FY 2022 Q1 Earnings Release Conference Call Transcipt
September 23rd , 2021

This transcript is provided by NIKE, Inc. only for reference purposes. Information presented was current only as of the date of the conference call and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in this transcript and disclaims any obligation to do so.

PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2022 First Quarter Conference Call. For those who want to reference today's press release, you'll find it at http://investors.nike.com. Leading today's call isPaul Trussell, Vice President of Investor Relations and Strategic Finance.

Before I turn the call over to Mr. Trussell, let me remind you that the participants on this call will make forward-looking statements based on current expectations, and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC including the annual report filed on Form 10-K. Some forward-looking statements may concern expectations of future revenue growth or gross margin.

In addition, participants may discuss non-GAAP financial measures, including references to constant dollar revenue. References to constant dollar revenue are intended to provide context as to the performance of the business eliminating foreign exchange fluctuations. Participants may also make references to other nonpublic financial and statistical information and non-GAAP financial measures. To the extent nonpublic financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliationswill be made available at NIKE's website, http://investors.nike.com.

Now, I'd like to turn the call over to Paul Trussell.

Paul Trussell, Vice President, Investor Relations & Strategic Finance:

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss NIKE, Inc.'s Fiscal 2022 FirstQuarter 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. Thank you 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, Paul, and hello to everyone on today's call. NIKE creates value through our relentless drive to serve the future of sport. And as we saw again in Q1, our strategy is working with business results that reflect our deep connection to consumers around the world. Thanks to our brand momentum, culture of innovation, commitment topurpose and proven operational playbook, we stay at the front of the pack. Q1 was another strong quarter for NIKE with revenue growth at 16%. And even as we saw physical retail traffic return across much of the portfolio, digital continued its momentum with 25% currency-neutral growth led by North America at over 40.

Our digital success is evidence of the product innovation, brand strength, and scale that drives our meaningful relationships with consumers as we continue to show momentum against our biggest growth priorities. As has been the case since the start of pandemic, I'm proud of the way our entire NIKE, Inc. team has delivered through macro volatility. Over the past 18 months we've demonstrated our ability to manage through turbulence to emergeeven stronger and better positioned, and that's what we'll continue to do as we navigate through these current supply chain issues.

We'll focus on what we can control while leveraging the many levers at our disposal. You'll hear Matt walk throughour mitigation efforts in a few minutes. Today, we're in a stronger position relative to our competition than we were prior to the pandemic. Why? Because the changes happening in the market worked in our favor. Consumers' shiftto digital that might have taken five years will now only take two years. That plays to NIKE's advantage. And our Consumer Direct Acceleration strategy is capitalizing on this marketplace transformation.

We know that when we get to the other side of this, we'll be in even stronger shape. We'll be more agile, more direct and more digital. So, we remain focused and confident in our long-term business outlook. Our competitiveadvantages, including our innovative product, brand strength fueled by compelling story telling, our roster of theworld's best athletes, and increasingly, our industry-leading digital experiences at retail will continue to create separation. As we drive strong sustained consumer demand, our confidence remains undiminished.

We've just wrapped up an incredible summer of sport, highlighted of course by the Olympics and Paralympics, and moments like these are exciting for our company because sport energizes our roughly 75,000 employees around the world. You can just feel it. And it's through that passion for sport that we continue to innovate and connect to the consumer. And this summer in Tokyo, our leadership as the world's most innovative sports brandwas demonstrated once again. If NIKE were a country, we would have eclipsed the competition, capturing 226 medals, including 85 golds. Here are a few examples of what excited us most this summer.

We saw the emergence of Gen Z as a powerful next generation of athletes led by a pair of 13-year-old skateboarders who showed us the joy in the expansion of the definition of sport. We shined in key team sports, including football where NIKE teams took home gold in both men's and women's, and basketball where NIKE andJordan teams combined to take five of the six medals including both golds. And we continued our great legacy in track and field with NIKE athletes winning more individual medals in track and field events than all other brandscombined.

And at the same time, the European Championships brought incredible energy to football in

Q1 with England making it to the final. Our brand anthem, the Land of New Football, brought a fresh approach to the sport, representing NIKE's vision that in this game everyone is welcome. The film saw more than 800 million impressions across all channels, as more than half of EMEA's Gen Z population viewed it at least once. And thesummer sport also saw Giannis and the Milwaukee Bucks win the NBA title after an electrifying final against Chris Paul, Devin Booker, and the Phoenix Suns.

Days later, we released Giannis's latest signature shoe, the Zoom Freak 3, which is built to support the dominant physicality that defines his style of play. We continue to see strong response to the Zoom Freak, and we're excited by what we're seeing with our growing Giannis business. And speaking of Devin Booker, Q1 was a great reminder of how we're investing in the next generation of superstars as we continue to build our roster of athletes.Jordan brand signed the NFL's Dak Prescott in the quarter, joining emerging global icons in NIKE, Inc.'s family including US Open winner, Emma Raducanu, and Manchester United's Jadon Sancho.

At the end of the quarter, the summer sport gave way to back-to-school season. So far this fall, we've seen sell-through in our Kids business up almost 30% led by digital with growth of almost 70%. As we focus on the Kids opportunity, our new consumer construct, through that we are connecting with families more authentically than ever before. We're creating kids-specific designs and leveraging new channels for us to connect with these consumers. Take, for example, PLAYlist which is a just-for-kid’s series on nike.com and YouTube. It's filled with games, challenges, and exclusive athlete content, all aligned to our mission of encouraging movement and play.

Its latest season began a few months back with a new video starring LeBron James and some of his co-stars from their movie, Space Jam: A New Legacy. PLAYlist has been a hit with kids and parents alike with viewershipnumbers well above our expectations. And our Kids business remains an important connection point for us, an organic incubator of the brand across multiple generations as we look long term. We're the largest kids’ athletic footwear brand in the world, but we know that there is still so much potential ahead.

And as I've said before, at NIKE everything starts with innovation. Our culture of innovation is our most profound competitive advantage. And this week I toured our new LeBron James Innovation Center here at our world headquarters with LeBron. At over 750,000 square feet, this new home for our innovation teams is five times the size of our previous lab and is continued proof of NIKE's leadership in sports science. We expect this facility to act as an accelerant as it helps extend our advantage in innovation even further. And looking at our innovation agenda, the two areas that I'd like to touch on today where our relentless pipeline of innovative product continues to create separation between us and our competition: apparel and sustainability.

First, let's take a look at apparel. We're seeing strong over-indexing growth of 16% in this key growth driver, andthe investments we're making in our new consumer construct are fueling higher apparel growth for womens led by our yoga business. Our yoga collection today features multiple industry-leading innovations, including Dri-FITand Infinalon. These innovations are resonating with consumers and have helped us nearly quadruple our yoga business over the past two years. Another key apparel story for us in Q1 was our bras business.

This quarter, we maintained our number one market share in sports bras in North America and introduced the NIKE Dri-FIT ADV Swoosh bra. Dri-FIT ADV combines the ultimate in cooling fabrics with highly engineered methods of make. It's an innovation that's connected with consumers as we scale this technology across our line.And now to take a look at sustainability, look at what we've done with Space Hippie. Space Hippie, as you may recall, is quite literally made from trash, and it was originally introduced at our 2020 Future Forum and debutedfour separate sustainable material innovations for us, including Crater Foam and Space Waste Yarn.

Now, since then, we have strategically grown this franchise to global scale. And what's more, we've also scaled these individual material innovations across our entire portfolio. So today, one year after that initial launch, thereare more than 43 styles using Space Hippie innovations across four sports, three brands, and our full consumerconstruct. For instance, you could see it come to life in iconic franchises such as the Air Force 1 Crater, new performance innovation platforms like Cosmic Unity, and even in our hands-free accessibility line with styles likeGlide FlyEase.

By driving new dimensions across platforms, our work to scale Space Hippie's innovations catalyze growth. Consumers are clearly responding to sustainability as we're seeing very strong full price sell-through for this family of product, with vast opportunity to drive continued consumer and business value still ahead. And this isjust one example of how we lead with platforms and not just products. Our deliberate franchise and innovationmanagement create scalable and sustainable impacts on our business, and I'm excited by the upcoming new innovation platforms we'll be introducing soon.

Next, let's discuss NIKE's increasing digital advantage. We continue to lead the industry by creating a premium, consistent, and seamless experience that deepens relationships between consumers and our brand. Our advantage comes to life at retail in both digital, as well as at the intersection of digital and physical. I'll discuss both here. Even as physical retail revenue approached pre-pandemic levels, our digital business this quarter grewdouble digits. This is the result of an unwavering focus on our strategy and the investments we've made against our end-to-end digital transformation. And so, we continue to expect digital to be our leading channel for growth in fiscal 2022.

Now one of the best gauges for success in our digital business is how strongly we're connecting with members. Our digital growth is led by outsized member buying, which has seen a penetration increase of 14 points since last year. Our membership strategy is working, as we increasingly use data and analytics to personalize member product offering and experiences. And we're seeing this come to life, as repeat buying members grew more than 70% in the quarter.

Now part of our success stems from our constant focus on expanding what it means to be a NIKE member. We brought this to life in Q1 by introducing a new launch experience, exclusive to the SNKRS App, that revolutionizeshow we serve consumers. The new experience debuted in one of the year's most highly anticipated launches, theOff-White Dunk. For the launch last month, we rolled out our new elevated SNKRS: Exclusive Access. This approach sends personalized purchase offers to members based on their engagement with SNKRS, past purchase attempts, and other criteria using data science to drive digital member targeting.

For example, 90% of the invitees for the Off-White Dunk went to members who had lost out on a prior Off-Whitecollaboration over the past two years. The result, the Off-White Dunk ended up in the hands of hundreds of thousands of our most deserving members, creating what we call exclusivity at scale. And this improved consumer experience has a positive impact on the entire business. We've seen that those who benefit from Exclusive Access on SNKRS spend more across NIKE, fueled by the energy of their win. So, our increasingly personalized approach to launch, along with benefits like Member Days and exclusive Nike By You access, highlights how we continue to increase the value proposition of NIKE membership.

We're also leveraging our digital advantage by investing in our brick-and-mortar fleet to create a compelling retailfootprint that supercharges how we serve consumers across physical and digital. A couple of weeks ago, I was in Los Angeles and toured some of our great retail there. I got to see a wide variety of stores, including our NIKE Live door in Long Beach, a Community door in East LA, and more. And across each and every store, what jumped out to me was our team. Their love for their community and their passion for our product and bringing it tolife for consumers was inspiring and just awesome to see.

I also enjoyed visiting a few strategic partner doors, including DICK'S and Foot Locker. What's clear across the marketplace, both owned and partnered, is how online to offline is becoming second nature. We know that higherlevels of connectivity across physical and digital are driving better consumer experience and loyalty. O2O services, such as buy online, pick up in store and ship-from-store, as well as the in-store shopping features of theNIKE App, drive our premium and seamless consumer experience. And we're starting to extend these innovative experiences globally.

In Q1, we brought our NIKE Rise, an immersive concept to Seoul. NIKE Seoul introduces new features to Rise,including Inside Track, an interactive RFID-enabled digital footwear table, where shoppers can compare detailsfor any two shoes simply by placing them on the table.

Our digitally connected retail experiences are clearly resonating with consumers. This quarter, our in-line fleet grew over 70% in revenue, approaching pre-pandemic levels. We're seeing over-indexed growth from members,not just at digital but also at physical retail, with member buying penetration up double digits since last year. And so, we'll continue expanding these compelling experiences across our fleet in fiscal 2022, driving that interplay between physical and digital retail.

In the end, NIKE is doing what we always do, staying on the offense. The strength of our consumer demand around the world continues to give us confidence in our playbook and execution. I said it earlier, and I'll say it again, I am proud of our resilient and creative team across NIKE, Jordan and Converse, and the work we continue to deliver for consumers. Our confidence as we look long term has not changed one bit. We've alreadygotten stronger through this pandemic and we're going to emerge from it even stronger yet.

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

Matt Friend, Executive Vice President & Chief Financial Officer:

Thank you, John, and hello to everyone on the call today. NIKE's acceleration to a more direct member-centric business model continues to fuel deep connections between consumers and our portfolio of brands. Drawing upon our culture of innovation, unmatched global scale and our industry-leading digital platform, we continue to serve the modern consumer as only NIKE can. Our first quarter results proved again that our strategy is working,and NIKE's Consumer Direct Acceleration is fueling the transformation of our long-term financial model. Our relentless focus on serving the consumer translated into revenue growth of 16% and EBIT growth of 22% versusthe prior year.

The NIKE brand remains distinctive and deeply connected in our key cities around the world. From New York toParis, Shanghai to Tokyo, NIKE continues to be consumers' number one cool and favored brand with a positionthat has gained strength as we've navigated through the pandemic. Consumer demand for NIKE, Jordan and Converse remains incredibly high, and our first quarter financial results would have been even stronger if not forsupply chain congestion resulting in lack of available supply. Despite these headwinds, retail sales still grew double-digits versus the prior year, including a record-setting back-to-school season in North America. SNKRS has increasingly become an indicator and barometer of brand heat, now being operational at scale in 50 countries around the world. NIKE Digital is now 21% of total NIKE brand revenue, which is an increase of 2 pointsversus last year, with strong double-digit growth versus the prior year even with broad reopening of physical retail.Digital is increasingly becoming a part of everyone's shopping journey, and we are well positioned to reach our vision of a 40% owned digital business by fiscal 2025. And coming back to marketplace health for a moment, we delivered strong growth in average selling price this quarter with continued improvement in full price realization.

This performance reflects our intentional efforts to manage the health of our product franchises as demand surges,to move available inventory to serve demand in the right channels, and to drive a more premium experience for consumers. This quarter, we exceeded our 65% full price sales realization goal which reflects the expectations that we put forward at our last Investor Day. As we accelerate our consumer-led digital transformation, we are developing and refining new capabilities that are transforming our operating model, quickly becoming a competitive advantage for NIKE.

Central to these capabilities is scaling our digital-first supply chain to enable NIKE's digital growth while optimizingservice, cost, convenience, and sustainability. We are evolving our distribution network and forward-deploying inventory closer to the consumer, leveraging data and advanced analytics. These actions will improve service levels, reduce carbon impact and ultimately reduce cost to fulfill an order. Our regional service center outside of Los Angeles opened one year ago, and we're excited with the opening of two more centers in Q1, one on the EastCoast and one in Spain.

Our investments in O2O services are putting our products in the path of more consumers and more efficiently optimizing our inventory. Today, we have at least two O2O services in each of our NIKE-owned stores in the US, and we are aggressively scaling these services across the globe. Our Express Lane offense is also creating moreand more agility across our portfolio. From creating locally relevant product on shorter lead times to leveraging a shared inventory pool across the marketplace, we are better conserving consumers with more operational flexibility, yielding higher profitability.

This quarter, Express Lane grew roughly 20% versus the prior year and increased its share of overall business.And last, the NIKE App continues to enable a convergence between physical and digital shopping journeys, eliminating friction for consumers. From member-driven personalization and localization to building an endless aisle through digital integration with our most important wholesale partners, Consumer Direct Acceleration is transforming

NIKE's operating model to move at the speed of the consumer.

Now, let me turn to the details of our first quarter financial results and operating segment performance. NIKE, Inc.revenue grew 16% and 12% on a currency-neutral basis with growth across all marketplace channels. NIKE Digital grew 25%, and NIKE-owned stores grew 24%. Wholesale grew 5% in the quarter, negatively impacted by lower available inventory supply due to worsening transit times. Gross margin increased 170 basis points versus the prior year driven primarily by higher NIKE Direct margins and partially offset by increased ocean freight surcharges. SG&A grew 20% versus the prior year. This was due to higher wage-related expenses, higher levelsof brand activity connected to return-to-sport and strategic technology investments.

Our effective tax rate for the quarter was 11% compared to 11.5% for the same period last year. This was due toincreased benefits from stock-based compensation and discrete items offset by a shift in our earnings mix. First quarter diluted earnings per share was $1.16, up 22% versus the prior year.

Now let's move to our operating segments. In North America, Q1 revenue grew 15%, and EBIT grew 10%. Demand for NIKE remained incrediblystrong for the fifth consecutive season, energized this quarter by back-to-school and the return to sport. Retail sales for our performance business grew strong double-digits during the fall season led by running, fitness andbasketball, powered by excitement from the Olympics, the new WNBA season, and the NBA Finals.

NIKE Direct grew more than 45% with NIKE Digital now representing 26% share of business. Digital continued itsmomentum and grew more than 40%, increasing market share by outperforming industry trends with strong growth in traffic and repeat buying member activity. The return to physical retail accelerated NIKE-owned store growth of over 50% as we served members with elevated experiences. NIKE-owned inventory increased 12% versus the prior year. This was driven by highly elevated in-transit inventory levels as transit times in North America deteriorated during the last quarter, now almost twice as long as pre-pandemic levels. This impacted product availability across the marketplace and our ability to serve strong levels of consumer demand, particularlyin the wholesale channels.

Closeout inventory was down double-digits versus the prior year. In EMEA, Q1 revenue grew 8% on a currency-neutral basis, and EBIT grew 26% on a reported basis. This region was energized by the Euros this summer where NIKE players scored more goals than all other brands combined, and more than half of those goals were with our Mercurial boots. We saw a strong consumer response to both the Mercurial boot and Replica jerseys during the tournament.

NIKE Direct grew 10% on a currency-neutral basis led by our NIKE-owned stores. Following a full reopening, we saw traffic increase by double digits versus the prior year with better-than-expectedconversion rates.

In EMEA, while NIKE Digital grew 2% in the quarter, demand for full price product grew nearly 30% as we compared to higher liquidation levels in the prior year. NIKE-owned inventory declined 14% on a reported basis with closeout inventory down double-digits. Transit times to EMEA have also deteriorated over the past 90 days, causing higher levels of in-transit inventory and negatively impacting product availability to serve strong consumerdemand.
In Greater China, Q1 revenue grew 1% on a currency-neutral basis. EBIT grew 2% on a

reported basis as the team delivered in line with our own recovery expectations. Retail sales were impacted in late July and August due to regional closures and lower levels of foot traffic due to COVID containment. Prior to late July, physical traffic had been approaching prior-year levels. In July, we engaged with consumers through the launch of our Joy of Sports local marketing campaign. This campaign generated over 1 billion local views, demonstrating strong brand connection with Chinese consumers. NIKE Directdeclined 3% on a currency-neutral basis, partially impacted by retail closures. NIKE Digital declined 6% as we compared a higher liquidation in the prior year, partially offset by double-digit improvement in full price sales mix. We experienced a strong 6.18 consumer moment where we grew nearly 10% versus the prior year and remainedthe number one sports brand on Tmall. Demand in our SNKRS App grew more than 130% for the quarter. Our experienced local team continues to navigate through marketplace dynamics. We finished the quarter with healthymarketplace weeks of supply and inventory normalization is on plan.

Now, moving to APLA, first quarter revenue grew 31% on a currency-neutral basis, and EBIT grew 72% on a reported basis. Revenue growth was led by SOCO, Japan, Mexico, and Korea, with more muted growth in Pacific and Southeast Asia and India due to COVIDrestrictions and government-mandated store closures. NIKE Digital grew more than 60% on a currency neutral basis, highlighted by the expansion of our NIKE app. In June, the app went live in Mexico and six additional countries across Southeast Asia, generating 3 million local downloads during the quarter. Earlier on the call, John spoke about the new NIKE Rise retail experience in Seoul.To mark the opening of the store, our Express Lane, SNKRS and NIKE Rise teams created the NIKE Seoul Dunk.This collaboration drove more than half of day-one sales and highlights how digital and physical experiences are converging in our own stores, leveraging local insights and a more agile supply model.

Now I will turn to our financial outlook. Consumer demand for NIKE remains at an all-time high, and we are confident that our deep consumer connections and brand momentum will continue. However, we are not immuneto the global supply chain headwinds that are challenging the manufacture and movement of product around the world. Previously, I had shared that we were planning for transit times to remain elevated for the balance of fiscal 2022. Unfortunately, the situation deteriorated even further in the first quarter with North America and EMEA seeing increases in transit times due primarily to port and rail congestion and labor shortages.

Additionally, several of our factory partners in Vietnam and Indonesia were required to abruptly cease operationsin the first quarter. As of today, Indonesia is now fully operational. But in Vietnam, nearly all footwear factories remain closed by government mandate. Our experience with COVID-related factory closures suggests that reopening and ramping back to full production scale will take time. Therefore, we're revising our short-term financial outlook to incorporate the following factors: 10 weeks of production already lost in Vietnam since mid-July, factory reopening to occur in phases beginning in October with a ramp to full production over several months, and elevated transit times consistent with where we are now operating today.

We now expect fiscal 2022 revenue to grow mid-single-digits versus the prior year, versus our prior guidance of low-double-digit growth, due solely to the supply chain impacts that I just described. Specifically, for Q2, we expectrevenue growth to be flat to down low-single-digits versus the prior year, as factory closures have impacted production and delivery times for the holiday and spring seasons. Lost weeks of production, combined with longertransit times, will lead to short-term inventory shortages in the marketplace for the next few quarters. We expect all geographies to be impacted by these factors. However, those geographies in Asia with less in-transit inventoryat the end of the first quarter will experience a disproportionate impact beginning in Q2.

For the balance of fiscal 2022, we expect strong marketplace demand to exceed available supply. We are optimistic inventory supply availability will improve heading into fiscal 2023 against the backdrop of a very strongbrand and healthy pull market across all geographies.

Turning to the rest of the P&L, we still expect gross margin to expand 125 basis points versus the prior year, at the low end of our prior guidance, reflecting stronger than expected full price realization, the ongoing shift to our more profitable NIKE Direct business, and price increases in the second half. This more than offsets roughly 100 basis points of additional transportation, logistics, and air freight costs to move inventory in this dynamic environment. We also expect a lower foreign exchange benefit, now estimated to be a tailwind of roughly 60 basispoints. And for the second quarter, we expect gross margin to expand at a rate lower than the full year due to higher planned air freight investment for the holiday season.

We expect SG&A to grow mid to high-teens. We intend to maintain our position as the number one cool and favored brand, and to celebrate the return to sport as we inspire and engage consumers around the world. We willalso maintain pace on our multiyear investment plans in order to transform our business for the future, as I've outlined in prior quarters. NIKE's financial strength is a competitive advantage, and it is in moments like these where our competitive strengths and strong balance sheet affords us the ability to remain focused on what's required to win and serve consumers for the long term.

In closing, our vision for NIKE's long-term future remains unchanged. NIKE is a growth company with unlimited potential. Despite new short-term operational dynamics, our Consumer Direct Acceleration offense is driving our business forward and transforming our financial model toward the long-term fiscal 2025 financial outlook I sharedlast quarter. This quarter's impressive results are additional proof that our strategy is right, not only for the moment we find ourselves in, but also for the opportunity to serve the future of athletes and sport, like only NIKE can. I wouldn't trade our position with anyone, and there is no better team to navigate through volatility and leadlong-term transformational change.

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

QUESTION & ANSWER SECTION

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

<Q – Erinn Murphy>: Great. Thanks. Good afternoon and really appreciate the update on what you're seeing real-time in the supply chain. I guess my question relatedly is, are there any, if you look to the fall and back – or holiday season, are there any key footwear franchises that are being more impacted than others? And then when you zoom back andthink about the longer term, what type of investments do you plan to continue to make within the supply chain to continue to improve your agility? Thanks so much.

<A – Matt Friend>: Well, Erinn, thanks for the question. There are several aspects to the current supply chain challenges that are probably not intuitive just based on my prepared remarks, and so let me take a couple of minutes to try to break itdown further. As I said earlier, consumer demand has never been higher, and we expect strong demand to continue for quarters to come. Over the last 90 days, two things have happened in the industry that we didn't anticipate: first, already long transit times worsened; and second, local governments mandated shutdowns in Vietnam and Indonesia. Keep in mind that there are global complexities and differences in transit times and sourcing mix across our geographies, so I'm going to use North America as an example to just go a little deeper on what I'm talking about.

Prior to the pandemic, it would have taken approximately 40 days to move product from Asia to North America. Transit times have been increasing due to container shortages, port congestion, rail congestion, and labor shortages impacting the entire industry. And during Q1, these lead times worsened further to now sit at 80 days, roughly 2 times normal. So, here's where the geo-specific piece comes in. So, as we finished Q1 with higher levelsof in-transit inventory, that means that we had full price inventory that was unavailable to use to serve current consumer demand in this quarter. We would have had an even stronger top line result if we had more product available to serve that consumer demand. And so, these elevated transit times that we're seeing, we've been talking about them now for several quarters and they worsened this quarter, continue to have an impact on our business.

And then in addition to that, there's Vietnam. And it's important to think about these two impacts together. As of today, 80% of our footwear factories located in the south and nearly half of our apparel factories in Vietnam are currently closed. So, through this week, that means we've already lost 10 weeks of production, and that gap will continue until factories are able to reopen and produce product at normal capacity. So, this has created a gap to the flow of inventory originally ordered for delivery beginning in mid-October, and our experience shows us, basedon navigating through this pandemic over the last 18 months, that it's going to take several months to ramp back to full production. Now, on a positive note, a few factories have just had their reopening plans approved like this week, and so we're optimistic about a phased reopening and ramp of production beginning in October.

And as I said earlier in the call, Indonesia is already operational, and they're ramping back up to capacity. So North America is coming into Q2 with elevated in-transit inventory, which means North America will have higher quantities of fall season product that it can sell in the second quarter. But holiday and spring production has beendelayed. And if you combine that with longer lead times, the impact of the lost production is going to have a greater impact in North America in Q3. Conversely, Greater China, which has lower levels of in-transit inventory and shorter transit times because it's closer to the factories, is going to experience the impact of the lost production earlier in Q2.

Our teams are leveraging their experience and our operational playbook and taking actions to try to mitigate these impacts, and they're doing things like maximizing our footwear production capacity in other countries, shifting apparel production out of Vietnam to other countries like Indonesia and China and others where viable, strategically leveraging air freight, and then we're continuing to employ a seasonless approach to product to serveincredibly strong consumer demand, given our success that we've had selling at full price, even if the product reaches the market later than we expected. So, while the environment is dynamic, these supply chain issues we believe are temporary. And from what we can see today, we're optimistic that available inventory supply will be improved as we head into fiscal year 2023.

<A – John Donahoe>: And Erinn, to the second part of your question on, in that context, investment, we're doing what strong companiesdo during periods of time like this. We're going to continue to invest in innovation and product creation and brand and storytelling in support of sport being back, in our strong sports marketing portfolio and our digital transformation. So that's continuing. And then we'll continue a strong presence around driving demand and brand even in the face of a supply-constrained market and, as Matt mentioned, accelerate air transportation and other things in our supply chain that allow us to manage every lever we can in this supply chain constrained environment. So again, our mantra going into this next phase is the same mantra we had going into the first phase of the pandemic. Let's make sure we emerge stronger coming out of it than we have even today going in.

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

<Q – Matthew Boss>: Great. Thanks. So, John, maybe could you speak to the overall health of the athletic industry, how best to think about overall TAM for NIKE as we exit the pandemic? Can you leverage size, scale, and innovation to accelerate market share? And then, Matt, real quick, just on the revised gross margin outlook for this year, aside from the supply chain impact, I guess my question is, could you speak to maybe some of the underlying drivers? It soundslike full price selling; digital margin is on track. Meaning, aside from the supply chain dynamics, does anything really change, meaning, do you see this as fully transitory, and any change to the multi-year gross margin outlook?

<A – John Donahoe>: Well, Matthew, on the first part of your question, the healthy athletic market is, in our remarks, sport is back, andthat is just such an energizing and important thing for NIKE, and we saw that this summer. I won't go back through it, whether it's the Olympics, basketball, global football, incredible US Open tennis, it goes, college football, US football back. I mean, so I would say traditional sport, is what I'll call it, is strong and back, and that's also happening now in high schools and grade schools as kids come back to school. Second thing we're seeing isthe expansion of the definition of sport, whether that's in the Olympics with sports like skate being included for thefirst time. Some of the most exciting moments in the Olympics was around skate. And that young generation, GenZ generation, really dominating remarkably in a very compelling way.

But also coming out of the pandemic, the definition of sport I think is getting to every athlete asterisk in different ways, just the concept of movement and health and the fact that sport can happen in your living room as well asgoing to the gym or the yoga studio or the basketball court. And so, part of the tailwind we're seeing is, sport is becoming part of everyone's everyday life, and that's a powerful tailwind for us. And then athleisure, that boring line between the sport part of your life and the rest of your life, is also what we view as a tailwind. So, we're doubling down on traditional sport, on capitalizing on the new emerging definition of sport. You saw that in skatein the Olympics. You see that in some of our brand campaigns being really close to where that Gen Z consumeris. And we think that bodes well for our future.

<A – Matt Friend>: And I'll just hit the gross margin quickly, Matt. We believe that this quarter was an excellent proof point of the success that we're seeing in driving our consumer-led digital transformation. We're seeing meaningful movementforward in both NIKE Direct mix of business and also NIKE Digital mix of business, as I mentioned. And it's what fueled our gross margin expansion in the first quarter. High levels of full price realization, greater mix of NIKE Direct and NIKE Digital business, and lower markdowns as we leverage the capabilities that we have to serve consumer demand how and where they want it. As we look longer term, we're absolutely continuing to look towards that high-40s gross margin outlook that we provided last quarter, and in the short term we're going to navigate through these transitory impacts. But when you've got a strong brand and you've got a healthy pull market, what we're seeing is strong full price margins offsetting some of these transient costs that we're going toexperience as we move product around the world.

Operator: Your next question comes from the line of Michael Binetti with Credit Suisse.

<Q – Michael Binetti>: Hey guys. Thanks for taking our questions here. Maybe, John, could you click into the China trends a little bit more in the quarter? I guess, John or Matt, last quarter you spoke to some of the trends within the quarter after the impact in April to help us give an understanding of the path back to what was headed back to normal at the time. Any kind of dimensions this quarter? You mentioned there's some COVID lockdowns in a few markets that weighed on the total China trend. Maybe where we're at in 2Q to date, and whatyou see is the right pace to think about getting back to normal in that market. And then on North America, to the extent if you do need to make decisions in the allocations of the inventory going forward, I know you had a good amount in transit that can feed into Q2. But how should we think about how you're thinking about allocation between the DTC channel and wholesale as we roll forward from here? Is it similar dynamics to what we saw in the first quarter, or any change in that trajectory?

<A – John Donahoe>: Matt, why don't I take the first part of Mike's question, you take the second about North America. On China, Michael, I'll just reiterate what I said last quarter is, we take a long-term view in China. We'll invest for the long term, and we're confident in the long-term opportunity. And coincidentally, this month is the 40th anniversary of NIKE's participation in China, and we saw Q1 results that were roughly in line with our expectations. And, as Mattsaid, supply constraints will impact our second quarter performance. But we are continuing to do what, frankly, Phil has done from the beginning in China, which he's done over the last 40 of years and we've done, and we will continue to do over the next 40 years, which is deliver innovative product that can connect with local consumers, create strong consumer connections to our brand, partly reinforced by the 7,000 mono brand stores across the country.

We're blessed to have a really strong local team, and I am so proud of that team, how they're navigating through. As we've said many times before, they have led us in the sort of pandemic playbook, and they continue to be veryresponsive on the ground there. And then we always have been and will continue to be very respectful and responsible corporate citizens, promoting sport and the well-being through activity and promoting sustainability and other important societal themes. And so, we'll continue to stay on that playbook and invest with consistency and longevity during this period of time.

<A – Matt Friend>: And just transitioning to North America, we've continued to deliver strong growth in that marketplace. I mentioned five consecutive quarters, or seasons, I should say, of incredibly strong demand. As we think about the marketplace, our approach is really no different than we've been talking about for a couple of years now. We start through the eyes of the consumer. Where is the consumer shopping, how is the consumer engaging with our brand across the marketplace, and we're going to continue to focus on prioritizing our product availability for thoselocations where the consumer is shopping, and that will continue to be within NIKE's own channels and our most strategic wholesale partners. And that's what we're going to do to continue to serve that demand. The marketplace, as I said, is going to be lean. We're going to have lean inventory across the marketplace, but NIKE and our partners will continue to try to create the best consumer experience that we can throughout the remainderof this fiscal year.

Operator: Your next question comes from the line of Bob Drbul with Guggenheim Securities.

<Q – Bob Drbul>: Hi. Good afternoon. Just two questions. The first one is on the spending levels. With the updated outlook on the revenue with the disruption of the supply chain, can you just help us understand how you're thinking about spending against the lower levels of revenue, whether it's demand creation or the investment technologies? And Ihave a follow up.

<A – Matt Friend>: Sure. Thanks, Bob. The year-over-year comparisons, as we've talked about for a while here are not really intuitive. And a couple of quarters ago I talked about, as we were starting to see the strength in consumer connections and the acceleration of our business, that we were going to begin accelerating investment to drive our digital transformation. And in particular, where we were investing was against technology, creating a digital-first supply chain in the marketplace. And we created a multiyear investment plan against our outlook to drive thatgrowth. And when we finished the first quarter, we finished our first quarter spending at about 29% of revenue. And as we think about the transitory nature of these impacts, we believe this is a moment where NIKE's financialstrength is a real competitive advantage.

And so, we believe these short-term dynamics will pass, but we're more convinced and committed to what we believe the capabilities we need to operate a consumer-direct business at scale as we execute this strategy. Andso that's where our focus and attention is going to be. We're going to keep our teams focused on creating those capabilities, which we're seeing translate into strong growth and profitability. And that also includes the investments that we're making from a brand perspective. Strong brands get stronger in this environment, and having that deep consumer connection, especially when it's rooted to sport and the return of sport, is absolutely what we need to be doing in order to continue to stay in a position of strength.

<Q – Bob Drbul>: Great. And if I could just sneak one more in, I think the Drake NOCTA line dropped today. I just wondered if you might give us some learnings on what you think about how that product is going and the opportunity that you havefor something like that.

<A – John Donahoe>: Bob, I am so glad you asked. I had a SNKRS win this morning on the NOCTA line, the vest. I'm excited. It's a great collection. Any time you win on SNKRS, it's a jolt. I was in the middle of my workout in one of our gyms hereon campus. I stopped the workout at 7:00 AM to see if I won, and I won. So, I'm pumped up about that. As we said earlier, in all seriousness, millions and millions of SNKRS users, what a great experience. And obviously that line is just another example of how NIKE is unparalleled in our ability to create real, innovative, stylish heat and connection with the consumer.

<Q – Bob Drbul>: Great. Thank you.

Operator: Your next question comes from the line of Simeon Siegel with BMO Capital Markets.

<Q – Simeon Siegal>: Thanks. Hey. Good afternoon, everyone. Just when thinking about your price elasticity of demand, so recognizingthe unit pressures you're talking about with inventory, could you just talk about maybe the opportunity or order of magnitude for potential pricing you see? And then, Matt, any way just to parse out the change in wholesale performance this quarter between the undifferentiated partners and then the strategic partners that you're continuing to support? Thanks.

<A – Matt Friend>: Yes. So, on the pricing question, I mentioned in my prepared remarks that we've taken some pricing actions in thesecond half. And what I would say, Simeon, is that we evaluate price value of our products on a season-by- season basis. And we consider a number of different factors that we incorporate to make a decision about what todo. But what I will tell you is that we have a longstanding relationship with our consumer, and so we take a long- term view to these types of decisions. And so, the price increases that we've implemented in the second half are in the low-single-digit range. And we feel it's appropriate given the marketplace we're operating in and those other factors that I referenced, considering we've got rising input costs and other factors that are impacting ourbusiness.

But I think it's really important not to drive past the fact that we continue to see strong growth in ASPs across thewhole marketplace, driven by higher full price realization as we've been talking about for several quarters and lower markdowns. And leveraging the capabilities of identifying our inventory, knowing where we want to put it, putting it in the path of the consumer, optimizing it between ourselves and our physical locations, our digital locations, and increasingly providing that endless access to some of our most strategic wholesale partners, all ofthese things are contributing to a higher level of full price realization across the marketplace. And so, we do believe that this is a base from where we want to operate as opposed to a moment in time, and that's driving profitability for NIKE at a moment that – where there's lots of disruption.

I think in terms of your second question, in terms of undifferentiated or differentiated, what I would tell you is thatwe continue to see strong growth in our differentiated partners, and our differentiated partners, because of the fact that they are creating a better consumer experience and driving more demand, their weeks of inventory on hand is about half where they would like for it to be right now, because of the strong demand that they're driving.

And to take it a step further, over the last three years, we've actually exited about 50% of our undifferentiated accounts, while we've been able to deliver strong double-digit growth. And so we believe that we will continue down this strategy, and as John alluded to in his prepared remarks, we believe that the supply-related reductions will likely trigger an even greater acceleration in the transformation of the marketplace towards NIKE and our most important wholesale partners.

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

<Q – Kimberly Greenberger>: Great. Thank you so much, and really, really great color on the call today. Thank you. Matt, I wanted to just talk through the resumption in production and when you see inventory levels normalizing, assuming that production resumes through that October-November timeframe that you laid out. As you sort of think about your lead times,the low inventory levels, when do you think in calendar year 2022, you're going to feel really comfortable about having gotten caught up on the inventory that is holding back revenue growth here over the next few quarters? Thanks so much.

<A – Matt Friend>: Sure. Well, Kimberly, our optimism stems from the fact that our factories are starting to have reopening plans approved, and that has happened this week. And so, we're optimistic that we're going to start to see production begin in October. Our experience from the COVID-related closures in China earlier in the pandemic, and then inIndonesia earlier this quarter, tells us that it will take time for those factories to ramp back up to full capacity.

We've lost 10 weeks of production since mid-July. And so, what we're really focused on are our factory partnersgetting back to full capacity, so that we can serve demand that we see in the marketplace. When we combine the lost production and the re-ramping, plus the extended lead times, we feel optimistic that we're going to see inventory supply improving as we exit this fiscal year and move into fiscal year 2023. And our experience would tell us that while this situation is going to be dynamic and it's not going to be linear, that's what we're planning towards at this point in time.

<A – John Donahoe>: And I might just build on that, Kimberly, to say, both Matt and I wish we had a crystal ball, but we don't. And one of the things that I think we are demonstrating through this very dynamic phase is, regardless of what the future holds, we're capitalizing on it. We're doing what great sports teams do, which is confronting the reality, making adjustments, showing agility, and executing in a way where we emerge stronger. And so, we had demand shocks last year with the closing of retail and phase one of the pandemic, and now we've got some supply shocks with phase two of the pandemic this year. We will navigate through those just as we did last year. I think we're strongertoday than we were 18 months ago, and we'll be stronger 18 months from now than we are today. And in the process, we're building that capability where we're leveraging our strengths, and we're leveraging the leadership position.

<A – John Donahoe>: And I just want to maybe conclude this call, Paul, by once again just expressing my sincere thanks and appreciation for the 75,000 NIKE teammates around the world who day in and day out are adjusting to the circumstances on the field, are demonstrating teamwork and resilience and creativity to serve consumers andcontinuing to innovate. And that's what we'll continue to do regardless of what the future deals us.

<A – Paul Trussell>: Thank you, Kimberly, for the question, and thanks to all for joining us today. We look forward to speaking with younext quarter. Take care and stay safe.

Operator: Ladies and gentlemen, we thank you for your participation in today's conference call. This concludestoday's conference call. You may now disconnect.