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UNOFFICIAL TRANSCRIPT – Q1FY22 NIKE, INC

SEPTEMBER 23, 2021

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 is Paul Trussell, VP of Investor Relations and Strategic Finance. Before I turn the call over to Mr. Trussell, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in the reports filed with the SEC including the annual report filed on Form 10-K.

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

Now I would like to turn the call over to Paul Trussell.

Paul Trussell

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2022 first quarter results.

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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. Thanks for your cooperation on this.

I'll now turn the call over to NIKE, Inc. President and CEO John Donahoe.

John Donahoe

Thank you, Paul, and hello to everyone on today's call.

Nike creates value through our relentless drive to serve the future of sport. 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 to purpose and proven operational playbook, we stay at the front of the pack.

Q1 was another strong quarter for Nike, with revenue growth of 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 opportunities.

As has been the case since the start of the 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 emerge even better positioned – and that's what we'll

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continue to do as we navigate through these current supply chain issues. We focus on what we can control, while leveraging the many levers at our disposal. You will hear Matt walk through our 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 work in our favor. Consumer shifts to Digital that might have taken five years will now take only two. 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 better shape. We'll be more agile ... more direct ... more Digital.

So, we remain focused and confident in our long-term business outlook. Our competitive advantages including our innovative product, brand strength fueled by compelling storytelling, our roster of the world'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. 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 connect to the consumer.

This summer in Tokyo, our leadership as the world's most innovative sports brand was demonstrated once again. If Nike were a country, we would have eclipsed the competition, capturing 226 medals, including 85 golds.

Here's a few examples of what excited us most this summer:

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- 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 and Jordan teams combined to take 5 of the 6 medals including both golds.
- And we continued our great legacy in Track & Field, with Nike athletes winning more individual medals in Track & Field events than all other brands combined.

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.

This summer of sport also saw Giannis and the Milwaukee Bucks win the NBA title after an electrifying Finals against Chris Paul, Devin Booker and the Phoenix Suns. Days later we released Giannis' 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 consumer response to the Zoom Freak, and we're excited by what we're seeing with our growing Giannis business.

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 the NIKE, Inc. family like U.S. Open winner Emma Raducanu and Manchester United's Jaden Sancho.

At the end of the quarter, the summer of sport gave way to back-to-school season. So far this season, 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 in our new consumer construct, we are

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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 instance 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 viewership numbers above our expectations.

The Kids business remains an important connection point for us, an organic incubator of the brand across multiple generations as we look long-term. We are the largest Kids athletic footwear brand in the world, but we know there's still so much potential ahead.

As we'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 continued proof of Nike's leadership in sport science. We expect this facility to act as an accelerant, as it helps extend our advantage in innovation even further.

Looking at our innovation agenda, there are two areas I'd like to touch on where our relentless pipeline of innovative product continues to create separation between us and our competition: Apparel and Sustainability.

First, apparel. We're seeing strong, over-indexing growth of 16% in this key growth driver. And the investments we're making in our new consumer construct are fueling higher Apparel growth for Women's, led by our yoga business. Our yoga collection today features multiple industry-leading innovations including Dri-FIT and Infinalon. These innovations are resonating with consumers and have helped us nearly quadruple our yoga business over the past two years.

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Another key apparel story for us in Q1 was our bras business. This quarter we maintained our #1 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.

Now, to discuss sustainability, take a look at what we've done with Space Hippie. Space Hippie, which as you may recall is quite literally made from trash, was originally introduced at our 2020 Future Forum and debuted four separate sustainable material innovations for us, including Crater Foam and Space Waste Yarn.

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.

Today, one year after that initial launch, there are more than 43 styles using Space Hippie innovations across four sports, three brands and our full consumer construct. You can 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 like Glide FlyEase.

By driving new dimensions across platforms, our work to scale Space Hippie's innovations catalyzes 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.

This is one example of how we lead with platforms, not just products. Our deliberate franchise and innovation management creates scalable and sustainable impacts on our business, and I'm excited by the upcoming new innovation platforms we'll be introducing soon.

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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 grew double 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 FY22.

One of the best gauges of success for 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 offerings and experiences. And we're seeing this come to life as repeat buying members grew more than 70% in the quarter.

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 revolutionizes how we serve consumers.

The new experience debuted in one of the year's most highly anticipated launches, the Off-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 invites for the Off-White Dunk went to members who had lost out on an Off-White collaboration over the last two years.

The result? The Off-White Dunk ended up in the hands of hundreds of thousands of our most

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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, fueled by the energy of their win.

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 retail footprint that supercharges how we serve consumers across physical and digital.

A couple 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. Across each and every one, what jumped out to me was our team. Their love for their community, and their passion for our product and bringing it to life for consumers, was 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 has become second nature. We know that higher levels of connectivity across physical and digital are driving a better consumer experience. O2O services, such as “buy online pick up in store” and “ship from store,” as well as the in-store shopping features of the Nike App, drive our premium and seamless consumer experience.

And we’re starting to extend these innovative experiences globally. In Q1 we brought our immersive Nike Rise concept to Seoul. Nike Seoul introduces new features to Rise, including Inside Track, an interactive RFID-enabled digital footwear table where shoppers can compare details for any two shoes simply by placing them on the table.

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Our digitally connected retail experiences are clearly resonating with consumers. This quarter, our inline fleet grew over 70% in revenue, approaching pre-pandemic levels. We are 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. We will continue expanding these compelling experiences across our fleet in FY22, 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 our execution. I said it earlier, and I'll say it again: I'm 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 hasn't changed one bit. We've already gotten stronger through this pandemic – and we're going to emerge from it even stronger yet.

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

Matt Friend

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 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 percent and EBIT growth of 22 percent versus the prior year.

The Nike brand remains relevant and deeply connected in our key cities around the world. From

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New York to Paris, Shanghai to Tokyo, Nike continues to be consumers #1 cool and favorite brand, with a position that 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 for supply chain congestion resulting in lack of available supply. Despite these headwinds, retail sales still grew double-digits versus 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 percent of total Nike Brand revenue, which is an increase of 2 points versus 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 percent owned digital business by fiscal 25.

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,
- move available inventory to serve demand in the right channels, and
- drive a more premium experience for consumers.

This quarter we exceeded our 65 percent 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 optimizing service, cost, convenience, and sustainability. We are evolving our

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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 costs 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 East Coast 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 United States and we are aggressively scaling these services across the globe.

Our Express Lane offense is also creating more and 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 serving consumers with more operational flexibility, yielding higher profitability. This quarter, Express Lane grew roughly 20% versus the prior year and increased its share of business.

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 percent, and 12 percent on a currency neutral basis with growth across all marketplace channels. Nike Digital grew 25 percent and Nike-owned stores grew 24 percent. Wholesale grew 5 percent in the quarter, negatively impacted by lower available inventory supply due to worsening transit times.

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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 percent versus the prior year. This was due to higher wage-related expenses, higher levels of Brand activity connected to return to sport, and strategic technology investments.

Our Effective Tax Rate for the quarter was 11.0 percent compared to 11.5 percent for the same period last year. This was due to increased 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 percent versus the prior year.

Now let's move to our Operating Segments.

In North America, Q1 revenue grew 15 percent and EBIT grew 10 percent. Demand for Nike remained incredibly strong 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, and basketball powered by excitement from the Olympics, the new WNBA season, and the NBA finals.

Nike Direct grew more than 45 percent. Digital continued its momentum and grew more than 40 percent, 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 percent as we served members with elevated experiences.

Nike-owned inventory increased 12 percent 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

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across the marketplace and our ability to serve strong levels of consumer demand, particularly in the wholesale channels. Closeout inventory was down double-digits versus the prior year.

In EMEA, Q1 revenue grew 8 percent on a currency neutral basis and EBIT grew 26 percent on a reported basis.

The region was energized by the Euros this summer, where Nike players scored more goals than all other brands combined, and more than half 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 percent on a currency neutral basis, led by our Nike-owned stores. Following a full re-opening, we saw traffic increase by double digits versus the prior year, with better than expected conversion rates. In EMEA, while Nike Digital grew 2 percent in the quarter, demand for full-price product grew nearly 30 percent as we compare to higher liquidation levels in the prior year.

Nike-owned inventory declined 14 percent on a reported basis, versus the prior year, 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 consumer demand.

In Greater China, Q1 revenue grew 1 percent on a currency neutral basis. EBIT grew 2 percent 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. The campaign generated over 1 billion local views, demonstrating strong Brand

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connection with Chinese consumers.

Nike Direct declined 3 percent on a currency neutral basis, partially impacted by retail closures. Nike Digital declined 6% as we compare to 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 percent versus the prior year and remained the number 1 sports brand on Tmall. Demand on our SNKRS app grew more than 130 percent for the quarter.

Our experienced team continues to navigate through marketplace dynamics. We finished the quarter with healthy marketplace weeks of supply, and inventory normalization is on plan.

Now moving to APLA. Q1 revenue grew 31 percent on a currency neutral basis and EBIT grew 72 percent 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 COVID restrictions and government mandated store closures.

Nike Digital grew more than 60 percent 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 three 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 1 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 immune to the

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global supply chain headwinds that are challenging the manufacture and movement of product around the world.

Previously, I shared that we were planning for transit times to remain elevated for the balance of fiscal 22. Unfortunately, the situation deteriorated even further in the first quarter, with North America and EMEA seeing increases in transit times due primarily to port congestion and labor shortages.

Additionally, several of our factory partners in Vietnam and Indonesia were required to abruptly cease operations in 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 suggest that re-opening and ramping back to full production scale takes time.

Therefore, we are revising our short-term financial outlook incorporating the following factors:

- 10 weeks of production already lost in Vietnam,
 - factory re-opening 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 22 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 expect revenue 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 longer transit times will lead to 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 inventory at the end of the first quarter will experience a disproportionate impact beginning in Q2.

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For the balance of fiscal 22, we expect strong marketplace demand to exceed available supply. We are optimistic inventory supply availability will improve heading into fiscal 23, against the backdrop of a strong Brand 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 bps of additional transportation, logistics and air freight costs to move inventory in this dynamic environment. We also expect lower foreign exchange benefit, now estimated to be a tailwind of roughly 60 basis points.

And for Q2, 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 #1 cool and favorite brand and celebrate the return to sport as we inspire and engage with consumers. We will also maintain pace on our multi-year 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 25 financial outlook shared last 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.

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I wouldn't trade our position with anyone, and there is no better team to navigate through volatility and lead long-term transformational change.

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