

REMARKS AS PREPARED FOR DELIVERY

Q3FY23 NIKE Inc. Conference Call

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[Operator]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2023 third quarter conference call. For those who want to reference today's press release you'll find it at 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 NIKE's reports filed with the SEC.

In addition, participants may discuss non-GAAP financial measures and non-public financial and statistical information. Please refer to NIKE's earnings press release or NIKE's website, investors.nike.com, for comparable GAAP measures and quantitative reconciliations.

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 2023 third quarter results.

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.

We delivered another strong quarter in Q3, with revenue growth of 14% on a reported basis and 19% on a currency-neutral basis, exceeding our plan.

Our growth this quarter was broad-based across our brands, channels and geographies. We had strong digital growth of 24%, which once again was fueled by double-digit increases in traffic on mobile and our apps. While Direct, led by digital, remains strong and will continue to drive our growth, our wholesale channel continues to be an important part of our strategy as we access key consumer segments and achieve distribution scale across the marketplace. Wholesale grew 18% in Q3, reflecting strong retail sales, with growth that over-indexed across our strategic partners.

This quarter continued our positive currency-neutral growth in all four of our geographies. North America, EMEA and APLA all delivered double-digit revenue growth. Greater China grew 1% despite a very challenging December following the shift in the country's COVID policies.

And we are making great progress on inventory, with our inventory dollars down sequentially vs. last quarter. In Q3, we had inventory growth of 16% year over year. Our decisive actions are enabling us to navigate through shifting dynamics with continued improved efficiency.

These results demonstrate yet again that we are on track to hit our FY23 priorities of getting inventory in a healthy position and delivering revenue consistent with the financial goals we

set earlier in the year. In an environment of increasing macro volatility, the distinction of our brands and our Consumer Direct Acceleration strategy set Nike apart.

Looking ahead, CDA continues to unlock our future growth potential by powering up our holistic offense across innovation, brand engagement and marketplace, all fueled by consumer insight.

As we know, consumers today have rising expectations and changing behaviors. What creates separation for Nike in this dynamic environment is our innovative product, brand scale and the direct connections we have with our consumers.

It's these connections that serve as one of our greatest competitive advantages, as we translate insight into innovation. Thanks to our consumers' love of our brand, we enjoy a high rate of engagement, fueling richer, deeper understanding. Across the company, our insights model creates confidence and growth in ways that are uniquely Nike, as we make the entire enterprise faster, more efficient and more targeted in the growth opportunities that we go after.

So, today I thought we'd go through three areas where we leveraged our insights model this quarter. You may have heard us say before that "running is the heart of Nike, and basketball is the soul." I'll discuss these two businesses, and then I'll talk about a product franchise that's a multi-billion-dollar business in its own right: Air Max.

So first, let's start with Running. Since our founding, we've used elite athlete insight to innovate at the edges of human potential.

That's led to platforms like NEXT%, which remains at the front of the pack in the world of distance running. And we then use these insights and innovations to serve everyday consumers, no matter where they are on their running journey.

Today, we leverage our direct relationships with runners worldwide, fueled by insight from our Nike Run Club app along with consumer feedback across brand and marketplace touchpoints to know how our consumers are using our product and what pain points we can solve to keep

them moving.

For example, we saw our Invincible consumers pushing more distance on their runs, which requires better support and protection.

So this quarter, we introduced the Invincible 3, which is designed to provide maximum cushioning and comfort. It also offers a wider fit than some of our past Running footwear and uses the most ZoomX foam of any of our road running shoes. It's a shoe that demonstrates how Nike isn't just innovating for performance, but also designing to drive the lifestyle of running.

Consumer response to the Invincible 3 was strong across our geos and throughout Nike Direct, strategic wholesale partners and Running specialty doors. And what really sets Invincible 3 apart is how we executed across the marketplace: driving consistent storytelling across channels working closely with our partners to elevate our retail presentation all with a sharp focus on helping consumers find the right shoe for them. This is an approach we'll be accelerating as we focus on positioning ourselves for share gains in this important category.

Our research with runners also leads us to launch product in complementary categories such as trail running, which is our fastest growing Running segment. This fueled the launch in Q3 of the Pegasus Trail 4.

The Peg Trail 4 which has seen over-indexing strength with female consumers takes many of the well-loved attributes of the Peg and adds rugged features that let runners keep the pace even on looser terrain. The combination of React foam and underfoot traction has proven to be a perfect crossover shoe for runners looking to split time between road and trail.

Thanks to our ability to use analytics and insight to discover opportunities for growth in Running, we continue to connect to the grassroots of this global community and we remain confident we can take full advantage of these opportunities over the long term.

Next, our Basketball category is in the strongest position it's ever been, as we continue to

grow the energy of the game globally. Across Nike Basketball, Jordan Brand and Converse, we've strengthened our signature athlete portfolio, adding Gen Z superstars while still being anchored by the game's greatest players.

Last month, LeBron James set the all-time NBA scoring record, in a thrilling game in L.A. I was fortunate enough to be there with our co-founder Phil Knight. After the game, Phil turned to me and said that moments and athletes like this are why we got into this business. And he's right.

As I said last quarter, the LeBron 20 was the strongest LeBron launch in years, fueled by storytelling and the blend of innovation with sportswear design. This created greater commercial appeal, as seen in Q3 with very strong sell-through throughout the marketplace in full family sizing.

This is an approach we use across the portfolio and across our Nike Basketball product construct. Thanks to our ongoing dialogue with athletes from the elite to the everyday we design around three key aspects of the game: cutting fast, playing long and jumping high all while emphasizing off-the-court style.

So when we began work on a signature shoe for a playmaker and generational talent like Sabrina Ionescu, we knew the shoe would focus on cutting: helping her stop on a dime and accelerate back again. The Sabrina 1 uses research from thousands of athletes – both female and male – to create a unique traction pattern and a low-to-the-ground design that has lifestyle appeal we're thrilled about.

We're excited about the potential with the Sabrina 1, and the continued power of our increased focus on Women's coming out of CDA.

Over in Jordan Brand, Q3 saw the release of its own young superstar signature shoe. Jayson Tatum debuted the Tatum 1 last month at the NBA All-Star Game with fireworks, breaking the All-Star record for points scored. The Tatum 1 joins the Luka, Zion, Westbrook and game shoe franchises for the strongest signature portfolio in Jordan Brand's history, helping fuel

robust growth for the brand alongside its consistent strength in retro.

Crafted with efficiency in mind, the Tatum 1 is Jordan Brand's lightest basketball shoe and has a large-volume Zoom Air bag in the forefront for energy-returning stability.

Special care was given to the Tatum 1 kids design. The kids-specific model has specialized zonal rubber on the outsole for the durability needed for young kids' style of play.

But the biggest innovation in the kids' design came directly from parents, including Jayson himself, who asked for an easy-on, easy-off system. In pre-school and grade school versions, designers came up with a new innovative tailgate system. And in toddler sizing, there's an even-simpler collapsible entry technology.

The Tatum 1 represents an evolution for the Jordan Brand, shifting from serving an individual athlete to also serving the next generation to come as well. The potential here to bring innovation into our Kids business is vast, as we build lifelong relationships with younger generations.

Third, let's discuss Nike's Air Max franchise. Our Air Max business continues to expand, growing double-digits in Q3. Like Air Jordan, Air Max is a great example of how we build significantly scaled businesses off our greatest performance innovations.

Looking again at our insights model, Air Max also exemplifies how we brief new product by leveraging qualitative and quantitative member data science to have a sharper and more targeted focus. We're able to ask ourselves, who are the consumers we want to serve and what are they looking for?

For example, the 270 has been a top 5 Air Max franchise for the past five years. But we heard from younger age groups that they want their own version: a more street-engineered, durable shoe one with a new lifestyle identity.

This vision of building a future franchise for the next generation led us to create the Air Max

Pulse, with the broader goal of creating an entire portfolio of classics for this generation. The Pulse connects a 270-style Air bag with a brand-new upper, bold and versatile styling and new Air Max branding.

The Pulse launches on Air Max Day next week, and we can't wait for consumers to give it a try.

Another Air Max model launching next week is the "Design by Japan" Air Max 1 '87. This Women's-exclusive model represents the first time our members influenced product creation using polling on the SNKRS app as well as local member polling data. With just a year from conception to delivery, we relied on our Express Lane capabilities to make and deliver the product in such a short turnaround. Members who participated will be the first targeted for the shoe, creating Nike's first full-circle insights-to-shopping experience.

This is only the first example of this kind of product creation, and we look forward to seeing what we can do next.

Overall, we're excited by how our focused approach to insights will fuel future growth. We're still in the early innings, and we're thrilled by the possibility ahead of us, as we stay dedicated to listening to the athlete and leveraging membership data to inform future products and consumer experiences.

Before I close, I want to mention that in two days, on March 23rd, we'll release our FY22 Impact Report. As you know, at Nike, purpose is deeply engrained in everything we do. For example, you'll read that we've given more than 375,000 girls expanded access to sport through our community partners. In addition, we've maintained 1:1 pay equity for women and U.S. racial and ethnic minorities internally, while also helping the first of our supplier facilities achieve a gender equitable workplace with upward mobility for women.

As you recall, two years ago we set new, quantifiable ESG targets, focusing on a wide range of priorities across People, Planet and Play. 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.

In the end, we are redefining what's possible thanks to our close connections with consumers, and how those relationships make us better again and again. We are supercharging how we serve athletes around the world with innovative product, brand engagement and experiences at retail. This promises to be yet another incredible year for sport, and there's never been a better time to be in the business we're in. I could not be more excited about our future.

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

[Matt Friend]

Thanks John, and hello to everyone on the call.

Nike's third quarter showed that in a dynamic environment, strong brands set the pace. Two quarters ago, we took clear and decisive action in response to changing marketplace and supply chain conditions. Our top priority was to strategically manage excess inventory and drive a quicker return to a healthy pull market, and our Q3 results prove that Nike is leading the way.

Nike is more agile, responsive and resilient than before the pandemic, with operational capabilities and an experienced team that enable us to create competitive separation. While we may continue to face heightened volatility, we are confident in our ability to drive sustainable and more profitable growth.

Consumer demand for our portfolio of brands remains uniquely strong, fueling unit growth of approximately 10% despite increased macro uncertainty.

Nike, Jordan, and Converse all drove double-digit currency-neutral growth this quarter. Nike Direct outperformed, with member buying frequency increasing and store sales growing across all geographies. Another quarter of industry-leading digital growth – up 24% in Q3 – drove our digital share of business up to 27%. Our Wholesale channel delivered a second

straight quarter of outsized growth, with a planned recapture of retail partner open to buy on improved inventory supply versus the prior year, and strong consumer sell-thru.

Revenue from performance dimensions grew double-digits versus the prior year, with strong momentum from the Phantom GX, Invincible 3, LeBron XX, and other new product innovations. Revenue from Lifestyle dimensions also remain strong, as consumers continue to shift wallet share towards sport-inspired products that provide innovation, comfort and style.

Nike has been fueling this shift for more than fifty years, built on our passion for serving athletes. We have created the lifestyle around sport and have forged a deep connection to youth culture through our most iconic footwear franchises. Time and again, we take the consumer somewhere new.

This quarter we introduced new iterations of the Air Force 1 with Tiffany's, Undefeated, and Drake. We drove energy around our top Jordan franchises with our latest Travis Scott AJ1 and a women's-exclusive AJ4. We welcomed the Year of the Rabbit with a Dunk inspired by the iconic White Rabbit candy. We celebrated the NBA All-Star Game with an Air Force 1, Dunk, and Blazer collection inspired by its host city. And we connected consumers to the Air Max 1 through craftsmanship, heritage storytelling, and new modern renditions.

The energy that we are creating for the consumer continues to set Nike apart. Even in a promotional environment, full-price sales remain strong. And for the seventh consecutive quarter, ASP growth was positive for NIKE, Inc., with benefits from strategic pricing, product mix, and our shift to Direct more than offsetting the short-term cost of promotions to liquidate excess inventory.

In addition to driving strong topline results, we are making tremendous progress on inventory. Let me walk through a few key points.

First, inventory dollars and units are down meaningfully from last quarter. In the third quarter, total inventory dollar growth was 16% year-over-year. In North America, inventory dollar growth was 14%. In Greater China, inventory dollars declined 4% versus the prior year,

positioning us well for the momentum that we are creating in the China marketplace.

Next, we are making even greater progress where we are focused most. In Q3, total apparel units were down year-over-year as we continue our sharp focus on liquidating excess apparel inventory. In North America, apparel units were down high single-digits.

Finally, we are confident looking ahead. With strong traffic and retail sales growth, and reduced inventory buys for the spring and summer seasons, we are increasingly confident that we will exit the year with healthy inventories across the marketplace. In fact, given our brand momentum, we now intend to move through even more units by year-end than we had previously considered.

Both transit and buying timelines continue to tighten towards pre-pandemic levels, and free cash flow accelerated this quarter through improvements in working capital. Along with an improving flow of seasonal supply, our decisive actions will enable Nike to compete at its best: driving consumer energy through new product, seasonally relevant assortments and fresh storytelling, and premium retail experiences. Regardless of the near-term uncertainty facing consumers, we will be prepared to lead and operate from a position of strength.

Now, let me turn to our NIKE, Inc. third quarter financial results.

In Q3, NIKE, Inc. revenue grew 14% and 19% on a currency-neutral basis, with broad-based growth across brands, channels, and geographies. Nike Direct grew 22%, led by 24% growth in Nike Digital and 19% growth in Nike Stores.

Wholesale grew by 18%, driven by strong partner demand based on accelerating retail sales higher shipments based on earlier supply availability and lower shipments in the prior year given supply constraints.

Third quarter reported gross margins declined 330 basis points to 43.3%, due to higher markdowns increased product input costs elevated freight and logistics expenses, including higher supply chain network costs in North America partially offset by strategic pricing actions.

This also includes approximately 140 basis points of impact from unfavorable changes in net foreign currency exchange rates.

SG&A grew 15% in Q3, primarily due to wage-related expenses, variable Nike Direct costs, and increased demand creation expenses.

Our effective tax rate for the quarter was 16%, and substantially consistent to the same period as last year.

Third quarter diluted earnings per share was \$0.79.

Now, let's review the operating segment results.

In North America, we drove strong holiday sales with momentum continuing into the new calendar year. Q3 revenue grew 27% on a currency-neutral basis, with Nike Direct up 23% and Nike Digital up 25%. EBIT grew 23% on a reported basis.

Consumer demand drove strong growth across performance and lifestyle. LeBron, Giannis, and Luka grew high double digits, fueling market share gains in basketball. A strong Invincible 3 launch energized the marketplace, doubling digital sales compared to the Invincible 2. Air Max grew double digits. And the Jordan Brand kicked off its 23rd year – also known as Jordan Year with strong double-digit growth incredible momentum, especially with women consumers and even greater potential with a path toward becoming the #2 footwear brand in North America.

Across the marketplace, we continue to capture opportunity with our growing digital advantage. Member moments throughout the quarter drove double-digit growth in repeat member buying. On the Nike App, we integrated personalized product recommendations for members using available inventory to increase sell-thru of key products. In addition, return on ad spend improved for another quarter as we test personalization in consumer experiences with activity and preference data.

In EMEA, we saw strong growth across all Western European markets, including positive trends in the UK. Q3 revenue grew 26% on a currency-neutral basis, with Nike Direct up 39% and Nike Digital up 43%. EBIT grew 10% on a reported basis.

New product innovation resonated deeply. Invincible 3 drove strong sell-through in Nike Direct and with our retail partners. Our statement Go Leggings delivered positive early results, with strong sales in Nike Live and Nike Rise doors, where we've been able to create a unique retail experience for her. In Football, we are gaining share with a very successful launch of the Phantom GX plus sustained momentum in the Mercurial franchise.

We saw strong consumer response as we continue to transform the consumer journey in Digital. Traffic grew double-digits, with average order value growing mid-single digits and Nike.com leading new member acquisition. On the Nike App, member engagement grew double-digits with a new Jordan member home button driving the highest click-through rate ever on the app. We also continue to drive convenience and improve Nike Digital profitability by expanding O2O services, optimizing last-mile delivery, and reducing digital split shipments.

In Greater China, we drove topline growth despite another quarter of volatility. Q3 revenue grew 1% on a currency-neutral basis, declining 8% on a reported basis. Nike Direct grew 3% on a currency-neutral basis, with Nike Digital declining 11% as consumer buying shifted to brick-and-mortar with the country's reopening. EBIT declined 10% on a reported basis.

In December, we managed through disruption from the country's shift in COVID policies with widespread door closures. Starting in January, we began to see a rebound in brick-and-mortar traffic, with strong retail momentum around Chinese New Year accelerating into February, especially as our clean inventory position enabled us to serve consumers with fresh seasonal assortments.

Throughout the quarter, we gained traction in some of our most important business dimensions. Performance footwear outpaced lifestyle, with running up double-digits, led by

the Invincible 3. Meanwhile, in basketball, LeBron XX and the GT Series resonated deeply, with energy around our local Space Maker Summit and Jordan Brand's China High School Basketball League All-Star Weekend. Growth in Kids surpassed other consumer segments, with positive response to hyperlocal collections such as our Chinese New Year "Leap High" Express Lane pack.

We are optimistic as our business momentum continues to build. In Beijing, Nike's brand strength is deepening, extending our lead as the #1 cool and favorite brand. We are also seeing the benefits of a more local operating model as we have made investments over the past two years to serve the marketplace's unique needs. Long-term, we are confident that the fundamentals of growth for Nike in China remain strong.

Finally, in APLA, Nike's brand momentum continues to fuel strong growth. Q3 revenue grew 15% on a currency-neutral basis, including approximately 8 percentage points of a headwind due to the first full quarter of impact from the transition of our Chile, Argentina, and Uruguay businesses to a distributor model. Nike Direct was up 22%, with Nike Digital growing 23%. EBIT grew 1% on a reported basis.

Football grew double digits, with a successful Phantom GX launch strong sales for the Men's World Cup in December and excitement building for the Women's World Cup this summer. In running, we saw strong momentum across our top footwear franchises, including double-digit growth for Invincible, Infinity, and Pegasus. And in fitness, the Metcon Free continues to win with consumers, growing triple-digits.

We also continue to accelerate opportunity in this geography through marketplace innovation. This quarter, we expanded Express Lane to bring more hyperlocal product to consumers. In March, we introduced the Nike App in Korea, which launched as the #1 free shopping app in one of our most digitally-connected markets. And later this week, we'll open our newest World of Flight door in Tokyo, expanding Jordan Brand's international growth.

I will now turn to our financial outlook for fiscal '23.

To date, we continue to see uniquely strong consumer demand as our product innovation, brand storytelling, and consumer connections drive distinction and growth in the marketplace. That being said, we are closely monitoring the building pressure on consumer confidence and the uncertainties of the macro environment.

We continue to take a cautious approach in planning our business, leading with intentional financial and operational guardrails. And looking ahead, we will continue to transform our operating model unlocking speed, agility, and efficiency with an improved marginal cost of growth.

As a result of our strong Q3 performance, we now expect Fiscal '23 reported revenue to grow high single-digits, an improvement from mid-single-digit guidance in the prior quarter, with approximately 600 basis points of foreign exchange headwinds. For the fourth quarter, this translates into flat to low single-digit revenue growth.

Remember, more than six months ago, we strategically reduced our inventory commitments for the spring and summer seasons to ensure that both Nike and our partners can work through excess and early-arriving inventory. As a result, we expect wholesale revenue growth to moderate for the next few quarters.

We expect Fiscal '23 gross margin to decline approximately 250 basis points, at the low end of our previous guidance range. This reflects ongoing and accelerated actions to reduce inventory by year-end elevated freight and logistics expenses including higher supply chain network costs in North America and 100 basis points of foreign exchange headwinds.

For the full year, we expect SG&A to grow approximately 10%.

We continue to expect our tax rate to be in the high teens range.

And consistent with my approach over the past few years, I will provide specific guidance for fiscal 24 on our next earnings call.

In this environment, what sets Nike apart is our portfolio of leading brands our proven playbook and a team and culture of innovation that continues to deliver. We have managed through cycles like this before, and we will be well-prepared for the volatility that is in front of us.

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

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