Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2024 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 Corporate Finance and Treasurer.

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

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2024 Third quarter results.

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

Before we begin, 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. All growth comparisons on the call today are presented on a year-over-year basis and are currency-neutral, unless otherwise noted.

We will start with prepared remarks, and then open up for 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.

Before I get into our Q3 performance, I want to take a moment to acknowledge the tragic passing of Kelvin Kiptum last month. Kelvin had just set the marathon world record in Chicago. He was a world-class athlete and champion, and a beloved member of the NIKE family. Kelvin was an inspiration to so many of us, and he will long be remembered and honored for the impact he had, both on the running community and beyond.

Looking at our business, Q3 performed in line with our expectations.

That said, we know NIKE is not performing at our potential.

While our Consumer Direct Acceleration strategy has driven growth and direct connections with consumers, it’s been clear that we need to make some important adjustments.

Simply put, we need to make adjustments in four areas: We must sharpen our focus on sport. We must drive a continuous flow of new product innovation. Our brand marketing must become bolder and more distinctive.
And, while NIKE Direct will continue to play a critical role, we must lean in with our wholesale partners to elevate our brand and grow the total marketplace.

And this is exactly what we're doing.

Starting last June, we aligned our organization to put the consumer and a sharp focus on sport back at the center of everything that we do.

We integrated our leadership structure, appointing Heidi O’Neill and Craig Williams as co-Presidents. We’ve reinvested in consumer-led, sport-focused teams that are the foundation of our offense. And we’re driving our winning formula of creating a relentless flow of innovative product, combined with distinct brand storytelling, delivered through differentiated marketplace experiences.

And while we still have much work to do, we are making significant progress:

We’re well on our way to building a multiyear cycle of innovation that’s bringing freshness and newness to consumers. We’ve pulled forward several innovations more than a year and our intent is to delight consumers and disrupt the industry.

Our brand storytelling will leverage our athletes and sport moments to become sharper and bolder, beginning with the Olympics this summer.

And we are increasing our investment in wholesale to help us elevate and grow the entire marketplace. We recognize that our wholesale partners help us scale our innovation and newness in physical stores and connect our brands in the path of the consumer.

Most importantly, we’re back on our front foot with growing confidence in our innovation pipeline. We know it will take time to scale these innovations, but we see some early green shoots.
We are also carefully managing our most important franchises for long-term health. As a result, our product portfolio will go through a period of transition over the coming quarters.

All together, we’re relentlessly focused on driving NIKE’s next chapter of healthy and sustainable growth. And we look forward to sharing our plans in-depth at an Investor Day later this year.

Now, as we’ve said before, our success always starts with innovative product, and so that’s where I’m going to focus on today’s call.

Today, our innovation engine is moving with speed. Our innovation, design and product creation teams are working hand-in-hand with urgency and creativity. They’re leveraging new technologies to be faster, more collaborative and more expansive in their thinking.

We have many platforms at NIKE that drive growth. But today, let’s go deep on our greatest innovation platform and a true source of competitive advantage: Air.

Today, as a platform, Air is a double-digit billion-dollar business on its own, larger than some Fortune 500 companies. There’s nothing like Air: it’s a proprietary technology that lets us iterate and revolutionize. It drives breakthrough performance benefits for athletes and defines the future of sportswear.

Air offers stability, resilience, and energy return unlike any other cushioning platform.
Simply put, Air helps athletes win.

Decade after decade, we have developed new breakthroughs in Air. And as we approach the Olympics in Paris this summer, we continue to innovate with Air with a focus on helping the world’s greatest athletes compete and win on sports’ largest stage. So, this summer, you are going to see Air drive major advancements in measurable performance benefits on the track, on the court and on the pitch.
In addition to AlphaFly 3, which continues to set the standard for distance racing, you’ll see Air in new footwear that brings elite performance to everyday runners. You’ll see Air in Football and Basketball footwear in new, more-visible ways. And you’ll see Air in the fastest track spikes we’ve ever created.

You’re going to get a chance to see all these products, and our full Olympics innovation lineup, two weeks from now at our Innovation Immersion event that we’ll be hosting in Paris.

Beyond creating leading-edge performance innovation, we also continue to bring new sensations of Air across our business, including our lifestyle portfolio.

For instance, Dynamic Air, our newest innovation platform, is a true breakthrough, delivering a uniquely comfortable sensation with each step.

It’s a total rethinking of what airbags can be. Historically, airbags have been fixed and static. Picture an inflatable raft. They compress when you step and then immediately return to their original shape, ready for the next impact.

Dynamic Air changes the game. It unchambers the Air to create a new underfoot sensation that’s truly responsive. As the consumer takes a step, our new four-tubed Air unit allows air to flow freely between the tubes, responding to the pressure of each unique stride to deliver maximum comfort.

We will scale Dynamic Air across many of our leading Air franchises.

This starts with Air Max DN, a shoe that offers just the latest example of how we use Air to craft a new lifestyle franchise. I’ve been wearing the DN all week, and in fact I’m wearing it right now, and it really is a unique and great sensation. What’s more, DN’s bold style and design identity is deeply rooted in youth culture and the next generation. We’re excited for consumers to experience it.
Next week will be NIKE’s 10th Air Max Day. It will be a day where you’ll see us drive an integrated offense of innovation, storytelling, and consumer activations that we’re very excited about.

Air Max DN will be debuting in more than 4,000 stores globally on Air Max Day, creating impact like we haven’t seen in years.

When we teased DN last month, we saw a rise in other Air Max franchises. This is common – our experience has been when we launch a strong new product, it creates energy for the whole family.

It all speaks to the confidence we feel when we look at our overall innovation engine and pipeline, from Air to the rest of our portfolio.

Now, earlier I mentioned the impact NIKE can have as we sharpen our focus on sport. And the world got a great reminder of that today, with the announcement of the awarding of the German football contract.

I was fortunate to be in Germany for our pitch earlier this week, and I can tell you it was simply NIKE at its very best. It started with our deep and unapparelled commitment to sport. We are the world’s leading sports brand, the largest sport brand and the leader in football, the world’s most popular sport.

Our focus started with product innovation, both on the pitch, with unmatched kits and footwear that popped and had style and performance and extended into distinct and fashionable lifestyle design.

Our ability to tell stories shown through to make the German team a global brand and make their athletes global heroes. And our ability to expand the game, expand their women’s game and invite youth culture into football, all mattered.
It was a remarkable team effort that a great proof point that when NIKE brings out our best, no one can beat us. And so, we feel deeply honored and privileged to partner with the German football federation, starting in 2027.

Before wrapping up, let me touch on something core to our DNA as a company: NIKE’s purpose, which will always be our foundation and remains deeply embedded in our strategy. We are defined by our commitment to the future of sport in service to athletes around the globe. And Purpose continues to guide us to redefine our own potential for positive impact in the world.

We’re pleased with the progress we’ve made against our 2025 purpose targets across representation, sustainability and community. To learn more, please see our recently released FY23 NIKE, Inc. Impact Report.

In the end, we are acting with urgency as we make the adjustments needed to compete and win.

And I’d like to conclude by saying that I deeply appreciate how much our team has kept our focus on delivering results amid macro volatility and an organizational restructure. This has been a difficult time for our organization, and I feel truly grateful for our teammates who’ve demonstrated such dedication and commitment to our work together.

It’s thanks to them that I feel so confident in NIKE’s future.

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 showcased the operating discipline of our teams, as we delivered revenues up slightly on top of the prior year’s double-digit growth, outperforming our
expectations in North America and more than offsetting dynamic conditions in some other geographies. We executed well to recapture transitory cost headwinds and expand gross margins, even in a promotional environment. Our inventory position remains healthy, with total marketplace units down double-digits versus prior year, and weeks of supply at their lowest levels since the pandemic.

Most importantly, our teams are focused on what matters most to capture the strong growth opportunity we see in the marketplace. This means creating more value for consumers by scaling new product innovation, with greater brand impact, across the full marketplace, with even more inspiration through sport and our athletes.

Last quarter, we highlighted that particularly in an uneven macro environment, newness and innovation are what drives brand distinction. Consumers are moving quickly to access new products. Trends are igniting in different places and rapidly spreading around the world.

NIKE needs to be faster, and so we are accelerating a multi-year innovation cycle. And while our new product cycle is just getting under way, this quarter showed that we are on the right track.

Since the start of this fiscal year, new and updated footwear models have grown into a majority of our top 20 growing footwear franchises in Q3. Added up, footwear products introduced over the past several quarters are on track to generate a multibillion-dollar run rate on an annual basis, and we see even more opportunity ahead.

On the whole, we see momentum where we are focused most.

Performance footwear grew high-single digits, with double-digit growth from $100-plus franchises, including Kobe and Ja in basketball; Metcon and Motiva in fitness; and Structure and Vomero in running.
Women’s fitness footwear grew double-digits, and key apparel franchises, such as $100-plus leggings, continued scaling with strong sell-through.

New product journeys from Book 1 to Vomero 5 and V2K to Lunar Roam and Travis Scott’s Jordan Jumpman Jack – drove consumer energy.

And ahead of a new wave of Nike Air innovation, the Air Zoom AlphaFly 3 debuted with a marathon world record and sellout launches across multiple markets around the world.

As you heard from John, we believe the Paris Olympics will serve as a catalyst for our brands, as we launch our newest Nike Air innovations for athletes. Most importantly, this is just the beginning. With a growing portfolio of new concepts, platforms, and capabilities, our innovation teams are well-positioned to continue driving breakthroughs in performance and lifestyle over the coming years.

To maximize the impact of our new product cycle, we are accelerating several important actions lined up against key brand and sports moments.

First, we are elevating and differentiating the consumer experience with our brands at retail, especially as consumers continue to shift back into physical stores. This includes increased investment to support strong seasonal retail marketing execution, breadth and depth of assortment, and elevated service and product presentation. You heard John say that we will initially launch the Air Max DN next week at more than 4,000 doors. We will increasingly leverage our full portfolio of thousands of physical doors to position our newest products in the path of consumers.

Second, we are sharpening our brand storytelling to tell fewer, bigger stories with greater reach. We will focus our demand creation investments to elevate our brand and most distinctive products – leading with the voice of the athlete, amplifying new innovation, and engaging consumers at point of sale. As we look forward, we see our Olympics “Air for Athletes” campaign as the boldest expression of NIKE’s brand voice in many years.
Third, we are in the midst of shifting our product portfolio toward newness and innovation. Last quarter, we spoke of our intentional actions to reduce marketplace supply of certain key franchises to ensure they remain healthy and strong, while seeding and scaling new products. Given the way consumers are responding to our newest product journeys, even amidst a more promotional environment, we have decided to accelerate our actions. For example, we are pulling back supply of classics such as the Air Force 1; and we are reducing supply of Pegasus ahead of launching new innovation in the Pegasus 41.

We have been here before. Twelve months ago, our basketball portfolio was meaningfully impacted when we exited a key signature franchise. Since then, we have more than offset that impact by scaling innovation with the GT Series; introducing newness to consumers in Ja, Sabrina, Kobe, and Book; and returned to strong double-digit growth this quarter in basketball.

Looking ahead, we expect lifecycle management of key product franchises to create some near-term headwinds, particularly on Digital. However, we are confident that we are taking the right actions to fuel Brand momentum and return to stronger long-term growth.

Last, while we continue to bring operational discipline as we manage our business through these shifts and a multi-year period of higher cost inflation, we are also positioning NIKE for the future.

This includes restructuring our organization to sharpen our focus and increase our investment on the consumer and sport, which we believe will fuel our next phase of long-term growth. This quarter, we began streamlining support and operating functions, reducing management layers, and shifting more resources towards consumer-facing activities. In particular, we are increasing investment in areas such as design, product creation, merchandising, brand, and our ground game to drive greater impact for consumers, dimensions of sport, and the marketplace.

Overall, our focus is on allocating our resources to drive more return, while building an operating model with greater speed and better cost productivity as we grow.
Now, let me turn to our NIKE, Inc. third-quarter results.

In Q3, NIKE, Inc. revenue was up slightly on a reported and currency-neutral basis, with low single-digit growth in the NIKE Brand partially offset by declines at Converse. As a reminder, this follows 14% reported and 19% currency-neutral growth one year ago, as we were liquidating excess inventory in Q3 of Fiscal ’23.

NIKE Direct was up slightly versus prior year, with NIKE Stores up 6% and NIKE Digital down 4%. Wholesale grew 3%.

Gross margins expanded 150 basis points to 44.8% on a reported basis, driven by strategic pricing actions, lower ocean freight rates, and improvements in supply chain efficiency, partially offset by higher product input costs. This also includes 50 basis points of negative impact from restructuring charges.

SG&A grew 7% on a reported basis, as increased investment in demand creation was partially offset by disciplined expense management. This quarter, SG&A was also impacted by approximately $340 million in restructuring charges.

Our effective tax rate for the quarter was 16.5%, compared to 16.0% for the same period last year.

Diluted earnings per share was $0.77. Excluding the impact of the restructuring charges, earnings per share would have been $0.98, up 24% versus the prior year.

Now, let me turn to our operating segments.

In North America, Q3 revenue grew 3%. NIKE Direct grew 2%, with NIKE Stores up 3% and NIKE Digital up 1%. Wholesale grew 5%. EBIT grew 18% on a reported basis.
This builds on extraordinary growth in the prior year, with North America revenue up 27%, including NIKE Direct up 23% and Wholesale up 32%, in Q3 of Fiscal ’23.

This quarter, we exceeded our expectations in North America with strong holiday sales, lighter markdowns than our competitors, and unit growth versus the prior year. Inventory is also down double-digits at the end of Q3.

Kids grew double-digits across footwear and apparel, with seasonal fleece and performance footwear resonating. We also saw positive momentum in Women’s lifestyle and fitness, with strong growth from the Dunk, Free Metcon, and retro running styles.

Jordan Remix and Sport performance grew double-digits. And in running, Structure, Vomero, and Invincible delivered double-digit growth.

In EMEA, Q3 revenue declined 4%. NIKE Direct declined 4%, as NIKE Stores grew 6% and NIKE Digital declined 10%. Wholesale was down 5%. EBIT declined 6% on a reported basis.

As a reminder, these results compares to tremendous growth in Q3 of Fiscal ’23, with EMEA revenue up 26%, NIKE Direct up 39%, and Wholesale up 20%.

However, our sales in the geography fell short of our expectations this quarter as we navigated increased macro volatility and softening consumer demand.

That said, newness and brand distinction continues to fuel momentum. In running, a sellout AlphaFly 3 launch energized our road racing portfolio. In lifestyle, P6000 and Vomero 5 continued to scale. And fitness grew double-digits, as we activated our ground game with brand activations and our trainer network.

Overall, inventory remains healthy, with units down double-digits versus the prior year. As we look forward, we see the launch of Air Max DN, Euro Champs ’24, and the Paris
Olympics as opportunities to create near-term brand momentum despite a challenging consumer backdrop.

In Greater China, Q3 revenue grew 6%, in line with our revised expectations at the end of last quarter. NIKE Direct declined 1%, with NIKE Stores growing 6% and NIKE Digital declining 13%. Wholesale grew 12%. EBIT grew 3% on a reported basis, with multiple points of impact from foreign exchange headwinds.

Chinese New Year sales grew year-over-year, with our NIKE and Jordan “Year of the Dragon” Express Lane collections driving excellent sell-through. Retail sales with partners grew double-digits in Q3 versus the prior year.

Kids led our growth in the quarter, with Performance dimensions up strong double-digits. In basketball, Book 1, Kobe, and GT Cut 3 launched with strong sell-through. In running, Structure, Invincible, and Vomero drove strong growth.

Jordan Brand delivered double-digit growth in Women’s and Kids, with consumer anticipation building ahead of this week’s opening of Jordan World of Flight Beijing – which will be the Brand’s first pinnacle retail concept in China.

In APLA, Q3 revenue grew 4%. NIKE Direct grew 4%, with NIKE Stores up 18% and NIKE Digital declining 6%. Wholesale grew 3%. EBIT declined 3% on a reported basis.

In Central and South America, we delivered double-digit growth and improved return on sales in the first full year of our shift to a distributor model. In Mexico, we gained brand strength and momentum with strong growth in football. And in Japan, running grew double-digits.

Across APLA, football and basketball grew double-digits, fueled by Mercurial, LeBron, and the GT Series. Women’s holistic fitness grew across all channels, with Motiva and statement leggings resonating.
Now, let me turn to our financial outlook.

As we look forward, we are driving earnings growth and offsetting softer second-half revenue with strong gross margin execution, disciplined cost controls, and healthy and more productive inventory levels across the marketplace. Excluding restructuring charges, we expect to deliver on the full-year earnings outlook that we communicated at the beginning of this fiscal year.

More specifically for the full year, we continue to expect revenues to grow approximately 1%.

We now expect Q4 revenue to be up slightly, reflecting shipment timing benefit in Q3 and lower digital growth due to franchise lifecycle management. Q4 also has one point of negative impact on reported revenue from a stronger U.S. dollar.

Moving down the P&L, I will note that our guidance includes restructuring charges of approximately $450 million in our second half, with $403 million incurred in the third quarter. This primarily impacts SG&A, with approximately 15 basis points of impact to full-year gross margins.

We expect Q4 gross margins to expand approximately 160-180 basis points. This guidance continues to reflect benefits from strategic price increases, lower ocean freight rates, lower product input costs, and improved supply chain efficiency. Our outlook is now partially offset by higher markdowns, reduced benefits from channel mix due to franchise lifecycle management and worsening foreign exchange headwinds.

For the full year, this translates into gross margins expanding approximately 120 basis points, including approximately 60 basis points of impact from foreign exchange headwinds.

We now expect Q4 SG&A to be down slightly versus the prior year, including restructuring charges reflecting improvement versus our prior guidance.
For the full year, this translates into SG&A growing low single-digits, including restructuring charges, also reflecting improvement versus our prior guidance. Excluding the impact of restructuring charges, we expect full-year SG&A to be roughly flat.

Our guidance for other income and expense and our effective tax rate remains unchanged.

Additionally, given the strategic actions we walked through earlier, I want to share some early thoughts on how we are planning for our next fiscal year.

We expect revenue and earnings to grow versus the prior year, with operating margins expanding, excluding the impact of the restructuring charges in Fiscal ‘24.

However, we are planning prudently for revenue in the first half of the fiscal year to be down low single-digits. As I mentioned earlier, this reflects near-term headwinds from lifecycle management of key product franchises, more than offsetting the scaling of new products as we shift our product portfolio toward newness and innovation. This also continues to reflect the subdued macro outlook around the world.

Most importantly, we are focused on amplifying Brand strength and consumer impact, which is the foundation for how we drive sustainable long-term growth.

Looking ahead, we are confident in our product pipeline for Fiscal ’25 and the momentum we will build throughout the year, moment by moment, creating brand impact and deep consumer connection through sport.

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

[OPERATOR]

Our first question will come from the line of Jay Sole with UBS.
[JAY SOLE]

Great. Maybe just to start, Matt, I wanted to ask you about the fiscal '25 commentary you made. You’re talking about low single-digit growth for the first half of the year. You said operating margin, I think you said grew ex restructuring charges and EPS growth, can you give a little bit more to mention around what you expect for operating margin next year? Like what kind of growth do you expect, will grow on the reported numbers from this year or will be sort of below that? And then I guess just bigger picture, if I could take a step back. Can you just talk about the operating model. Company switched to a men’s, women's, kids contract a couple of years ago away from the category offense. How has that change how have you perceived that change has been what you expect it to be? Does NIKE plan to make any changes to the operating model?

[JOHN DONAHOE]

Matt, why don’t I take the second part of that question and then you take the first. So, Jay, as I mentioned, we are making and started 9 months ago important adjustments in our offense. And that started with putting the consumer and sport squarely back into our offense. And so that allows a sharpness across Men's, Women's, Kids and Jordan around sport. And so, there’s a sharpness around running end-to-end around fitness, around basketball, around football and around lifestyle. So, we brought the best of the category offense right back in along with the sort of gender umbrella.

And that’s resulted in consumer-led sport focused teams that are back on our front foot as we talked about, building a strong, innovation pipeline, and in classic NIKE form it's not just 1 or 2 products. It's building a 3-year pipeline so that we can bring innovation season after season in each sport. In fact, we were just -- this week, we had 300 or 400 of our top leaders here for Spring '25. That addition of the next round of innovation I can tell you our teams are excited and it's not just 1 season, it's a full 3-year pipeline. We're combining that with elevating our brand and bigger, bolder stories, grounded and sport and athletes that cut through and connect with impact. And again, you'll see that in the Olympics.
And you saw that a little bit with Caitlin Clark and with Sabrina, most recently, little examples of it, getting back to what we do best, and we’re doing that with brand. And then in the marketplace, while we have the sport focus, we’re combining both the best of our direct offense, but a reinvestment with our wholesale partners, so we bring a more holistic offense that grows the market and gets in the path of our consumer. And so that’s what’s driving our growth. we’ve made the necessary adjustments to bring the best of what’s worked in our proven formula so that we move forward.

[MATT FRIEND]

And Jay, the way I think about fiscal ’25 is that we are taking our product portfolio through a period of transition. We talked about this last quarter. in terms of our focus on scaling newness and innovation and the green shoots that we were seeing in terms of the way the consumer is responding to the newness that we’re bringing to market. And this quarter only gave us more confidence that is where we need to focus and how we will continue to create greater impact and distinction from a brand point of view.

And so, this quarter, we saw a majority of our top 20 growing footwear products be new products that have been created this year. And those products are on a trajectory to deliver multibillions of annual run rate of incremental revenue. And that’s where our focus is. At the same time, we’re managing some of our largest lifestyle franchises and some of our performance franchises back to make space for the newness. And that’s going to have a corresponding offsetting impact. And because we’ve been missing some product newness at scale in our portfolio over the last several seasons, these actions are resulting in a decline of low single digits is how we’re thinking about the first half of the year. But we believe we will inflect in the second half and grow next year on the top line. And when we step back and think about the importance of newness and innovation, and not just to drive the top line but to create consumer impact at scale, that's the foundation for us driving long-term growth.
Our next question will come from the line of Matt Boss with JPMorgan.

So, John, could you elaborate on the new multiyear innovation cycle? And how best to think about the timeline for transition to the next chapter of growth that you cited? And maybe, Matt, staying on that topic, high level, any material changes to consider with the top line growth profile or your high teens margin target as we think about this next chapter of growth.

Yes, Matt. Well, I can't tell you the change and the feeling of our innovation, design and product creation teams getting back on their front foot. And it's not just about a product or an item here and there. It's around building a robust pipeline of innovation. So, I mentioned in my remarks, Air. Air has been probably the single largest innovation platform in NIKE's history. And we continue to innovate with Air, both in performance, which you'll see in the Olympics, and you'll see it impact almost every sport dimension, and you get to see that in a couple of weeks and measurable performance benefits, again, classic NIKE innovation and then also in lifestyle.

Let me just take Air Max Dn. We're launching Air Max Dn next week, but we already have next year's Air Max and the following year developed, which are further innovations in Air so that it's not just 1 year, it's 3 years in the pipeline that we're working on improving and improving and improving as we bring it with power to consumers. Beyond that, let me take a running. I was over, Matt and I were over in the running room. It was yesterday. I think it was yesterday. And the 3-year pipeline of innovation is clear across Vomero, Structure and Peg. So, we'll have Peg 41 launch in June, Peg premium will be as well as other members of the Peg family, Peg Trail, all coming in the second half of the year, and we're

We went into the women's room, Amy Montagne and team have lined up not just what's coming in the short term, but what's coming season after season, which is what allows NIKE to drive innovation at scale and consistency.

[MATT FRIEND]

And I'll just hit on the question, Matt. On the timeline of transition, I'll just reiterate what I just said, which is we believe that transition is going to occur in the second half of fiscal '25. You will continue to hear us talking about the way we're scaling newness and innovation from this point forward. The products that are already out in the market, we expect to continue to scale. And then John's referenced the DN, the Peg 41, and we've got other things that are coming in the first half of this year. And so that's what we're excited about, offset by the way we're managing some of our franchises.

When I think about your question about material changes to the long term, I'm going to hit on maybe a couple of points here. I think the first one I'd say is that while our strategy over the last few years has been consumer led. What I would say is that the last couple the last year or so, we've been more focused on trying to achieve mix of marketplace targets than we have serving consumer demand where the consumer is shopping. And so, there's been more focus on trying to achieve the 40% Digital metric or the 60% Direct metric when that was always a consumer-focused strategy.

The consumer is still clearly shopping in multi-brand retail, and we need to elevate our brand and our positioning to be able to serve the consumer and to have the maximum impact from the new innovations that we're bringing to market. And so those measures are not measures that are guiding our forward-looking plans, okay?
The second I’d say is that when we look at the industry and step back overall, stepping back from being in a moment of transitioning our product portfolio, we continue to see strong growth potential in our sector. We think we continue to have industry tailwinds, consumer interest in sport, more people participating in running events and marathons to more people focused on fitness and living a healthy lifestyle, there are natural consumer tailwinds that are going to continue to drive growth in our sector.

And we expect to grow and to take share like we always have. As it relates to our long-term margin target, I think this quarter and this year has been a great proof point on us recapturing some of the transitory cost headwinds that have been in our face the last couple of years, but also showing how we can execute to deliver gross margin expansion and be disciplined in the way we’re managing costs while we’re investing in the consumer. When I look forward, I think we can continue to drive more profitable growth. And the margins that we’ve discussed and the opportunity for margin expansion is still significant within our model. But having a strong brand is the foundation for us to be able to drive long-term growth and profitability. And we’re focused on what it takes through this flow of innovation, authenticating ourselves being authenticated in sport and elevating our presence across the marketplace. And if we can do this, we think we can drive attractive growth and high profitability. And when we get to Investor Day later this year, what we'll do is we will update our algorithm and our expectations over the next 5- year period.

[OPERATOR]

Our next question will come from the line of Brooke Roach with Goldman Sachs.

[BROOKE ROACH]

I was hoping to get your updated thoughts on the pricing power of the NIKE brand and the markdown opportunities that you see as you build into this new multiyear innovation cycle.
Are there any near-term or medium-term offsets that we should contemplate as you work through franchise management and the current macro? And how are you thinking about the most important drivers of operating margin expansion into next fiscal year?

[MATT FRIEND]

Yes. Let me start by talking about pricing power, 1 of the biggest benefits to a strong brand, an innovative brand, a brand that's continuing to bring freshness and newness to the consumers' pricing power. And over the last couple of years, given our brand strength, we've been able to implement strategic pricing in order to be able to offset some of the headwinds that we've been facing. But as we look forward, we believe that more newness, more freshness products that are more connected to stories that are relevant to consumers should give us the ability on a structural basis to continue to expand our profitability.

And the point I was trying to make in response to Matt's question is that when the brand is strong, the biggest driver of growth and margin expansion is strong consumer demand for the products we have and high levels of full price realization. And that ultimately is the fundamental as we carry forward. In the near term, one of the headwinds that we're going to see is that not surprisingly, our digital business carries a higher mix of the biggest franchises that consumers love. And so, as we manage the supply of our larger franchises, we do expect that there will be a near-term channel mix headwind from transitioning our product portfolio.

But we view that as being a near-term factor because, ultimately, for NIKE to grow at the rates that we are that we aspire to grow to, we have to grow units across the marketplace. We have to grow units at NIKE Direct, through digital in our stores, and we've got to grow units through our partners. And so that is where our focus is dimensionalize through sport, our fields of play, the way we've always segmented the marketplace to grow so that we can work and serve the consumer where the consumer is at.
As far as operating profitability long term, we continue to believe that we can expand gross margins by running our operating model and also driving value out of some of the things that we’ve talked about in the past, like product cost initiatives to lower our input costs. We’re actually already starting to see some benefits on that in the back half of this year, continuing to drive supply chain efficiency. And then as I mentioned, the way that we’re thinking about managing our SG&A, shifting more of our resources to be consumer-facing, we’re focused on building an operating model that’s got greater speed and drives greater productivity as we grow. And we think that will also be a source of long-term margin expansion for the company.

[OPERATOR]

Our next question will come from the line of Michael Binetti with Evercore ISI.

[MICHAEL BINETTI]

A lot of the moving parts in the business here, very helpful. I guess as we look at the second quarter in a row, I guess wholesale in China has grown a lot faster than DTC. Would you obviously, that's a very important market for you, a lot of important things for us to think about in that market. Can you help us a little color on the different trends in that market that you see. And then I guess as we think about how you'll manage these franchises into next year, we've also heard some good growth rates in some parts of the wholesale channel for the first half of your fiscal year. So, I'm assuming we'll see more of that franchise management on the DTC side. And if so, considering that's an important channel for the rest of the P&L, I'm assuming we can orient ourselves around gross margin pressure in the start of next year as you work your way through that before we see the influence of returning to growth down the P&L?

[JOHN DONAHOE]
Yes. Matt, why don't you take the first part while I hit on that second. So Michael, on China, interestingly, Angela Dong and her team and all of our top partners were here for the last week. As you know, we have 6,000 monobrand doors. They were here for our innovation. And a couple of things are clear. Sport is strong in China, and Nike is strong in China. Our growth in Q3 was 6%, which was in line with our plan, and we're gaining share. We're gaining share certainly against the global brands, and we're gaining share against a local brand.

So NIKE’s brand is strong and its back. With regard to channel mix and your specific question, part of what’s driving that is the consumers back on the street. And so, I would say that the physical retail channel in China is stronger than digital. And then within digital, Tmall, which was historically the biggest digital driver is experiencing less growth. We're still the #1 sports brand on Tmall, and social commerce, Douyin is growing, and we're not yet on Douyin. We're just getting on Douyin. And so, we'll -- you'll see us expanding our growth into social commerce, which is the growing digital channel in China. But I can tell you, Matt [indiscernible] and Craig Williams and others to meet with our partners from China. They came away seeing our innovation pipeline that I've been talking about -- Matt and I've been talking about on this call, what we've got in store coming. And they -- it was the first time they've been on our campus in 4 years since COVID, and they came away excited, leaning in. And so we are very optimistic about the future in China, and we will grow across multi-channels to grow the market. It's probably the area of the world we do that the best.

[MATT FRIEND]

Yes. And to John's point, not only do we have 6,000 stores, but China is a monobrand market. And so, whether it's owned or partnered, it's a monobrand market, which gives us the ability to have the best expression in front of the consumers to be able to direct the assortment so that as we bring newness and innovation and new stories we partner with our partners. And the last thing I was going to say, Michael, is just the penetration of Nike Direct in China is lower than what it is across our other geographies.
In terms of your question about where we'll see the franchise management, yes, you're right. It will be more in Nike Direct and primarily because we continue to see a heavy level of promotional activity happening across digital across all of our geographies. And while we continue to see, as we've supplied our largest franchises to our wholesale partners, we're actually seeing incredibly strong weekly sell-through on these franchises. We're seeing high levels, high above our targets of full price realization.

And so our franchises are healthy. In fact, we can sell more of these products if we wanted to. But we don't think that's the right thing to do from a brand point of view. And we know that we manage these franchises for long-term health. And so, we're focused on scaling the newness and creating the consumer space for us to tell stories about new things that we're bringing to drive energy and that's where our focus is. And so that's ultimately where our teams are spending their time, and that's what's influencing the near-term transition that I highlighted a little bit earlier. As far as the margin question goes, what I'll say is that we're going to grow revenue and earnings next year, and we expect to drive operating margin expansion, excluding the impact of the restructuring charge and that's going to come through gross margin expansion first and then continuing to be disciplined in the way we manage SG&A in order to be able to drive more productive growth.

[OPERATOR]

Our next question will come from the line of Alex Straton with Morgan Stanley.

[ALEX STRATON]

Perfect. Just a couple for me. On the front half '25 revenue guidance, down low single digits. Can you give us any color on how you're thinking about it by geography or
channel? And then just bigger picture on this kind of wholesale reentering. Are you having any trouble kind of rebuilding the muscle there, facing any difficulty as you reenter? Has NIKE's criteria changed at all in terms of how you think about the right partners or distribution going forward?

[MATT FRIEND]

John, why don't I take the first part and then I'll start the second one if you want to jump in on that and go for it. So, Alex, I think the only thing I would say at this point is the way that we're thinking about the geography split is we're not assuming that economic conditions in the international markets, in particular, get better. It assumes a status quo relative to where we are today. And next quarter, I'll provide more tangible insights into not only the first half but our full year growth over our fiscal '25.

On the wholesale side, what I would say is that I think the biggest thing to take away is that we don't like the way our brand is showing up in wholesale, and we own that. And we need to focus on elevating the experience for consumers when they come into interaction with our brand. If you segment our marketplace by dimension and by where we sell our units, our seasonal units on a full-price basis, our wholesale partners represent 3/4 of the market from a unit perspective. And so, the importance of being able to elevate and to position our brand correctly and to tell stories about the products that we're bringing to market in that environment is an absolutely critical way not only to help consumers fall in love with the products we have but to also give consumers that tangible ability to come into real-life connection with the NIKE brand.

And so, what we're focused on, beginning with the DN is we're going to see, and you'll feel the DN launch in 4,000 doors initially across the marketplace. And then when we look at the way we're going to scale that innovation over the next several seasons through product journeys, with different partners, telling different stories in different parts of the marketplace, we continue to we're very excited about the impact that, that could have on
the market. And we know that it's what we need to do. And so, the investments will be in things like seasonal marketing campaigns, elevating the presentation of our product, investing in the breadth and depth of the assortment, including color, so the consumer gets more choice off of the products that we care about the most in order to be able to create that kind of impact across the market.

We think we've got the right partners. But our strategy and our approach to the marketplace is constantly evolving based on where the consumer is, based on where the consumer is shopping and who's connecting most with the consumers. So apart from some of the areas that we've been talking about where we need to create new distribution because we see growth opportunities that don't line up with our current partners, our focus is on our current partners right now and elevating the experience of our brand with them.

[JOHN DONAHOE]

And I just build on what Matt said, Alex, on the first part of your question, our partners want us that, they need NIKE to help grow the market, they want newness, they want NIKE freshness. They want us to lean in with them, and that's exactly what we're doing. So, the reception has been very strong and very good, and we'll continue to capitalize on that and leverage that so that we collectively grow the entire market in service of the consumer.

[OPERATOR]

Our final question will come from the line of Bob Drbul with Guggenheim Securities.

[BOB DRBUL]
Just 2 quick questions for me. The first 1 is in the running area, when you talk about wholesale, can you talk about any progress that you’re seeing with the RSG as partners? And then the second question is, Matt, you mentioned just the opportunity or the ability to see a catalyst in sales from the Olympics. Can you just talk about your opportunity to capitalize on some of those products and your expectation from that?

[JOHN DONAHOE]

Bob, as I mentioned earlier, we’ve had a chance to be with Heidi and her teams on looking at the running pipeline, the everyday running pipeline. And there are clearly already some early green shoots. The Vomero 17 and the Structure 25 out in the market today, both growing double digits to a very strong reception. As I mentioned earlier, the Peg family, starting with Peg 41, Peg premium, Peg Trail coming in the second half of the year, the order book is looking good. We’re also, in direct answer to your question, investing in our ground game with more focus and specificity around running than before.

That includes being where runners are, so being at the marathons, at the local races, at the local runs. We had a strong presence at the LA Marathon and activations there with very positive response. In fact, we’ve had a shoe exchange effort that went crazy with so many people switching over to NIKE because we’re there with them, we'll continue to do that. And then in the RSG channel, as you mentioned, we’ve increased our focus and penetration in RSGs and other new partners that authenticate our brand, and we've doubled our EKINs. And as you know, our EKINs are the experts who provide our partners with even greater NIKE expertise and personal engagement.

So, if you take the combination of strong innovative product portfolio and pipeline with more ground game and presence where runners are, combined with a greater marketplace distribution, including RSGs and with our EKINs in the field, we feel like we're already seeing some green shoots of progress in everyday running, and we'll continue to see that quarter after quarter. It won't happen overnight, but we're already seeing momentum in North America, and we believe that will continue around the world.
Yes, Bob, another indicator of a green shoot for us is that our bookings for fall '24, which is the fall season coming up in running footwear delivered strong growth. And to John's point, that's across our $100 plus product, but also us coming back into market with a new line of core running footwear. And so, it's another green shoot for us that we see momentum in running in particular and one that we're focused on continuing to ignite. And I think the Olympics actually will help that as a segue to your second point, the opportunity that we see starts with our brand. The opportunity starts with our Air for Athletes campaign that we're going to be bringing through the Olympics, combined with the products that John referenced to ones that you will see on the track, on the streets vis-a-vis the marathon to on the football pitch with Visible Air to the basketball court with Air being visible, leveraging the similar technology that we've leveraged through the Alphafly 3.

And so, we're just we're excited about the innovation we're bringing, but it's an ignition point because there is material value from the products that we will sell that we sold in and around these Olympic stories, but it's about igniting the Air platform as we go forward. And so, the way we think about it is that it's a catalyst from both a brand and a business point of view because it will be an important moment on the world's biggest stage to showcase the best and greatest innovations in these sports. And then the connection of the innovation to the pipeline of product that's coming that we expect will drive growth through the balance of '25 and into '26, especially as you think about the next Air iteration and the one after that, which we already have in development. So, from our perspective, it's a tremendous opportunity to catalyze energy, but more importantly, to reposition NIKE as sport with the athlete and drive the next chapter of growth for us.
And that does conclude our conference for today. We thank you all for joining, and you may now disconnect your lines.