FY 2022 Q3 Earnings Release Conference Call Transcipt
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PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2022 third 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 third quarter results.

As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about 45 minutes 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 question 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.

I first want to acknowledge the deeply troubling crisis still unfolding in Ukraine. It is a time of great concern for all of us, and it is simply devastating to see the impact it is having on the lives of so many people. As always, our primary focus is the safety and wellbeing of our teammates and their communities, and we remain hopeful for a peaceful resolution soon.

Now turning to our Q3 performance… More than two years since the start of the pandemic, our teams continue to prove their ability to operate through volatility, while also staying focused on the long-term … and we once again demonstrated that agility in Q3.

It’s clear that 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 and proven operational playbook, we stay in the lead and continue to drive further competitive separation.

I’m proud of our results this quarter. We met … and even exceeded … what we said we would deliver 90 days ago. For Q3, our revenue growth was 5%, led by double-digit growth in Nike Direct.

This success, amidst a dynamic macroeconomic environment, is what continues to give us confidence in our long-term outlook. It’s why I wouldn’t trade our position with anyone. The power of Nike is our consistency and the strength of our global portfolio. Our investments are making us stronger, and we’re excited by what we see as we execute against our growth opportunities.

As a team, we’re driven by our shared purpose to move the world forward through the power of sport. Earlier this month, we released our FY21 Impact Report. This report … which marks our 20th year reporting on our environmental and social impact … is our first since we set new quantifiable ESG targets last year. We’re focused on a wide range of priorities, from building a diverse, inclusive team and culture … to meeting the challenges of climate change … to helping kids access the joy of play and movement. I encourage everyone to learn about the measurable progress we’ve made at *purpose.nike.com*, as we continue to create long-term value by shaping a better future through sport.

Of course, 2022 isn't just an anniversary for our Impact Report – it's a big year for Nike itself. This May, Nike will be celebrating our 50th anniversary as a company. Fifty years ago, our journey began with a dream to serve athletes. Today, we're humbled by what we've achieved, and thrilled and excited by what's to come.

Looking at Q3, Nike's growth was, and will continue to be, the result of three areas I'll walk you through today:

- Connecting with consumers through our strong portfolio of brands,
- Driving a relentless flow of new product innovation,
- And expanding our Digital advantage to create the marketplace of the future.

Let's start with Nike's strong brand and our connection to sport, which differentiates us all over the world.

First, Nike's connections with consumers are driven by sport and cultural authenticity. Our roster of athletes is second to none.

- Rafael Nadal made history by becoming the first male tennis player to win 21 majors with his victory at the Australian Open, and now stands alone at the top of the men's game.
- Aaron Donald, Cooper Kupp and Odell Beckham Jr. led the LA Rams to a thrilling Super Bowl victory.
- And in the NBA All-Star Game, a face-off between Team LeBron and Team KD ended with LeBron hitting the game-winner. I was able to attend the game, and loved getting to see the league's showcase of its 75th anniversary team. Just an

awesome reminder of the power of sport and what sport has meant to so many of us over the years.

The quarter also saw the Winter Olympics and Paralympics produce some extraordinary athletic performances. Nathan Chen won gold for the U.S. in Men's singles figure skating … with Chloe Kim winning gold for the U.S. in the halfpipe, making her the first woman to win two gold medals in the event. And throughout the Olympics, our "Never Done" campaign … which in Greater China featured snowboarder Cai Xuetong … saw an incredible response with 6.1 billion impressions in the geo.

We're in the middle of an amazing March Madness, with NIKE Inc. having more teams still alive across the Men's and Women's brackets than all other brands combined. But there's one familiar face to the Sweet Sixteen I wanted to acknowledge. As you know, Mike Krzyzewski is coaching his final games at Duke, having already announced his retirement as the winningest coach in NCAA men's basketball history. Coach K has been a member of the Nike family for nearly 30 years, and his leadership and clear set of values have meant so much to this company, and to me personally. My role models have always been head coaches … leaders that serve their players, serve their programs, serving a broader cause … and Coach K has been right up there at the top of that list. So, from the entire Nike family, happy retirement, Coach.

This was also a quarter where the world was reminded of how the Nike brand drives the culture around sport. In January, Sotheby's auctioned off 200 pairs of the Louis Vuitton/Air Force 1 by Virgil Abloh … and reported that it set the record for most valuable "sneaker and fashion" auction ever, at more than $25 million, with all proceeds going to the Virgil Abloh "Post-Modern" Scholarship Fund. The auction drew the most bidders of any auction in Sotheby's history and was their most valuable charity auction in the past decade. It's just another reminder of how the Nike Brand, our most iconic product franchises and our partnerships can come together for the kind of power and cultural energy and excitement that only Nike can create.

In fact, that power was felt on one of the biggest stages of the quarter. During the halftime show of the Super Bowl, in front of the largest U.S. TV audience of the last five years, we saw Nike, Jordan and Converse footwear all on-stage during the performance – an incredible moment for our portfolio of brands. Our portfolio is one of our best competitive advantages, fueling energy to consumers worldwide.

We also connect that energy to consumers through the investments we make. Driven by our commitment to women's sport, this quarter we furthered our 25-year commitment to the WNBA by becoming an equity investor in the league. We will work together to deepen WNBA storytelling and bring more girls into basketball at the local level. The consumer response to our long-standing commitment has been clear. This season, we sold more WNBA jerseys on nike.com on launch day alone than we did over the entire previous year … just the latest example of how driving the sport of basketball to a new generation of fans connects us to a vast market with plenty of growth ahead.

As you know, at Nike, everything starts with innovation. Our relentless pipeline of innovative product continues to create separation between us and our competition.

We don't just create new franchises … we grow them to global scale. Take a look at FlyEase. We've talked before about our hands-free accessibility line, but we're excited by our work to scale this innovation across our entire portfolio.

Here's just three examples, all from Q3:

- As part of the medal stand look for Team USA's Olympians and Paralympians, we designed the ACG Gaiadome FlyEase boot – FlyEase's first crossover into our celebrated outdoor ACG line.
- FlyEase moved into Converse for the first time, with the Chuck Taylor All Star CX FlyEase … as Converse joins Nike and Jordan in adding the hands-free innovation to footwear icons.
- And in Kids … where helping make spontaneous play easy is one of our goals … the new Dynamo Go uses FlyEase to help kids quickly get their shoes on and off. Dynamo Go debuted in Japan, Korea and Greater China to become one of the season's top 5 sellers, with a North America launch scheduled for April.

By driving impact across platforms, our work to scale FlyEase catalyzes growth. We expect FlyEase to be roughly a quarter-of-a-billion-dollar business by next fiscal year, with vast opportunity for greater growth and value still to come.

Looking at performance innovation, in Q3 we launched the ZoomX Streakfly, our lightest road racing shoe yet. The Streakfly offers an engineered knit upper and responsive ZoomX midsole, all designed for speed in middle distances. Also in Running, the Pegasus 38 saw very strong sell-through in the quarter, continuing the Peg's lineage as one of our powerhouse franchises.

We're also always innovating within apparel. I mentioned the Olympics earlier – the hockey jerseys worn by our federations, including the U.S. and Canada, were designed using brand-new 4D body mapping technology from our Nike Sports Research Lab. This 4D body mapping … which gives our teams a fast, accurate and high-detail way to design … offers a hint of the future as we stay focused on bringing new technology into our growth opportunity in apparel.

And last but not least, we continue to set the standard for sustainable product creation. A few weeks ago, we announced the Nike ISPA Link, a new proprietary platform where shoes are built with interlocking modules and connected without any glue. From a manufacturing standpoint, ISPA Link is revolutionary in its simplicity. One pair takes about eight minutes to assemble – a fraction of the time needed for a traditional sneaker – and doesn't require energy-intensive processes like heating, cooling and conveyer-belt systems. With no sacrifice to comfort or stability, the ISPA Link will be available at retail in June … and we can't wait for consumers to give it a try.

Now, let's discuss the marketplace, as we align our business to build deeper and more meaningful relationships with consumers.

Our marketplace strategy is a growth strategy. It is driven by the consumer, fueled by their expectations of a consistent, seamless, and premium shopping experience. Our approach begins with the understanding that consumers expect us to know who they are regardless of channel … online or offline … and across the full array of monobrand stores, Nike Digital and our wholesale partners.

Our wholesale partners continue to play a very important role in our marketplace strategy, so let me start there.

Last quarter, we launched a new partnership model that makes real our vision to give consumers personalized experiences regardless of channel. It gives shoppers the benefits of Nike membership to unlock exclusive offers, products and experiences in partner stores. It also recognizes the importance of onboarding members in stores, which in turn accelerates in-store conversion and improves customer lifetime value.

This quarter, we extended this model globally, including two new connected partners in Greater China: Topsports and Pou Sheng. This is an exciting step on our journey within our marketplace strategy because it continues to prove how powerful it is when brands and retailers work together for the benefit of consumers. We value the strong strategic relationships we have with our partners, particularly through our shared vision of connected data and inventory. This approach lets us serve consumers with the greatest access to the best of Nike … and to do so with speed and convenience in a more personalized, engaging and sustainable way.

What's more, in Greater China, this partnership model takes us into a new era of marketplace transformation. Moving forward, all of our existing contracts with our NSP partners in the geo will follow this connected membership model. Over time, we plan to convert all partner monobrand doors into digitally connected Nike retail concepts, as we unlock the benefits of data and inventory across the Greater China marketplace.

We're excited by the promise of this new model. We strongly believe it will elevate the entire marketplace and drive growth for both Nike and our partners over the long-term.

Next, let's dial a little deeper on our increasing Digital advantage. As we create the future of retail, we build on our own Digital capabilities that connect and serve consumers at scale.

In Q3, Digital revenue was up 22% on a currency-neutral basis, as we continue to drive greater competitive separation, particularly through our app ecosystem. The Nike App was up more than 50% in the quarter and overtook Nike.com on mobile for our highest share of Digital demand. And SNKRS continues to gain momentum, particularly as its strong consumer engagement leads to improved conversion. The livestreaming on SNKRS remains incredibly popular, with new features continuously coming online. For example, we've started to drop product launches within livestreams … helping lead the audience to quadruple since our livestreaming began last fiscal year.

In December, the AJ11 "Cool Grey" launch on SNKRS was the largest for a single style in the history of Nike Direct. We drove this unprecedented demand by engaging with consumers in new ways, leveraging Snapchat's "Try On" lens, a *hashtag-InMyJs* Instagram activation and a Fortnite partnership with custom skins and a digital scavenger hunt.

Looking forward, we're excited about the opportunity for SNKRS to continue to explore new dimensions in experiences like livestreaming, particularly for Women's product and for apparel. More to come here soon, as we continue to use Digital to engage all consumers in ways that integrate culture, commerce, sport and innovation.

At the same time, our growing participation in new digital platforms lets us create innovative ways to connect with consumers … letting them unlock virtual experiences, products and rewards as we expand access points to Nike across the digital ecosystem.

To celebrate the Super Bowl, we collaborated with EA Sports, giving Nike members who ran five miles in our Nike Run Club app rewards and unlocks within the Madden game. Members had to link accounts between Nike and EA to join the challenge … representing the first instance of account linking with our gaming partners. The number of new members we acquired surpassed our expectations, and the framework we developed with EA Sports will allow future membership connects to come to life even more efficiently with new partners. We expect this in turn will lead to increased engagement, membership and revenue growth down the line.

During NBA All-Star week, LeBron visited NIKELAND on Roblox to inspire its community toward physical movement and play. On the NIKELAND court, LeBron coached and engaged with players, and participants were rewarded for physical gameplay with the ability to unlock virtual products. Since its launch, a total of 6.7 million players from 224 countries have visited NIKELAND on Roblox, and we plan to continue driving energy there with virtual products like LeBron 19 styles special to Roblox.

In addition, we announced Nike Virtual Studios this quarter, following the acquisition of RTFKT. With Nike Virtual Studios, our vision is to take our best-in-class experiences in Digital and build Web3 products and experiences to scale this community so that Nike and its members can create, share and benefit together.

In Q3, RTFKT released the first official Nike-branded NFT, our first step into the world of digital product creation. We're pleased by the positive momentum and energy we're already seeing in this space, and we're excited by the future as we continue to extend our Digital leadership in the industry.

In the end, Nike is doing what we always do: staying on the offense. Our confidence as we look long-term hasn't changed one bit. We've been resolute in fueling innovation, and our brand is as strong as ever. Nike's unique strengths continue to set the pace… and keep us in the lead.

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.

Nike has become more agile, responsive and resilient over the past two years, through the operational capabilities and playbook that we have developed to navigate the unexpected. This past quarter, the operating environment shifted rapidly as the latest COVID variant presented new challenges to business operations, and our teams around the world were prepared to do what was necessary to continue to serve the consumer.

Our ability to optimize near-term performance through heightened levels of volatility, while continuing to make strategic progress on Consumer Direct Acceleration, reinforces Nike's positioning as a portfolio of leading brands with unlimited potential.

Marketplace demand continues to significantly exceed available inventory supply, with a healthy pull market across our geographies. When inventory supply is available in region, we are quickly moving it to the appropriate channels to serve consumer demand. Consumers continue to shift towards Digital to find the products they love, and Nike's digital experience continues to build deep consumer connections and capture digital market share.

Now let me briefly update on the supply chain.

All factories in Vietnam are operational, with total footwear and apparel production in line with pre-closure volumes and our forward looking demand plans. Nearly all of our supplier base is operational without restrictions, and we are working closely with our partners around the world to navigate through the most recent risks related to COVID. Inventory supply in our geographies is beginning to improve from here.

Transit times, however, remain elevated. And in the case of North America, transit times in the third quarter have worsened. We have taken numerous actions to address these challenges, and in many cases to protect against lead times increasing even further. Despite these ongoing challenges, we have been able to mitigate our transit delay impact by nearly four weeks versus industry averages.

I am so proud of how our teams continue to respond, demonstrating how to win in a dynamic and rapidly changing environment.

Now consumer demand for all three of our brands – Nike, Jordan and Converse – remains incredibly strong. Our growth in the third quarter would have been even higher if we had greater quantities of available inventory to meet marketplace demand.

Across the marketplace, holiday retail sales finished strong. And Spring retail sales are off to a great start fueled by strong demand for performance Men's Running, Air Jordan 1, Classics footwear and our apparel fleece franchises. We are also sustaining a higher full price mix, with year-over-year improvement in markdown activity. Nike Digital has seen improvement in conversion rates and lower customer returns despite lower levels of available inventory in our most desired product franchises. In Greater China, we saw improvement in full price realization versus the prior season.

Speaking of product, we continue to refresh and reimagine our most iconic franchises through design, collaboration, and creative storytelling. We are expanding the contribution of our Express Lane in all geographies to make more locally relevant product on shorter lead times, yielding higher rates of sell-thru and profitability for Nike and our partners. We continue to deliver a consistent flow of product innovation in performance sports like Running, Basketball and Training, and through platforms like ZoomX, FlyEase and Space Hippie with the Crater Foam. Our product is our most valuable form of demand creation, and we have a highly loyal and engaged audience eager to share in the stories we have to tell around our athletes and products.

This quarter, the NIKE brand registered as both the #1 cool and #1 favorite brand in all twelve of our key cities around the world. Recent product announcements ranging from our collaboration with Drake on the NOCTA line of apparel and sneakers, to the Ted Lasso AFC Richmond kits for the show's third season, speaks to the depth of our cultural reach. Our brands live at the intersection of sport, media, music and increasingly technology, enabling us to be highly relevant to today's youth.

As I've said repeatedly over the past year, Nike's market opportunity is larger than ever. Consumer interest in sport, health and well-being has never been greater. And, consumers' desire to wear athletic inspired footwear and apparel in more moments of their lives is here to stay. Nike will always be a growth company… fueled through innovation to help all athletes* achieve their full potential….

Now, continuing with the theme of growth, John said earlier that our Marketplace strategy is a growth strategy. I'd like to go a little deeper on where we are in our journey to create the marketplace of the future, including how we have managed our wholesale portfolio.

Over the past four years, we have reduced the number of wholesale accounts worldwide by more than 50 percent, while delivering strong revenue growth through Nike Direct and our remaining wholesale partners. We are now moving into the next phase of our marketplace strategy. We have finished communicating the big account pivots and our go forward growth plans are aligned with our wholesale partners.

Wholesale partners play an integral role in our future marketplace, first to authenticate our brands, and then to create scale of distribution through a consistent consumer experience across a larger retail footprint. We will drive healthy wholesale growth with our remaining wholesale partners and recapture dislocated demand by elevating our partners' retail environment and digitally-connecting Nike membership with their retail experience.

Take for example, our collaboration with James Whitner's Whitaker Group, owner of Social Status and other sneaker boutiques. We recently partnered with the Whitaker Group to develop unique silhouettes of Jordan and Dunk products, as well as produce SNKRS live content to connect our brand to important communities. We are committed to driving growth with partners like this, as they create authentic, deeply connected consumer concepts in key cities and communities.

Nike Digital continues to be our fastest growing component of the marketplace. This quarter, downloads of the Nike mobile app accelerated, and member buying frequency and average order values improved again as we continue to test member engagement across activity, content, community and commerce. In Q3, Nike-owned Digital gained 3 points from prior year and now represents 26 percent of our total Nike Brand revenue.

We are investing in Nike stores to specifically address gaps in distribution to serve the growth opportunities we see in Women's, Apparel and Jordan. Our Nike Live concept is showing promising levels of productivity per square foot, store profitability and new member acquisition. We continue to obsess over the consumer experience and perfect the concept for Her, to maximize the growth opportunity in the marketplace. We will also begin testing a Jordan-only concept in North America in FY23, leveraging a popular consumer experience that has been wildly successful in Greater China, the Philippines, and Korea. Our approach is to first pilot these concepts, iterate and perfect, and then move to scale.

Since the onset of the pandemic, we have seen how creating the marketplace of the future will deepen our connections with consumers, fuel marketplace growth and expand the profit pool for Nike and our wholesale partners.

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

NIKE, Inc. Revenue grew 5 percent, and 8 percent on a currency-neutral basis, led by 17 percent growth in Nike Direct. Wholesale returned to growth, up 1 percent on a currency-neutral basis. Nike Digital grew 22 percent, fueled by strong demand through our Nike App. Nike-owned stores grew 14 percent with significant improvements in traffic during the quarter.

Gross Margin increased 100 basis points versus the prior year, driven primarily by higher Nike Direct margins due to lower markdowns, favorable foreign currency exchange rates, and a higher full price mix, partially offset by increased freight and logistics costs.

SG&A grew 13 percent versus the prior year primarily due to strategic technology investments, normalization of investment against brand campaigns, wage related expenses and digital marketing investment to fuel heightened digital demand.

Our Effective Tax Rate for the quarter was 16.4 percent compared to 11.4 percent for the same period last year. This was due to a shift in our earnings mix, effects of stock-based compensation and recently finalized U.S. tax regulations.

Third quarter Diluted Earnings Per Share was $0.87.

Now let’s review the operating segments…

In North America, Q3 revenue grew 9 percent and EBIT was flat. NIKE continued to drive momentum through key product franchises across Men’s, Women’s and Kids. This was highlighted by double-digit growth in key Men’s running franchises, like Pegasus, as well as updates on franchises like Winflo and Vomero.

Nike Direct grew 27 percent versus the prior year, led by NIKE digital delivering industry-leading growth, increasing 33 percent versus the prior year, driven by double digit growth in traffic, strong growth in new members and member engagement, and improvements in member buying frequency. NIKE digital in North America now has the highest penetration of all the geographies, representing one-third of total North America revenue in the quarter. NIKE-owned stores grew 16 percent, due to traffic improving towards pre-pandemic levels, and successful activations in key cities during moments like the Super Bowl in Los Angeles.

North America continues to experience strong full price realization and low markdown rates across the marketplace as inventory supply begins to improve. NIKE-owned inventory levels increased 22 percent versus the prior year, with in-transit inventory representing 65% of total inventory at the end of the quarter, as transit times are now more than six weeks longer than pre-pandemic levels, and two weeks longer than the same period in the prior year. In order to ensure the right assortment of products arrive on time for the Fall selling season, we have moved forward our buying timelines to accommodate for longer transit times.

In EMEA, Q3 revenue grew 13 percent on a currency-neutral basis, with growth across all consumer segments, and EBIT grew 34 percent on a reported basis. Retail sales across the marketplace grew strong double digits, with improvements in full price realization and lower average markdown rates.

Team sports continues to make its comeback, and the continuation of the Champions League Tournament enabled global football to drive energy across the region. The momentum behind the Jordan Brand in EMEA is driving strong growth across all consumer segments, led by Women's.

Nike Direct grew 22 percent on a currency-neutral basis, led by growth in Nike-owned stores of 44 percent, as we compare to uneven store closures due to COVID-related government restrictions in the prior year. Nike Digital rose 11 percent fueled by member only access and App exclusive releases, and another quarter of strong double digit growth in full price demand. Wholesale revenue grew 10 percent, led by even stronger growth rates from our strategic accounts.

As John mentioned in his remarks, we remain focused on the safety and wellbeing of our teammates regarding the deeply troubling crisis unfolding in Ukraine. Our owned stores and digital commerce operations remain paused in Russia and Ukraine. As a note, our business in both countries represents less than 1 percent of total company revenue.

In Greater China, Q3 revenue declined 8 percent on a currency-neutral basis and EBIT declined 19 percent on a reported basis. Our results for this quarter were in line with our expectations with sequential improvement versus the prior quarter. As we continued rebuilding local brand activities again this quarter, Nike was rated the #1 cool and #1 favorite brand in China, creating separation and distinction versus the competition. As I said earlier, we are observing continued improvement in full price realization.

Greater China delivered over $2 billion in revenue this quarter, driven by the Lunar New Year period, as NIKE.com saw record weekly traffic. We leveraged our Express Lane capabilities to design hyperlocal product with the year of the Tiger elements with strong sell-through across Men's, Women's, Kids', and Jordan.

Speaking of Jordan, the Brand had a record quarter for revenue in the region, growing versus the prior year through momentum in both footwear and apparel.

Nike Direct was down 11 percent on a currency-neutral basis, with declines in both digital and physical retail channels. COVID-related lockdowns continue to create challenges for retail traffic. Nike-owned stores were down 5 percent, and Digital declined 19 percent, due to ongoing supply delays that negatively impacted timing of product launches. We created marketplace energy with the opening of Nike Beijing, the first connected partner-operated Rise door, and two new Unite doors that set consecutive records for Global opening sales.

Our relentless focus on sport, product innovation and our most iconic product franchises, combined with local athlete storytelling remains a competitive advantage for us in Greater China. We are closely monitoring the current situation regarding the virus, but we are encouraged by the momentum we are building in the marketplace.

Now moving to APLA. Q3 revenue grew 19 percent on a currency-neutral basis and EBIT grew 17 percent on a reported basis. This quarter was the largest and most profitable in the history of the APLA region. We saw double-digit currency-neutral growth across nearly all territories, led by Korea, Mexico, and SOCO. We're winning with the consumer in sport across performance and lifestyle, demonstrated by strong growth in Running, Fitness, Jordan and Classics.

Nike Direct grew 39 percent, led by Nike Digital growth of 61 percent, due to record setting Member Days across a number of territories, delivering more than 2.5x the demand versus a typical week. Nike-owned stores grew 17 percent, while the wholesale channel grew 9 percent.

Our focus on localized product and content, particularly the launch of our Kwondo 1 collaboration with K-pop star G-Dragon, demonstrates yet again our deep connection to consumers. It was APLA's biggest hyperlocal launch ever, reaching 91 million users on social and 3.8M entries across SNKRS and marketplace partners.

Now let's turn to our financial outlook…

We continue to expect Revenue for the full year to grow mid-single digits versus the prior year. As you know, comparing quarters to prior periods has not been intuitive, so we continue to look at the size, trend and health of our business, market share and profitability relative to pre-pandemic periods, and we remain confident we are on track towards our long-term financial goals. Specifically, for the fourth quarter, in North America we expect a decline in revenue due to year-over-year comparisons. And in Greater China, we expect to see another quarter of sequential improvement, while we closely monitor the operational impact related to recent COVID lockdowns.

We now expect gross margin to expand by at least 150 basis points versus the prior year, as strong consumer demand continues to fuel high levels of full price realization, low markdown rates and low customer returns. Benefits of strategic pricing expected in Q4 are being partially offset by elevated product costs, primarily due to higher macro input costs, supply chain costs, and strategic actions to expedite delivery of product in North America. Despite the recent strengthening of the US dollar, we continue to expect foreign exchange to be a 55-basis point tailwind versus prior year.

We now expect SG&A to grow mid-teens for the full year, as our spend normalizes and we continue to advance our capabilities to support our ongoing digital transformation.

We continue to expect our Effective Tax Rate to be in the low teens for the Fiscal year.

As we look ahead to Fiscal 23, we are optimistic as our Brand strength is unparalleled, with a strong product pipeline and momentum against our largest growth drivers. Marketplace demand continues to exceed available supply, as inventory supply begins to normalize in the fourth quarter against the context of a healthy pull market, setting the foundation for another year of strong growth. We are focused on what we can control while there are several new dynamics creating higher levels of volatility. As a result, we will provide specific financial guidance for Fiscal 23 during our fourth quarter earnings call.

In closing, our strategy is working. NIKE's brand strength and consumer demand remains at an all-time high, and we are confident in our business momentum. Our deep focus on the consumer and sport is what sets us apart from the rest. We continue to leverage the same principles for how we are strategically and financially managing the company. As we approach our 50-year anniversary, we are reminded of Nike's rich history of delivering consistent results, even through periods of uncertainty, as we build Nike for the future.

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

Operator;

Your first question comes from the line of John Kernan with Cowen.

John Kernan:

So Matt, as we get into the fourth quarter and into the first half of 2023, can you talk to how you see product flows improving? And do you think you'll be able to meet this elevated level of demand as we go into the first half of your fiscal '23?

Matt Friend:

Yes. Sure, John. Well, maybe I'll start by just saying that Vietnam at this point in time is operational and our production volume is on plan. And while transit times remain elevated, particularly getting into the North America marketplace, beginning in the fourth quarter, we're going to start seeing an improved flow of supply. And so we are increasingly confident in that reality and continue to manage that dynamic with our partners, our factory partners and our transit partners around the world.

Consumer demand continues to be incredibly strong. And while we've not been able to meet demand over the past couple of quarters, we're in a healthy pull market with that strong demand. And as a result of that, we really believe that, that sets a strong foundation for growth in the first half of fiscal '23 but for fiscal '23 in total.

Operator:

Your next question comes from the line of Kate McShane with Goldman Sachs.

Katharine McShane:

I wondered if you could talk a little bit more about the new model with your wholesale partners. Can we expect to see a further refinement of what your differentiated retail strategy is with this new model? And what is the timing of the rollout for this newer strategy?

John Donahoe:

Yes. Thanks, Kate. Let me just start by reminding us why we're driving this, what we're calling NIKE Marketplace. And it's driven by the consumer, who I have this phrase of saying, consumers want to get what they want, when they want it, how they want it. And they expect us to know who they are regardless of channel, and they want a very consistent and premium experience.

And so starts with NIKE Digital. I won't go into that, but the clear competitive separation in our digital capabilities. But wholesale plays a very, very important role in that, as I said in my remarks and Matt reinforced. And so we will continue to build strategic partnerships with our wholesale partners, in particular, around the ability to link our membership program so that consumers know that NIKE knows who they are, even through the wholesale channel and allows both of us to grow.

And then NIKE Direct, our own mono-brand stores, will continue to play a role, an increased role, in particular, focusing on a couple of areas of the market where we feel like there's incremental need to reach the consumer, particularly around women's, around apparel, and as Matt mentioned, around Jordan. And so we'll increase our mono-brand stores over the coming years.

But as Matt said, importantly, we're going to take an intelligent approach to that, where we're going to test, iterate and learn so that we get the consumer construct and consumer experiences in our mono brand store is clear before we rapidly expand. And so that expansion will happen some in fiscal '23 but even more so in fiscal '24 and '25. But again, the main goal is to be able to have consumers almost be indifferent where and how they have a first-rate NIKE experience.

Matt Friend:

Yes. And I'd just add, Kate, that the point I was trying to make is that for the past several years, we have been editing our account portfolio. And at this pivot in time, we have made the edits and communicated those edits to our partners. And we're focused now on driving growth through our remaining wholesale partners. And to create the marketplace of the future, both through digital, our owned stores and our partners, it's going to require us to also invest with our partners in their consumer experiences so that the consumer has a premium consistent experience as they move across the marketplace and can find the NIKE product when and where they want it.

John Donahoe:

One other thing I just want to really reinforce because I think there was some confusion on this, that's around Foot Locker. To be crystal clear, Foot Locker always has been and always will be a large and important partner of NIKE's. And that will continue to be the case. And they'll have a very distinct role in our marketplace strategy as a wholesaler, with a particular focus on the culture of basketball, on the sneaker culture and on kids, which is a really big and important opportunity for us. So just to be clear, they are one of our important partners going forward.

Operator:

Your next question comes from the line of Jay Sole with UBS.

Jay Sole:

My question is about China. Matt, when you said you expect sequential growth in fourth quarter, can you maybe give us a little bit more color on that? Do you expect the growth to turn positive on a year-over-year basis? And maybe if you can dive in a little bit more about what gives you conviction in both the near term and the long-term opportunity in China, if you could elaborate on that, that would be appreciated.

Matt Friend:

Yes, sure, Jay. So what I said specifically was we expect to see sequential improvement in the fourth quarter versus what we delivered in Q3. And that's based on the momentum that we're seeing in the marketplace. We're highly encouraged with our Q3 performance and a second straight quarter of metrics and facts around the way our teams are executing in the marketplace, that gives us confidence from a brand and consumer point of view.

As I mentioned in my prepared remarks, we were rated the #1 cool and #1 favorite brand in China. And this is the second straight quarter where we've increased our investment in demand creation in order to reestablish and rebuild those consumer connections. And we're seeing the impact of it. John referenced 1 example in our brand campaign around the Beijing Olympics and the high levels of reach, engagement and positive consumer sentiment that we saw.

We also saw this quarter an improvement in full price realization. And our team continues to do a great job navigating through the environment. But what we really see, as we dig deep into the full price metrics, is that the Jordan brand grew, as I mentioned, in footwear and apparel. And we see consumer demand around local storytelling and local dimensions of our product franchises like the Year Of The Tiger and then just general consumer demand around our most popular footwear franchises continuing to drive growth versus the prior year.

And so we're encouraged by this momentum and what it says in terms of our optimism to be able to return to a long-term growth algorithm. In the short term, we're operationally watching the COVID-related lockdowns in the marketplace. And the impact on the fourth quarter of these lockdowns is unclear at this moment, but it feels different. And so we're looking at the fourth quarter and our revenue guidance for the quarter and feel confident that we can still deliver mid-single-digit revenue growth on a full year basis.

Jay Sole:

Got it, okay. And then if I can ask you another question. You mentioned that you'll give more color on fiscal '23 on the fourth quarter call. But I mean, at a high level, the long-term guidance that you gave for fiscal '25 talked about high single-digit to low double-digit revenue growth. Do you expect fiscal '23 at a high level to be sort of an on-algorithm type of year as it were to deliver that kind of growth? Is there any sort of broad brushstroke kind of contours of fiscal '23 that you're thinking about right now?

Matt Friend:

Yes. We're looking at fiscal '23 and believe the foundation is set for another year of strong growth. And that's because our Consumer Direct Acceleration strategy is working. Our brand is strong and continues to have -- create consumer demand at all-time highs. We're going to see inventory supply normalize this quarter, which gives us increased confidence that we'll have supply to meet the heightened levels of demand. And we've got a robust pipeline of product, and we're excited about the momentum that we're building in our biggest growth areas. So as we look to the long term, Jay, we continue to be optimistic and positive as it relates to our fiscal '25 long-term algorithm.

Operator:

We have the next question from Jonathan Komp with Baird.

Jonathan Komp:

One follow-up as a clarification. Given some of the sizable shifts in the North America wholesale marketplace, I think you referenced Foot Locker, are you expecting to see a negative impact or a headwind to your total North America revenue at any point? And then maybe just a broader question on your view of the health of the consumer and the ability to accept some of the pricing that's coming in, in the category and broadly the inflation and how that impacts your view on the gross margin outlook beyond fiscal '22.

John Donahoe:

Maybe I'll take the first part of that, Matt, and you take the second. Jonathan, on the first part, quite the contrary. We see this marketplace strategy positioning us even more strongly for healthy, sustainable growth in North America. And it starts with Digital. You saw the Digital growth rate in North America, I think it was 33% this past quarter. It's been very strong. And NIKE is one of the very few brands that's on the home screen of the mobile app. And we don't just have 1 mobile app. We have the NIKE Mobile app, the SNKRS mobile app, the NTC and NRC. And that is very scarce space to have clear digital competitive advantage.

We also believe that it's going to become a healthier retail or wholesale, if you will, marketplace, as we described. We have our connected partnership and pilot we've done with DICK'S Sporting Goods, where we've taken one of our partners, one of our important strategic partners and we're learning together around connected membership. We have very strong initial results from that. Consumers really appreciate the fact that they know who we are and their NIKE members whether they're shopping at a DICK'S or shopping elsewhere. And we're working closely with DICK'S to provide that seamless experience.

And as we learn more from that, we'll roll that connected partnership out to others. And then just to repeat, we believe in the North America marketplace in particular. There's a real need around women's, around Jordan and around some higher-end apparel where our mono brand stores, particularly NIKE Live concept, the 5,000- to 6,000-square-foot concept can really play a role in neighborhoods around North America. So we think that leads to a healthier marketplace that leads to even accelerated growth.

Matt Friend:

Yes. And just hitting the second part of your question, we continue to see strong consumer demand for our portfolio of brands. And that's been true for the past several quarters, and we know we haven't been able to meet marketplace demand with available inventory supply. We did implement a low single-digit price increase in the second half of this year or for the spring/summer '23 season to be more specific. And given the transit times delays, we'll start to see more of that hit the market in the fourth quarter.

But our approach to pricing and to the consumer is a careful one. We evaluate the price value of our products on a season-by-season basis. And our financial model as a premium brand starts first with the value that we create for the consumer in our products. And so we're very careful about how we approach pricing, and we take a long-term view with regards to the consumer because of that relationship that we have.

So as we look forward to the fourth quarter and fiscal '23, we're continuing to look at the opportunities for additional pricing, and we do see some. But as it relates to consumer demand for our brands, we continue to see strong consumer demand for our brands and for our products because they find value in our products.

Operator:

We have your next question from Matthew Boss with JPMorgan.

Matthew Boss:

Great. And congrats on a nice quarter despite the dynamic backdrop. So John, can you elaborate on the spring demand that you're seeing for the brand and just your excitement for the product pipeline into next year? And Matt, as we move into phase 2 of the marketplace model, is there any way for us best to conceptualize wholesale versus direct-to-consumer margins maybe today relative to the opportunity that you see moving forward?

John Donahoe:

Yes, Matt, I'm so glad you asked this question because one of the things that just gives us extraordinary confidence in our outlook is the innovation pipeline. And it's been so much fun because a growing number of our teams are back together here on campus. Matt and I both spent a whole bunch of time over our new Serena Williams Building last week with Michael and Heidi and Andy and DJ and going through our products. And in person, physically touching the products in the pipeline, I can't tell you how energizing that is.

And we have a very strong pipeline. And as Matt and I both described, that's both in our platforms and in our products. The FlyEase is just a great example of how NIKE has this extraordinary ability to take innovation insight. In this case, it was developed for people with ability challenges and now leverage it. You see it first with kids, right? One of the #1 challenges parents have is helping get their kids their shoes on in the morning or off at night. And this -- the Dynamo GO, along with several other new models coming that take advantage of FlyEase technology, both in lifestyle and performance.

And now women and men's want to embrace the FlyEase and Converse as I mentioned. So that's a great example of a platform that's scaling and there's a strong innovation pipeline. And then we've got a great pipeline coming over the next 3 to 12 months of running, is a great example where we have updated models around Infinity, around Invincible, and we're really excited about Invincible. The next Pegasus models are quite strong so that will be coming. Very excited about the running line going forward.

With women's, we just launched the Dri-FIT Alpha Bra. And in the pipeline is a really exciting next generation of leggings and bras that we think is just really going to continue to turbocharge our growth there. And obviously, the Free Metcon is seeing strong consumer demand already.

And then with kids, we're bringing ACG into kids in the fall for the first time. In basketball, the G.T. Cut; in global football, the Phantom and the Mercurial and what is going to be an extraordinary. You think about the global football agenda for the next 15 months, both men's and women's, I can just tell you that our -- we are so excited about the product pipeline, both the breadth and the depth of it that -- and it's just fun to be able to really be together in person as our innovation teams continue to put the pedal to the metal.

Matt Friend:

Yes. And just on your margin question, Matt, the underlying drivers of the CDA are what's fueling our gross margin expansion. Obviously, this year, we're incredibly proud by 150 basis points or at least 150 basis points of gross margin expansion, where we've absorbed more than 100 basis points of unplanned costs associated with supply chain, logistics and wages to move product. And the large proportion of that actually sits in the North America marketplace. So when you look at the revenue and EBIT performance or operating income performance in North America, you're seeing a larger impact of that in that geography.

As we look ahead to the marketplace shift, the underlying drivers are the same drivers. It's a higher mix of full price. It's us continuing to leverage our supply chain costs and fulfillment in order to drive more productivity. And while in the short term, we might see some normalization as inventory supply starts to flow, some normalization of channels because wholesale has had a little less product over the last couple of quarters to the normalization of full price because with lack of supply, we've got a couple of our geographies with full price realization that's well above our definition of 65% for full marketplace health. But that doesn't change our confidence in our ability to drive high 40s gross margin by fiscal year '25 and beyond.

Operator:

Our last question comes from the line of Adrienne Yih with Barclays.

Adrienne Yih:

Let me add my congratulations. We really are going see the shift to digital DTC. Along those lines, Matt, would it be fair to say that obviously, the digital DTC is going to play a much bigger role to get to those fiscal '25 targets? And can you get there without China coming back to that algorithm, 13% to 15% growth? And are the EBIT margins in those 2 channels relatively similar?

Matt Friend:

Adrienne, we've got a strong portfolio of brands, products, geographies, and we're encouraged by the momentum that we're seeing in Greater China. As it relates to Digital, as both John and I mentioned on the call, the growth we continue to deliver through that channel continues to be fantastic and it's the consumer that's leading that transition.

To be able to deliver double-digit traffic -- growth in traffic in North America this past quarter really stood out as an outlier relative to where other brands and retailers were seeing traffic growth. And to us, it's a signal of the strength of our brand and the fact that the consumer continues to choose this channel to engage, the fact that the app downloads have increased on a quarter-over-quarter basis, the fact that we're seeing the app drive a greater proportion of our overall business connects membership. And the way that we're going to try to connect membership into the marketplace, we continue to feel very strong that Consumer Direct Acceleration led by Digital is what's going to drive us towards that fiscal year '25 goal.

And as we've mentioned before, we earn a higher gross margin on our sales through the digital channels, and we expect to see leverage in our costs, which will enable us to hit that high teens operating profit over the multiyear period.

Paul Trussell:

All right. Well, thank you very much, everyone, for joining us today. We look forward to speaking with you next quarter. Take care. Have a good night.

John Donahoe:

Thanks, everyone.

Matt Friend:

Thank you.

Operator:

And this concludes today's conference call. Thank you for participating. You may now disconnect.