FY 2022 Q2 Earnings Release Conference Call Transcipt
December 20 , 2021

PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2022 second 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 all 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, VP Investor Relations & Strategic Planning:

Thank you, operator.

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

As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about an hour ago, or at our website: investors.nike.com.

Joining us on today's call will be NIKE, Inc. President and CEO John Donahoe, and our Chief Financial Officer, Matt Friend.

Following their prepared remarks, we will take your questions. We would like to allow as many of you to ask questions as possible in our allotted time. So, we would appreciate you limiting your initial questions to one. Thank you for your cooperation on this.

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

John Donahoe, Chief Executive Officer and President, NIKE, Inc.:

Thanks, Paul, and hello and Happy Holidays to everyone on today's call.
Before I get into our quarterly performance, I want to take a moment to acknowledge the recent passing of Virgil Abloh. Since 2016, Virgil has been a beloved member of the Nike, Jordan and Converse family. He was a brilliant creative force who shared a passion for challenging the status quo and pushing forward a new vision, while inspiring multiple generations along the way. But what stood out to me personally about Virgil, was his humility and humanity. We offer our condolences to the many who shared a connection with Virgil. He will be missed greatly.

As we look at Q2, the creativity and resilience of our entire NIKE, Inc. team helped deliver another strong quarter. The results we delivered offer continued proof that our strategy is working, even as we execute through global macroeconomic constraints.
Whenever there's turbulence, I always go back to the fundamentals. For Nike, that means putting the consumer at the center and leveraging our long-term competitive advantages…which include

- A culture deeply rooted in innovation
- A brand that deeply connects with consumers, fueled by compelling storytelling, and

- An unmatched sports marketing portfolio

And we believe a fourth emerging competitive advantage for us is Digital, as we are one of the few brands that can directly connect with and serve consumers at scale.

We also continue to benefit from structural tailwinds that have accelerated during the pandemic. Tailwinds that include:

- a larger movement of health and fitness that is taking place around the world,
- consumers' desire to wear athletic footwear and apparel in all moments of their lives, and an
- expanding definition of sport,

And last, the fundamental shift in consumer behavior toward digital plays to our increasing digital advantage.

As I've said before, challenges create opportunity for the strong brands to get stronger. That's what's happening here. And we are now in a much stronger competitive position today than we were 18 months ago. And that trend continues.

We are seeing this strength come to life this holiday season. Our brands' deep connection with the consumer is driving strong holiday sales, most notably with North America Digital leading the industry over Black Friday week, with close to 40 percent growth.

And our Singles Day performance showcased our brand strength in greater china as we added 13 million new members, and Nike was again the number one sport brand on Tmall.

More broadly, this holiday season has shown the power of our digital transformation across the globe. Digital is the engine driving our Consumer Direct Acceleration strategy.

Q2 was also another incredible quarter for sport led by our deep roster of athletes and teams. Let me just touch on a few of the highlights from the Quarter.

Following the exciting end of the WNBA and MLB seasons, the energy around sport continues with the NBA, NFL, European soccer, and upcoming college football bowl season, where 16 of the top 20 teams and three out of the four playoff participants are Nike teams. When these leagues are as exciting as they are today, our business benefits.

Nike athletes continue to lead the way across the sports landscape, highlighted by Barcelona captain Alexia Putellas, who won the Ballon d'Or as the best female footballer in 2021. We were also thrilled to see Marcus Rashford receive his MBE from Prince William last month, an honor very well deserved for his work to support vulnerable children during the pandemic. And congratulations to Cristiano Ronaldo for reaching yet another remarkable milestone by becoming the first player in recorded history to score 800 career goals in official matches.

And I also have to give a special shout-out to Shalane Flanagan who was wearing the Nike Air Zoom Alphafly Next%, when she completed the six World Marathon Majors in six weeks…running each of them in under two hours and forty-seven minutes. This achievement offers all of us a reminder of the joy and unrelenting spirit of sport.

As we deliver against our Consumer Direct Acceleration Strategy, we continue to drive separation as the most innovative sports brand by delivering a constant pipeline of new products that set the standard. What's more, we're aligning against our key growth drivers of Women's, Jordan and Apparel, as well as to our commitments to sustainability.

In Women's, we launched a brand-new shoe designed specifically for dancers… The Nike Air Sesh, was designed by Tinker Hatfield, in collaboration with professional dancers and choreographers, and it prioritizes both style and performance with a mid-cut leather upper and

Cushion foam under the foot. We launched the Air Sesh for Nike members first, with a wider release to take place soon.

This new product comes as we welcome some of the world's best athletes to our global roster, including dance choreographer Parris Goebel and fitness athlete Tunde Oyeneyin. As we continue to accelerate our strategy and fuel the expanded definition of sport, we are able to more deeply connect with women and create an even sharper focus.

And this quarter also saw the debut collection from the Serena Williams Design Crew, our apprenticeship program that advances diversity in design. The Crew connects innovation, design and purpose in a uniquely powerful way, fueled by our commitment to the full spectrum of sport for women, across performance and lifestyle. Serena joined us on campus a few months back to help open the Serena Williams Building at our World Headquarters. Along with our LeBron James Innovation Center, these two buildings represent the most remarkable investment in sport innovation in the world.

We were also thrilled to see the Jordan Brand launch the AJ36. The AJ36 is NIKE Inc.'s first shoe using leno-weave, a process that creates material that is uniquely strong, lightweight and adaptable to all foot shapes … making the AJ36 one of the lightest Air Jordans ever. Consumers can expect to see us iterate on this innovation in future seasons.

In Apparel, we're driving energy in the market through design that resonates with consumers. The latest NBA City Edition and MLB City Connect uniforms are great examples as we grow the culture of the sport by listening to local team communities and using thoughtful design to celebrate the game.

We also launched FIT ADV, the next generation of performance apparel that combines weather-ready tech and innovative design to help athletes take on extreme conditions. This represents the pinnacle of Nike apparel innovation and is currently in Nike's performance apparel collections. And next year, it will be available in Nike lifestyle products across all platforms.

And finally in sustainability, we launched Alphafly Next Nature, our most sustainable performance shoe and our first sustainable performance running shoe. This continues the progress made by our Cosmic Unity sustainable basketball shoe …. by reaching more than 50 percent total recycled content by weight. Learnings from the Alphafly Next Nature will be scaled across our running line, creating higher-performing products with more sustainable materials. We know the future of sport depends on a healthy planet, and we remain committed to doing our part to protect that future.

As we connect consumers with the strongest innovation, athlete roster and brand storytelling in the world, we are also elevating their experience through One Nike Marketplace. We are creating the marketplace of the future, where we serve consumers with seamless, consistent, and premium experiences.

Through Nike membership, we increasingly know and serve our consumer across a connected marketplace. I'll highlight three examples from this quarter of how Nike is driving a more elevated and premium member experience across the marketplace:

First, we recently launched new wellness content and workouts featuring Megan Thee Stallion in our Nike Training Club App. Megan's content drove record high engagement, drawing a 2x increase in daily active users in NTC, and her curated looks saw more than double the demand, compared to any other product content viewed during the same time period.

Second, ahead of Singles Day in Greater China, we activated a new member experience on Tmall and improved the onboarding journey. As a result, the Nike Flagship store on Tmall was the number one brand for new member recruitment across sport, driving a 20 point increase in member demand penetration this year.

And third…just last month, we announced a partnership with one of our strategic retail partners, Dick's Sporting Goods, who shares our vision for the future of retail - specifically, shopping and experiences that are amplified by digital and personal to each consumer's journey. This new partnership allows shoppers to link their Nike member account and their DSG account together to unlock exclusive offers, products and experiences.

And recently, I had an opportunity to visit one of DSG's newest concepts, the House of Sport door in Rochester, NY. I must say I was blown away at the store's unique service model, interactive sport experience and enhanced showcasing of product, which creates a true destination for consumers and will alter future expectations at retail.

Our partnership with DSG is a new model for how brands and retailers work together – delivering product, experience, and connection service to delight consumers at scale.

We are fulfilling our vision, that through connected member experiences and inventory, powered by connected data and technology, we can provide consumers with greater access to the very best of Nike with more speed, convenience and connection to our brand and to sport than ever before.

As we look forward there is even more opportunity to connect consumers with Nike across digital platforms that integrate sport, innovation, culture, and commerce.

For example, we recently opened a new space in our NY digital studio to produce the weekly SNKRS livestreams that are driving industry leading engagement metrics. Weekly content includes launch previews in our SNKRS LIVE Heating Up Show, and a new Jordan franchise presented through the lens of female Jordan fans, called J-Walking. Our stories go deep and engage a two-way interaction with the community. As a result, our consumer engagement is 3x the industry average for livestreams.

Speaking of SNKRS and Jordan, the first set of invitations for the AJ11 Cool Grey was sent to the largest female-focused group yet and sold out in the first hour. The group was selected utilizing our new Dedication Score… designed to reward member groups with high product affinity. We continue to see Exclusive Access serve as a defining marketing mechanism to connect with consumers.

In Q2, we also launched the 3D immersive world of NIKELAND on Roblox. Nike is meeting young athletes* wherever they are, encouraging them to let their imaginations run wild, and rewarding real-world movement through new virtual experiences.

And just last week, we welcomed RTFKT to the NIKE Inc. family. The Nike, Jordan and Converse brands have always thrived at the intersection of sport, creativity, innovation and culture. The RTFKT acquisition allows us to extend this reach to serve and delight consumers and creators in both the physical and virtual worlds. We will invest in the very talented RTFKT team, creator community and cutting-edge innovation to deliver next generation experiences that involve the RTFKT and NIKE Inc. brands.

Today, we are stronger than we were before the pandemic, and I couldn't be more excited by the opportunity ahead of us. Our results this quarter are evidence that our strategy is working.

As we close out 2021, I want to take a moment to personally thank our 75,000 global NIKE, Inc. teammates for everything they've done this year. Through all we've navigated, this team has worked together… with creativity and resilience… to serve our consumers and communities. This team is the greatest collection of talent in the world, and I want to sincerely thank them.

With that, I'll turn it over to Matt.

Matt Friend, Executive Vice President & Chief Financial Officer:

Thank you, John. Hello and happy holidays to everyone on the call.

As you've heard us say before, Nike is a growth company with boundless potential. And our Consumer Direct Acceleration strategy is transforming our operating model by driving deeper and more direct connections with consumers through digital.

Our teams continue to navigate through unprecedented levels of volatility with flexibility, agility and grace… leveraging the operational playbook we created at the onset of the pandemic to stay focused on what matters most. We have embraced new ways of working, elevated experienced players into new leadership roles, re-organized the company to create even deeper focus on the consumer, and developed new capabilities to serve consumers directly with speed and at scale.

Nike's second quarter financial results were in line with the expectations we established 90 days ago, fueled by continued Brand momentum, the strength of our product franchises with extraordinary levels of full price realization, and strong season-to-date Holiday sales, offset by lower levels of available inventory supply relative to marketplace demand.

As John mentioned, we had an incredible Black Friday week with Nike Direct in North America and EMEA, increasing over 20 percent versus the prior year, on top of last year's meaningful gains.

To accomplish this, I'm particularly proud of the work by our supply chain teams. In late October, I was able to visit our North America distribution centers in Pennsylvania, Tennessee and Mississippi, to review our expanding digital fulfillment capabilities and holiday readiness plans. Our teams are executing those plans with precision… optimizing available inventory to meet demand with improved service levels and lowering carbon impact, all enabled through technology and automation.

Staying on the topic of supply chain a little longer…

Factory re-opening in Vietnam is on plan. Nearly all impacted factories began re-opening in October. As of today, all factories are operational and employee attendance rates have improved, with weekly footwear and apparel production now at roughly 80 percent of pre-closure volumes. In total, Vietnam factory closures caused us to cancel production of roughly 130 million units…due to three months of lost production volume and several months to ramp back to full production. Compared to ninety days ago, we are increasingly confident supply will normalize heading into Fiscal '23.

Turning to our digital business...

Nike's digital growth is outperforming comparisons and being fueled by our member-centric focus. Nike Digital grew 11% in the quarter, on a currency neutral basis, setting the pace for the industry. Nike Digital is now 25% of total NIKE Brand revenue, up three points versus the prior year and more than double the digital mix in Fiscal '19.

Enhanced onboarding experiences are attracting millions of new members into the top of the funnel, and we are focused heavily on member engagement and buying. Member engagement grew 27 percent, and repeat buyers grew 50 percent versus last year, driving overall higher AUR, AOV and member buying frequency. 40% of total digital demand this year is coming from our mobile apps, highlighting the strength of our digital platform.

We now have over 79 million engaged members across our Nike ecosystem. And as Nike's digital ecosystem continues to grow, we are beginning to see the compounding benefits of scale – from brand awareness and consumer connection to data informed personalization and inventory utilization, to loyalty.

This quarter, we held our first globally coordinated Member Days event, setting records in member engagement. From member exclusive product offerings to our first livestreamed member events from our Nike Town London and Passeig de Gràcia Store in Barcelona, we created a distinct member experience and set a record for weekly active users on the Nike App in North America.

Now moving to one final topic. Connecting with today's consumer means serving them with the product they want…when and where they want it. Consumers want a premium, seamless and personalized experience, with minimal friction across their journey to explore, engage, connect and purchase products from the Brands they love.

As we've discussed before, Nike is focused on creating One Nike Marketplace that elevates the Brand by creating direct consumer connections through fewer, more impactful wholesale partners, with a connected mobile digital experience at the center built for the Nike member.

Over the past four years, North America has reduced the number of wholesale accounts by roughly 50 percent, while delivering strong growth and recapturing consumer demand through Nike Direct and our strategic wholesale partners… leading the way for Nike.

In the second quarter, North America Digital grew 40% versus the prior year, pushing Nike Digital to 30 percent of total North America marketplace, bringing Nike Direct to 48 percent of total.

In order to enable this growth and drive the shift in marketplace composition, we have accelerated investment to evolve our distribution network and scale a digital first supply chain, leveraging advanced analytics, automation and technology. We have opened two new regional service centers on both coasts, which are able to deliver more units to consumers with shorter delivery times. We also enabled ship from store capabilities across our store fleet, all leveraging advanced analytics from our Celect acquisition. On automation, we have added more than one thousand robots in our distribution centers to handle the digital growth. In our digital distribution center in Memphis, robots handled more than 10 million units that would have otherwise required manual labor

We continue to scale O2O consumer services across our store fleet, including buy online, pick up in store, and digital order returns in store. Volumes are relatively small today, but we have significant opportunity to scale. We have also established new fulfillment models with key strategic partners to create inventory visibility across the marketplace and optimize full price digital demand. When we do this right, the consumer wins.

The progress being made to create One Nike Marketplace has accelerated North America's revenue growth and gross margin expansion for yet another quarter, illustrating how Consumer Direct Acceleration will fuel Nike's growth and profitability towards the Fiscal '25 outlook we shared in June.

Now let me turn to the details of our second quarter financial results and operating segment performance.

NIKE, Inc. Revenue grew 1 percent, and was flat on a currency neutral basis, led by 8 percent growth in Nike Direct offset by a 6 percent decline in wholesale, due to optimization of available inventory supply. Nike Digital grew 11 percent and Nike-owned stores grew 4 percent with significant improvements in traffic and higher conversion rates.

Gross Margin increased 280 basis points versus the prior year, driven primarily by higher Nike Direct margins due to lower markdowns, higher full price mix and foreign currency exchange rates, partially offset by increased freight and logistics costs.

SG&A grew 15 percent versus the prior year primarily due to normalization of spend against brand campaigns, digital marketing investments to support heightened digital demand, strategic technology investments and wage related expenses.

Our Effective Tax Rate for the quarter was 10.9 percent compared to 14.1 percent for the same period last year. This was due to a shift in our earnings mix and the effects of stock-based compensation.

Second quarter Diluted Earnings Per Share was $0.83, up 6 percent versus the prior year.

Before we move into operating segment results, I want to recall a few points I made last quarter regarding the impact of Vietnam factory closures on the short-term performance of each of our geographies, beginning in the second quarter.

North America and EMEA finished the first quarter with high levels of in transit inventory, resulting in prior season supply that was arriving late due to longer transit times, which could be sold in the second quarter. We saw that in our Q2 results.

However, Greater China and APLA, located closer to our sourcing base with shorter standard transit times, experienced a decline in units sold in the second quarter due to lost production and lower available inventory supply. We also saw that reflected in our Q2 results.

With that in mind, let's review the operating segments….

In North America, Q2 revenue grew 12 percent and EBIT grew 21 percent. Demand for Nike remained incredibly strong, with season-to-date Holiday retail sales across the total market growing double-digits, energized by the continued momentum from the return to sport and the beginning of an outstanding holiday season.

Performance sport dimensions delivered strong double digit retail sales growth, led by Running, Fitness, and Basketball, on lower levels of sell-in due to available inventory supply. Women's Retail Sales grew high double digits, more than twice the rate of men's, with strong growth across both footwear and apparel.

Nike Direct had an outstanding quarter, growing 30 percent versus the prior year. As I mentioned earlier, Digital maintained its momentum, growing 40 percent, and setting holiday records on Black Friday week. Nike-owned Stores also delivered strong double-digit growth, with traffic trending towards pre-pandemic levels, and strong increases in AUR due to lower closeout inventory levels, and significant year-over-year improvements in markdown rates and promotions. Despite strong retail sales momentum in the wholesale channel, revenue declined 1 percent as marketplace inventory levels remain lean, and Vietnam factory closures and longer transit times disrupt the flow of inventory supply to meet marketplace demand.

In EMEA, Q2 revenue grew 6 percent on a currency neutral basis and EBIT grew 22 percent on a reported basis. Season-to-date holiday retail sales across the total market grew double digits, with strong growth across all consumer segments.

The region was energized by the start of the global football season and the Champions league tournament across the continent. Nike players continue to dominate on the pitch with the Mercurial boot being the lead scorer in a number of European professional leagues. We saw a strong consumer response for the Mercurial boot and launch of the Champions League 3rd kit.

Wholesale revenue grew 6 percent on a currency neutral basis as we comp prior year market closures. Nike Direct also grew 6 percent, led by double digit growth in Nike-owned stores as we comp prior year store closures, with traffic improvement due to tourism picking up and back to school holidays. Nike Digital was down 1 percent, as we compare to extraordinary levels of off-price sales in the prior year, as the Geography leveraged digital in the prior year to liquidate excess inventory. This quarter, our full price Digital business grew over 20 percent, resulting in a 30-point improvement in full prices sales mix, double-digit growth in AUR and improvement in markdown rates and promotions. This contributed to strong year-over-year expansion in gross margin and return on sales profitability.

In Greater China, Q2 revenue declined 24 percent on a currency neutral basis and EBIT declined 36 percent on a reported basis, however, season-to-date holiday retail sales across the total market have trended more favorably.

Results for this quarter were as expected, as we navigated lower full price product supply due to the Vietnam factory closures. We saw disproportionate impacts to our wholesale revenue, which declined 27 percent on a currency neutral basis.

Nike Direct declined 21 percent with declines in both digital and physical retail channels. COVID-related lockdowns continue to drive volatility in retail traffic, however, we did see traffic recover to pre-pandemic levels at times throughout the quarter. Digital declined 27 percent, partially impacted by delay in product launch timing on SNKRS. Over the 11.11 consumer moment, we drove stronger digital performance with significant member acquisition, and higher AOV through better engagement with consumers.

While challenging, we continue to leverage our operational playbook and remain optimistic about the longer term in Greater China.

This quarter, we extended our Joy of Sport brand campaign, utilizing local influencers, Olympians, and other athletes that are part of Nike’s leading sports marketing portfolio in Greater China. The Jordan Brand added to the energy by announcing their first female athlete signing in Asia, with basketball player Yang Shu Yu. To support this activity and normalize our marketing investment levels, we increased our investment in demand creation in the second quarter by more than 40% versus the prior year.

Our local team remains focused on creating distinctive and authentic connections with Chinese consumers. We celebrated the 40th anniversary of Nike's operations in China by using the Express Lane to reintroduce the original Nai-ke collection, with robust storytelling on the history and heritage of these iconic products. During our first launch, all product sold through in the first hour. We will continue to expand the Express Lane to bring unique, localized offerings to the consumer, leveraging our most popular global product franchises, to drive uniquely Nike energy in the marketplace.

We see encouraging signs in Greater China…and while inventory supply has been a major disruption in the marketplace, we continue to expect Fiscal 22 to be a year of recovery. Having said that, we expect to see sequential improvement from here, beginning in the third quarter.

Now moving to APLA. Q2 revenue declined 6 percent on a currency neutral basis and EBIT declined 8 percent on a reported basis. Double digit revenue growth, on a currency neutral basis, in SOCO was offset by declines in Asia Pacific territories which faced a greater impact from Vietnam factory closures as well as the business model shift in Brazil. Season-to-date holiday retail sales across the total market grew versus the prior year, despite supply disruptions and door closures in SEA&I and Pacific.

Nike Direct grew 6 percent, led by Nike Digital growth of 25 percent. Our teams maximized market moments with all territories delivering successful Member Days and locally relevant activations including Singles Day in Southeast Asia, Buen Fin in Mexico and Cyber Week in Japan. Mexico's Digital business more than doubled as we enabled a localized assortment and fulfillment capabilities through the Nike App.

Finally, APLA continues to leverage the Express Lane, their digital ecosystem and global partnerships to create locally relevant product and meaningful engagement with consumers around the world. Consumers in APLA are highly connected, and our team continues to innovate on digital experiences that are locally relevant. The Dia De Los Muertos footwear pack saw 100 percent sell through and this story was extended to the world through our new partnership with Roblox.

Now let's turn to our financial outlook…

As we approach the end of the second year of the pandemic, it is becoming even more challenging to compare quarters and fiscal years due to multiple waves of COVID-related disruption, at different times, across the consumer marketplace and now supply chain. We expect the operating environment to remain volatile as COVID-variants continue to cause disruption to business operations. Our Fiscal '22 financial outlook reflects inventory supply significantly lagging consumer demand across Nike's portfolio of brands. However, Nike's long-term market opportunity is larger than ever, and so we remain focused on what we can control in the short-term…and on where we are heading through our Consumer Direct Acceleration strategy…and on what is required to deliver on our Fiscal '25 financial outlook.

Specifically for Fiscal '22, we continue to expect Revenue to grow mid-single digits versus the prior year, in line with guidance from 90 days ago. For Q3, we expect revenue to grow low single digits versus the prior year, due to the ongoing impact from lost production from COVID-related disruptions in Vietnam.

We are raising our Gross Margin guidance to expand 150 basis points versus the prior year. We expect to continue benefitting from exceptional demand against the backdrop of lean marketplace inventory. Full price realization will remain above our long-term target, with lower channel markdowns. However, we expect product costs to rise in the second half due to higher macro input costs. We are also planning for supply chain cost for the full year to increase relative to our estimates ninety days ago, with a greater impact in the second half. Last, we now expect foreign exchange to be a 55 basis points tailwind versus prior year.

We continue to expect SG&A to grow mid-to-high teens for the full year as demand creation spend normalizes and we continue to invest in the capabilities to support our consumer-led digital transformation.

We now expect our Effective Tax Rate to be in the low teens for the full year.

Consumer Direct Acceleration is driving our business forward…and it is transforming our financial model. We continue to prove that we can manage through the uncertainty and volatility in the current operating environment…But we are doing more than just managing through…we are building Nike for the future…with deeper consumer connections, a pipeline of product innovation to serve the needs of the modern athlete, and new operational capabilities required to serve consumers directly and digitally, at scale. We have a clear vision of our Brands' long-term future, and so we remain focused on what is required to win over the long-term.

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

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

Q: Kimberly Greenberger
Great. Thank you so much. And a great job here navigating through, I think, a very difficult time. Matt, I wanted to follow up on your commentary regarding the resumption of production running at 80%. Can you just talk about your expectation here over the next several months in terms of that continued productivity ramp? And when do you expect to be -- if you could just talk about, again, I know you talked about it last quarter, but when do you expect to be back in a more offensive position with regard to inventory and fully restocked on that? Thank you.

A: Matt Friend
Sure, Kimberly, and thanks for the question. As I mentioned, our factories are back operational at this point in time, and I referenced an 80% number across footwear and apparel. It actually skews a little lower in footwear and a little higher in apparel. But as we watch employee attendance rates each week, we continue to grow increasingly confident in the guidance that we provided last quarter. So, last quarter, we said our factories would resume production on October 1, and we said it would take us several months to get back to weekly production capacity consistent with where we were prior to the factory closures. We're on that plan.

So, as we look at our guidance for the balance of the year, it reflects those continued assumptions. And relative to where we were 90 days ago, we're increasingly confident that inventory supply will normalize and that we'll be in a position to meet the incredible demand that we're seeing across the marketplace.

Operator

Your next question comes from the line of Adrienne Yih with Barclays.

Q: Adrienne Yih

Yes. Thank you very much. Also my kudos for navigating a tough landscape. John, I wanted to ask about China. Adidas on their call maybe a month ago, early November, had talked about too much inventory and actually having to redirect. It was very promotional in the China market. So, I was wondering if you can talk about the China competitive landscape, maybe some commentary on both onto leaning the domestic brands versus the western brands, Nike, Adidas, Puma and the like. Thank you very much.

A: John Donahoe

Yes. Thanks, Adrienne. I'm just going to repeat what I said last quarter and the quarter before, which is NIKE always has, and we always will, take a long-term view in China, right? We've been there for 40 years. Phil was in there very early. We have built up a very strong brand connection with the consumer in China. And we're going to continue to invest to lead in China. And so, we're investing behind the various things that brought us to where we are today.

First and foremost, we have a great local team. Angela Dong and her team are helping us navigate and shepherd through the current environment. Product innovations, at the top of our list, the most innovative product in the world that we consistently produce increasingly tailored to the Chinese consumer through our Express Lane. And Matt talked a little bit about that, and that more and more of what we do in China is tailored to that China consumer. Same thing on storytelling. Storytelling that's centered on local athletes and the local consumer. We mentioned the signing of the most recent Jordan sports marketing elite athlete and the live streaming. We're connecting with that local Chinese consumer on their terms.

And then, we continue to be responsible citizens. We've always invested to grow sport in China. We are continuing to do that. We care and are investing behind sustainability. And so, the same fundamentals that have always been there, we believe, are the right fundamentals going forward.

This quarter, as Matt said, the results were in line with what we expected, with all the supply shortages and other dimensions. And what I look at is when we are present and active with the consumer in China, how they're responding. We saw some very encouraging things
We were very active around Singles' Day, right? We mentioned 90 live streams in the month prior with over 70 million viewers. That led to 13 million new members. And NIKE, once again being number 1 on the Tmall during that period in China.
And so, we're focusing on the long term. We're getting a little bit better each quarter, and we're going to continue on that path, working closely with our team there.

A: Matt Friend
I might just add one small thing, which is we restarted brand activity, as I mentioned in my prepared remarks. And our demand creation investment was up 40% versus the prior year. And if you look at it on a dollar basis, it's an even greater percentage versus what we invested in the first quarter. And so, we -- and we're seeing a favorable consumer response. And we expect those investments to pay dividends as we look towards the future and continue to engage in locally relevant ways with consumers.

Q: Adrienne Yih
Great. Matt, how should we shape China in the third quarter relative to the guidance you gave?

A: Matt Friend

We expect, as supply normalizes, to see sequential improvement versus the results that we delivered in the second quarter.

Operator

Your next question comes from the line of Omar Saad with Evercore.

Q: Omar Saad

I wanted to see if you guys could maybe touch upon Omicron. I know it's really still early, but you guys have, as you mentioned, tens of thousands of teammates all around the world. It's obviously a fast-developing phenomenon. Maybe you could touch upon how you incorporated anything related to Omicron in your guidance? And is it something that we should not only be thinking about from the demand perspective, but is it the kind of situation that could also disrupt the supply chain again in the coming months, or do you feel like it's fortified to the extent where we can withstand this latest variant? Thanks, guys.

A: John Donahoe

Omar, let me start and maybe talk about our team, and then, Matt, you can maybe elaborate on it.

Omar, I just got to say I am so proud of how our team has navigated through the last 6 to 24 months. It's been an ongoing series, as you know, of start-stop, a lot of uncertainty, a lot of change. And our team has responded with resilience, with creativity, and with a lot of innovation.

And I've got to be honest, in hindsight, many of the changes that have been made accelerated progress that otherwise would have happened. And so, we're actually in a stronger position today. I think we've actually benefited because of our team's efforts and demonstrated ability to respond even in a work-from-home environment.

Now that said, we do believe over time that with innovation and a strong brand, we want to go to a hybrid model. As you know, in the United States, we have mandated vaccines and have a very high response rate to that. So, we're ready to come back in a hybrid work environment when that's safe, and we prioritize that, safety of our employees. And we'll be ready, whether that's first quarter or whenever it ends up being. But in the interim, our teams continue to innovate and execute in a way that I'm so appreciative and proud of. And I think the results reflect that.

Do you want to talk about the impact, Matt, on the rest of them?

A: Matt Friend

Yes, Omar. I mean, the reality of the environment we're working right now, we're all navigating through together. It's uncertain, it's volatile. But, what I would say as it relates to our fiscal year guidance, the overwhelming impact that we updated everyone on last quarter was the impact of the supply reductions, the 130 million units and the impact that had on our fiscal year revenue outlook.

I think, we're better positioned than we've ever been, and we're two-plus years into navigating through the challenges and the complexities of the volatility as it relates to the pandemic, focusing on what matters most, and our teams have done a tremendous job doing that.

And so, we're going to continue to watch it closely, like everyone is. But at this point in time, given where consumer demand is relative to marketplace supply, we feel like our forecast is or our guidance is reflective of what we see in the intermediate term.

Operator

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

Q: Bob Drbul

Hi good evening, the question I'd like to focus on is like on the product launches, are you delaying -- if you have an issue in terms of the delay. When you have launches planned, are you pushing them out, or how are you prioritizing which ones get canceled versus which ones will just launch later?

A: Matt Friend

Yes, Bob, it's a great question. To date, we have been delaying launches to synchronize them around the world. And as an example, in Greater China in the second quarter, SNKRS was down 50% versus the prior year, which had a big impact on that digital number. And that was because we didn't have the available inventory supply across the rest of our geographies to be able to coordinate a launch. We're evaluating that as we look forward because we want to do the right thing for the consumer in the right local marketplaces. But yes, we have been operating that way to date.

A: John Donahoe

But, I got to just build on that and say while the launch is being delayed, our investment in innovation and commitment to innovation has not been detered or delayed at all. Matt and I were both we were over at an innovation review in the LeBron James building, what was it, a couple of weeks ago, where Tom Clarke, John Hoke and their teams, Mike Spillane, were going through remarkable pipeline of innovation. And again -- and innovation around platforms, around the NEXT% platform, around the FlyEase platform, around the Zoom platform. And so, the innovation pipeline we have coming in the coming months and years is very strong, and the commitment to innovation and the day in, day out relentless focus on a culture of innovation continues unabated.

Again, to my prior answer, I just am so impressed with what our innovators, our designers, our product creators, our brand and storytellers have been able to do, even through this challenging circumstance.

A: Matt Friend

And our teams are shifting to a seasonless approach as we navigate the inventory we have for the balance of the year in order to make sure that we can fulfill consumer demand with the supply we have versus delaying further.

Q: Bob Drbul

Got it. And if I could just ask a quick follow-up. I guess, on the RTFKT acquisition, is a Trussell coin in the offing?

A: John Donahoe

I don't think that's probably first on the priority list. But I don't know, Paul, maybe.

A: Paul Trussell

It could be up there.

A: John Donahoe

Maybe. Maybe someday, you can come to us from the metaverse, Paul.

Operator

Your next question comes from the line of Laurent Vasilescu with BNP.

Q: Laurent Vasilescu

I wanted to ask about pricing, especially with the backdrop of the very strong gross margin. Near term, how should we think about the promotional environment in North America and EMEA for the back half of the fiscal year? And then, longer term, on the last call, you talked about exceeding your 65% full-price sales realization goal put forward in your last Investor Day, just curious to know what that new goal is embedded with the 2025 targets?

A: Matt Friend

Sure, Laurent. As I mentioned in my prepared remarks, the biggest drivers of gross margin expansion this quarter, and frankly, the biggest driver relative to what we had guided 90 days ago was the level of full price realization and lower markdown rates versus what we had anticipated for a holiday season. And so, we were surprised by it.

And it just is reflective of the strength of the brand and the connections that we've got with consumers.

As we look to the balance of the year, we are expecting full-price realization to stay high and above, especially in North America and EMEA, that goal that we provided at Investor Day a couple of years ago, and we expect discount rates to remain low.

The impact, as you look at sequential quarters is that we started to see improvements in markdown rates in the second half of last year in those two geographies in particular. And so, the year-over-year impact from tighter supply, higher full price realization, lower markdowns has a lesser of an impact in the second quarter.

What I'd say longer term is we continue to evaluate full-price realization and the goals that we've set. And while we haven't changed them, we are above in a couple of markets. As inventory supply normalizes, we would expect that to come back down to where our goals are at, but we're also operating a far more agile operating model at this point in time and so -- led by NIKE Direct. And so, we'll continue to evaluate it especially as it pertains to the long-term margin outlook we provided. We still are confident in that high 40s gross margin outlook through fiscal '25. But I think the effects that we're seeing in this first year with tightened supply may just change the trajectory of how we get there.

Operator
Your next question comes from the line of Matthew Boss with JP Morgan.

Q: Matthew Boss
So John, you cited the NIKE brand in a much stronger competitive position today relative to 18 months ago. I guess, maybe help us to think about that statement on a global basis, if we think about the acceleration you're seeing in North America, maybe relative to underlying trends in Europe and Greater China, just as we think about that statement in terms of where we stand today relative to 18 months ago.

A: John Donahoe

Sure, Matt. Let me just tell you the foundation with which I say it. Number one, our brand tracking tells us that our brand is still the number 1 cool and favorite brand in all 12 of our key cities around the world, and it's strengthening, and strengthening against our historical competitors. In fact, the only people that are coming close are technology companies. And so, that continues to be one evidence.

But I think even more fundamentally in longer term is the foundation of having a direct connection with the consumer. We are in an era where that is the liquid gold for any brand is to have a direct connection with the consumer so that you can understand that consumer, you can engage that consumer and then you can serve them in a personalized way. And if you have a leadership position, you have more information with which to do all that, more data, more information.

And so, our digital penetration is at an all-time high. Matt mentioned it's 25%. Our Direct Digital and mono brand penetration is at an all-time high that gives us that direct connection. And frankly, the partnerships like Dick's allows us to have that direct connection, whether it's direct, or with a wholesale partner, and that allows us to serve that consumer in a more personalized, engaging and sustainable way. And we believe that is going to be one of the key indicators of future success. And not every brand in our industry or other industries is to be able to have that direct connection with consumers. And so, that's the best leading indicator. And that's why we're putting so much focus on our full consumer funnel, bringing new members into the top of the funnel, engaging the mid-funnel and then obviously, translating that into strong and deep relationships.

And so, when you compare geographies, we're in this weird period where you got sort of numerator-denominator issues, right? Obviously, North America results were really strong this quarter. We had the supply and our team did a great job executing. In EMEA, for instance, the digital results reflected last year when we were sort of liquidating a lot of inventory when COVID just occurred. But, I look at our full-price digital penetration, it was quite strong. So, the quarter-to-quarter growth rates get a little bit hard to interpret because of supply issues because of the previous years, (over?)lapping store closures or -- but I would say we feel very good and very confident about being stronger in each of our regions.

A: Matt Friend
And in this fiscal year, we accelerated our investment against the brand to solidify that number 1 position and to continue to have deep connections with consumers. And despite the supply reduction, we remain committed to normalizing that investment because we're focused on fiscal '25 and beyond and the opportunity that we see in front of us across the entire portfolio. And we're leveraging our financial strength and our balance sheet to enable us to stay focused on the long term.

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

Q: Michael Binetti
Hey guys. Thanks for all the detail here and for taking our questions, and nice job executing in a pretty tough quarter there. Matt, let me start with the comment, your improved confidence on the supply chain versus 90 days ago, confidence in inventory getting back to more normal flows in fiscal '23. Is that what it takes for the China market to get back to the kind of the long-term algorithm with sustained double-digit growth that you spoke about on the fourth quarter call?

A: Matt Friend
Thanks for the question, Michael. The results this quarter in China were absolutely -- were overwhelmingly impacted by supply disruptions from Vietnam. And we've been -- we've talked about that both earlier today and last quarter.

We also had to navigate through local measures that were put in place to reduce the spread of COVID. And what I mean by that is that 25% of our partner retail stores were impacted in the quarter in some way as a result of local mandates to affect operations, and 50% of our factory stores in Greater China were equal -- were similarly impacted. And so, that was -- those were clearly the two biggest drivers that impacted our performance this quarter.

I mentioned SNKRS and the comparison challenges due to the delay of launch. But we've actually seen digital sequentially improving throughout the quarter. And so, we're increasingly optimistic given our 11/11 performance in the way that we're sequentially improving. And as supply normalizes, as I referenced, we expect to see sequential improvement from these 2Q results. And as we restart our marketing activity and drive those connections with consumers, some of these signals that we're seeing, these encouraging signs that we see give us a lot of confidence that our trajectory is going to improve from this quarter.

Operator

And I'd like to turn the call over to Paul for any closing remarks.

Paul Trussell

Well, thank you, everyone, for joining the day. We look forward to speaking to you not just next quarter, but next year. So, happy holidays to all. Take care and stay safe.

John Donahoe

Happy holidays, everyone.

Matt Friend

Happy holidays.

Operator

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