great. Thanks so much, Matt, and thanks so much for the outlook here through 2025. There's a noticeable sort of inflection in the business that you're calling for here, and I can just hear the enthusiasm. So, I wanted to just ask about what are the sort of key underpinnings that's giving you confidence in the acceleration in the growth rate, and where do you see basically the support for this level of acceleration? What's driving that?

<A – Matt Friend>: Sure, Kimberly. Well, you know as we talked about throughout this year, we have continued to see the way that we have gotten closer to the consumer, creating deeper connections and as we look at how our brand is positioned around the world, we continue to be very optimistic with what we see.

That's translated into very strong retail sales growth throughout the year, and in many circumstances, we've seen demand outstripping supply. As we think about the future, especially as we exit 2021 and we move forward to 2022, there are definitely specific things that give us optimism and confidence. John just mentioned one of them, which is the return to sport, and we're already starting to see an acceleration in our sport performance business.

We're excited about the connections that we're driving from a digital perspective; especially as physical retail reopens. We believe that is a sticky shift that will continue and that's embedded in our guidance for 2022 and also the longer-term outlook that I provided for you.

And that shift of a 20-point mix shift in direct is definitely an inflection from a revenue, creates an inflection from a revenue perspective. And then lastly, I would say that we continue to talk about the significant opportunities that we see more broadly in the marketplace, and while we have had momentum and we continue to see those dimensions of business outstrip the growth of the rest of the business, the opportunity is still significant relative to our share in those specific areas. And so what I'm referring to there is our Women's business and the opportunity we see in front of us, the apparel business and the opportunities that we see there, and then the momentum that we have with the Jordan Brand in particular and the opportunities that we see for that brand both in North America but in international markets as well.

<Q – Kimberly Greenberger>: Very clear, and so exciting. Thank you.

Operator: Your next question comes from the line of Matthew Boss with JPMorgan.

<Q - Matthew Boss>: Great. Thanks. Congrats on a really nice quarter and a really great hire.

So, John, maybe on the digital transformation, could you help outline what you think most differentiates your digital strategy to continue to build the marketplace leadership? And, Matt, maybe with that, could you just help walk through the profitability of the digital channel as it relates to the algorithm that you outlined and maybe which line items it's most impacting?

<A – John Donahoe>: Well, sure, Matthew. The first thing never look a wonderful tailwind in the eye, or look away from one. So we've got – there's a fundamental shift in consumer behavior toward digital, and that's been happening, but the pandemic has simply accelerated that. And that provides the opportunity for us to have a direct connection with consumers, which is increasingly important in a digital world where consumers, while they're going more digital, are focusing on fewer and fewer apps and we are going to be one of the very few apps that have a direct connection with consumers, and that's unlocking great growth.

That's unlocking growth in our ability to serve them with more personalized shopping experiences, with recommendations across our vast product portfolio, with services and other ways to engage them like NIKE Run Club, NIKE Training Club. So we think we're one of the very few in our industry that will be able to establish that direct connection with consumers both around commerce but also engage them on a weekly, monthly, quarterly basis.

And then that produces great consumer insight, and that consumer insight has a bit of a virtuous cycle. The more you have of it, the more you can use it. You can use that consumer insight as I said earlier on personalizing a recommendation or anticipating a need, on replenishing a product when you know they're going to need it.

It also drives efficiency in our operations. We talk about building a digital supply chain. What thats all about is having the intelligence to know, having the right product in the right place at the right time, so that we can deliver that product in a low cost, convenient and speedy and a climate-friendly way.

And last but not least, that insight, consumer insight helps fuel product creation. The more we know about our consumers, the more we can build the kind of compelling product that they want and need. So we feel like as Matt said, there's a virtuous cycle by embracing our digital transformation as aggressive as we are. We think we can create competitive separation, and so and we think it's going to be a journey that has continuous improvement and continuous ROI and benefits along the way.

<A – Matt Friend>: Yeah, and I would just add that the NIKE app, our app ecosystem continues to have a significant impact and we are continuing to invest in the consumer experience in order to take advantage of the consumer's interest and appetite in engaging with our brand in that way. The app actually represents about 40% of our digital business at this point in time, and we're planning to launch the NIKE app in 10 more countries in fiscal year 2022.

As I think about the financial model, Matt, as you asked, I sort of answered it in my question to Kimberly which is this shift to digital and that direct sales to the consumer is definitely causing us confidence to inflect our revenue outlook upwards as the first point.

The second point I would say is that as we've continued to see over the past several quarters and really if you sort of look through the pandemic, it's really over the last three years as we've been seeing more and more business being done through direct and digital. We've been talking about how that shift in mix has enabled us to drive and increase our gross margin expansion versus historical levels of gross margin expansion, and so that's what's embedded in that high 40s guidance outlook. It's continuing to shift to more direct business and then within that direct business, we continue to see opportunities like I referenced, leveraging data and analytical capabilities. So digital transformation type capabilities to know where to place our inventory, how to fulfill demand closer to the consumer, whether it's through our stores or through our regional service centers, how to think about pricing based on the way inventory is flowing, and then continued demand and supply management.

And then I guess the last thing I would say is that the way that we framed our SG&A guidance is that we feel confident that as we look at the transformation that's taking place in our business over the next four years, that at that level of SG&A investment which is better than where we were in the pandemic, we can fund the investments that we need to fuel this growth and sustain the opportunity that we have in front of us.

<Q – Matthew Boss>: Congrats on the momentum and the new multiyear model.

<A – Matt Friend>: Thanks.

Operator: Your next question comes from the line of Erinn Murphy with Piper Sandler.

<Q – Erinn Murphy>: Great. Thanks. Good afternoon. I guess a follow-up question for the team on the China marketplace. Bigger picture, just with the accelerating growth of late and some of the national athletic brands, can you just share how you're thinking about NIKE's market share potential as you work through the 2025 plan within China specifically?

And then secondly, if I could just ask on the Women's business, it hit over $8.5 billion in this fiscal year. Could you just share kind of what your expectation is in the plan by 2025 and just the role you see some of the smaller footprint stores and the suite of apps you developed playing in the progression there. Thank you so much.

<A – John Donahoe>: Sure. Matt, why don't I take the first part, and then maybe you take the second part of Erinn's question.

<A – Matt Friend>: Sure.

<A – John Donahoe>: So, Erinn, bottom line, we're confident about what we're seeing in China as we drive long-term growth and we have a long-term view about China and we've always taken a long-term view. We've been in China for over 40 years. Phil invested significant time and energy in China in the early days, and today we're the largest sport brand there and we're a brand of China and for China. And the biggest asset we have in China is the consumer equity. Consumers feel a strong, deep connection to the NIKE, Jordan, and Converse brands in China, and it's real. I saw that in my first week there. Can't wait to get back there, and it's strong and that's brought to life on streets all over China through the over 7,000 mono brand stores we have in China.

So, we have a strong consumer franchise in China and they feel very connected to our brand, and so we're going to continue to invest. We'll continue our long-term investment in China whether it's through the Express Lane which allows us to have local product insights so design and deliver with speed and agility, or we're localizing our tech stack. Matt mentioned we're opening a new digital technology center in Shenzhen.

And we're going to invest for the long-term and we're encouraged by the momentum and we have confidence in the future. It's interesting, we've been the number one sports brand in Tmall for a decade and we're still number one today once we opened back up on it. Over the last month, we've added a million new members on Tmall through the 6/18 shopping holiday. And so we're focusing on what we can control. We're confident of our momentum and our position and we, as Matt outlined, we feel confident about our long-term growth in China.

<A – Matt Friend>: Yeah, and I'll just jump in, Erinn, on Women's. This might sound interesting, but we're the largest Women's athletic brand in the world today at $8.5 billion. And we are very bullish on the opportunity for Women's. We've been talking about it for several years, and it starts by what John said on the call which is that the main purpose of our realigning our organizational structure was to try to amplify the investment at multiples of where we were previously investing against our Women's business. And those investments are end-to-end from specific innovation and the way we invest in innovation to the way we're investing in product creation to the way that we're now investing in the marketplace through our NIKE Live concepts. And our NIKE Live stores are almost 50% Women's sales which are more than 15 points ahead of our other stores in terms of Women's proportion of the revenue.

And so it's definitely embedded and underlying our revenue outlook and I would tell you that we expect to see Women's outpace other elements of our business and we invest and drive against the long-term opportunity.

<Q – Erinn Murphy>: Great. That's super helpful, and congratulations, Paul.

Operator: Our next question comes from the line of Omar Saad with Evercore.

<Q – Omar Saad>: Thanks for taking my question. Great quarter. Congrats to everyone. High-teens operating margin target really is a huge breakout from historical trend and a lot of the long-term guidance that you guys have given over the years. Clearly technology and NIKE's digital excellence is really the root of this kind of transformation we've all been talking about. I would love to hear – I saw that Converse continues to improve. I'd love to hear you talk about how you're using that digital advantage and applying it at Converse? Is Converse starting to generate some of the benefits of these incredible technologies that you've developed under the Jordan and NIKE halo? I would love to hear more on those lines. Thanks.

<A – John Donahoe>: Well, the short answer, Omar, is yes. I mean, we are blessed with this wonderful portfolio of brands. NIKE, Jordan, and Converse, and they're additive. That's what's so striking. While there's some consumer overlap, the role that each plays is additive in the eyes of the consumer.

And so as Scott and the Converse team are doing a great job of connecting with a distinct consumer and expanding. It's much like the Jordan playbook, expanding beyond just historical icons like the Chuck. And bringing new design, new dimension to the product there. In fact, it's the fastest growing part of their portfolio. We just had an operating review a couple weeks ago, and it was really striking to see how they're extending that brand into both performance product and to new ways to leverage that Converse brand and the product line as well as getting into apparel and going global.

And so their digital capabilities are growing. They have their own, as you know, in addition to being able to get to them on the NIKE website and get to them on their own website and their digital business is growing at very comparable levels as NIKE's are and Jordan's are around the world. So we see a lot of upside in the Converse opportunity and the Converse brand.

<A – Matt Friend>: Yeah, and we think that digital's going to play a really important role for Converse as they reshape the composition of their own marketplace, and so that's what's been driving growth for the last couple of quarters or for the last eight quarters and it's continued to help us as they create that direct connection with consumers as well.

<Q – Omar Saad>: Got it. Thanks.

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

Operator: Thank you. Your last question comes from the line of Adrienne Yih with Barclays.

<Q – Adrienne Yih>: Good afternoon and thank you very much. Congratulations on the quarter, and congratulations to Andy and Paul. My question is that, on the $50 billion or greater than $50 billion for the out-year for fiscal 2022, what is the expectation for China in that number? And I guess more specifically, in what quarter can we or half of the year, perhaps, can we expect to see China return to perhaps pre-pandemic trend rates, and which channel is going to be the most predictive, wholesale or direct/digital? Thank you very much.

<A – Matt Friend>: Well, Adrienne, our FY 2022 guidance reflects the optimism and the momentum that we're seeing across our full portfolio, brands and different geographies. As I mentioned on China, we're optimistic and encouraged based on the sequential improvements that we're seeing, so our business was impacted in April. It was down single-digits in May, but improving, and approaching prior year levels in these first three weeks of June. Obviously, this 6/18 consumer moment gives us optimism as we continue this recovery and we're planning for recovery throughout fiscal year 2022. But we don't expect it to be linear.

<Q – Adrienne Yih>: Okay. Thank you very much.

Andy Muir: Thank you, Adrienne.

Andy Muir: Thanks, everyone, for joining us today. We'll look forward to speaking to you next quarter. Take care and stay safe.

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