

FY26 Q2 Earnings Release Conference Call Transcript

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[OPERATOR]

Good afternoon, everyone, and welcome to NIKE, Inc.'s Second Quarter Fiscal 2026 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.

I'd now 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 second quarter fiscal 2026 results. Joining us on today's call will be NIKE, Inc. President and CEO, Elliott Hill; and EVP and 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 nonpublic 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 the call for questions. We would like to allow as many of you to ask questions as possible in our allotted time, so we'd appreciate you limiting your initial question to one. Thank you for your cooperation on this.

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

[ELLIOTT HILL]

Thank you, Paul. Let me start by thanking all of you for joining on the eve of a holiday week here in the United States and many parts of the world. And with that, let me also recognize a NIKE team that's leaving nothing on the table right now.

When you work in retail, the holidays don't mean a break. When you work in sport, you often say that sport never sleeps. So when you work at NIKE, you're in the thick of an incredibly busy time. With that in mind, I want to extend a special and heartfelt thanks to my NIKE teammates. Thank you for your continued commitment, passion and determination, and thank you for delivering another quarter of steady progress and building momentum.

Fiscal year '26 continues to be a year of taking action to rightsize our Classics business, return NIKE Digital to a premium experience, diversify our product portfolio, deepen our consumer connections, strengthen our partner relationships and realign our teams and leadership. And I'd say we're in the middle innings of our comeback. We started with the Win Now actions, which was our immediate response to our biggest challenges and opportunities in our culture, product, storytelling, marketplace and winning on the ground.

And now our sport offense is the accelerator of our Win Now actions. It's how athlete-centered innovation travels across and through every country and channel to drive growth. Our focus on sport by brand is the engine of our growth. Our global marketplace is the amplifier, and it is our sport offense that connects the

2. Said another way, our growth will come from sport, athletes, product innovation, sport

moments and will be scaled through countries, channels and accounts.

Turning to the quarter. I'd frame up the results as slightly better than we had anticipated 90 days ago. And while we're driving progress through Win Now, we're nowhere near our potential. I see 3 themes that give a better picture of where we stand right now. The first theme is that our sports teams are quickly finding their rhythm in the new sport offense. While rightsizing our Classics, we're building a more diverse product portfolio, gaining the most traction in our performance business, which validates that we've got the right structure to drive a relentless flow of innovative product across our unmatched opportunities.

The second theme is that we're building a healthier base for top line growth. The NIKE brand grew this quarter, and the mix was strong. We delivered 8% wholesale growth, elevated the experience in key NIKE stores and NIKE.com and had fewer days of promotion. These are all positive signs. The third theme is that our comeback continues to move at different speeds. It won't be a straight line, but we're acting decisively to accelerate the lagging areas with China at the top of that list.

A year in, it's clear how important it is to stay closely connected to what's happening on the ground. From intern to CEO and every role I've held in between, I've felt that way, which is why, as you likely saw this quarter, I announced a change in my leadership team, all geographies will now report directly to me. I'm confident this change will result in us accelerating our Win Now actions by allowing our geography GMs to more closely shape our strategy, drive faster decisions and influence investments.

The geography that is leading the way for NIKE right now is North America. As our largest business, that's where much of our focus has been. With North America, we're working with the most diverse wholesale landscape, which gives us several strategic partners to segment and differentiate our multi-brand, multisport and multi-price point portfolio. The team has done an excellent job of reconnecting with partners and getting sharper on the consumers we serve and those that we seek to serve.

This quarter, that approach led to over 20% wholesale growth in North America with meaningful growth coming from existing partners. Our North America marketing team is also finding the right balance of inspiring through big team moments like the Dodgers World Series campaign after their win or at the Chicago Marathon, where we supported everyone from everyday runners chasing personal bests to Conner Mantz shattering an American marathon record that stood for 23 years.

North America is driving a healthy, repeatable offense and showing us what winning looks like. It's a great signal for our future success in other geographies. In Greater China, we highlighted last quarter that we were facing a longer road to a healthier business. We've been implementing the Win Now actions in our key cities of Beijing and Shanghai, leading with more storytelling of our product innovations, editing our assortments and elevating the presentation of those assortments in targeted doors.

What we've done is a start, but it's not happening at the level or the pace we need to drive wider change. The next step is to further adapt our approach to fit China's unique monobrand footprint and digital-first marketplace. The reset requires a fresh way of thinking from our NIKE teammates and our NIKE store partners, and it will take time.

Over the years, we established our premium position and market share there because the Chinese consumer believes in our ability to innovate and inspire them through sport. I'm confident we'll get back to fulfilling that promise. China continues to stand out as one of the most powerful long-term opportunities in sport. That has not changed. Expect to hear, see and feel much more about how we'll manage the China marketplace differently this fiscal year and beyond.

Both EMEA and APLA are geographies that are led through distinct, influential countries and key cities, so we're moving quickly to resourcing our teams on the ground, including sales. They're the ones who deliver locally relevant assortments, elevate the presentation of those assortments, fuel product seeding and build local relationships, create meaningful stories and consumer connections and ultimately drive profitable and sustainable revenue

in both wholesale and direct.

EMEA activated their sport offense on December 1, so they've just started rehiring these critically important revenue-generating roles in key countries. I'm locking arms with the leaders of our geographies and with Matt, who now leads Sales and NIKE Direct, to elevate the way consumers experience our brands. I know what it looks like when it's successful. I can see the upside. It's a brand-by-brand, sport-by-sport approach paid off in a partner-by-partner, city by city, high street by high street, mall-by-mall approach and every detail matters.

Next, I'll share some color on how the sport offense is fueling a more diversified product portfolio through footwear, apparel and equipment and up and down price points. Our teams are determined to deliver a consistent product innovation pipeline. In January, NIKE Running will build *off* of the strong start of our new stability shoe, the Structure 26, with the introduction of the Structure Plus. In Q2, Running grew by over 20% for the second quarter in a row, it's up double digits in every channel, including NIKE Direct.

Also in January, we'll debut Nike Mind, a new footwear platform that will help athletes prepare for performance and competition, which we see as a new dimension to the NIKE Training's offense. We introduced Nike Mind along with 3 other new innovation platforms in October. One of them is the new platform that traps air for warmth in an ACG jacket. The jacket inflates from a shell to a puffer based on the warmth needed. The Therma-FIT Air Milano jacket will debut at the Winter Olympics in February.

Also in February, at the NBA All-Star Game in L.A., you'll see an example of how our 3 basketball brands and their product lineups will come together under the sport offense. The Swoosh, the Jumpman and the Star Chevron have a unified creative feel and merchandising approach with Foot Locker in L.A., and we believe it has great potential to be scaled.

Our NikeSKIMS collection will launch internationally in EMEA and APLA in the same time

frame, following a successful rollout in North America. In NIKE Football, the deeper investment in World Cup starts now. This quarter, we brought a fresh perspective to the culture of the game in a T90 collaboration with Palace and with our Hollywood Keepers sportswear collection.

And in March, our athletes will begin wearing our new apparel platform, Aero-FIT in their national team kits. Aero-FIT is like air conditioning for the body, flowing air through the garment unlike any previous performance apparel. The innovation platform will scale across several sport dimensions in coming seasons.

Overall, wholesale partners are very confident in our NIKE Football product. Booking units are nearly 40% higher than World Cup '22. To help sell through the commitment, we'll refresh over 100 NIKE Direct and 1,400 partner doors around the world, and our marketing team is making significant investments to inspire football fans everywhere. All of these new concepts will come to the consumer in the back half of the year. As a result, our order book is improving season on season.

Through to sport offense, we're on our way in product. But as I've said, near-term investments to clean up and elevate the marketplace have put real pressures on margins. Tariffs have also obviously added a significant headwind to overcome. I want to state it very clearly. Margin expansion is a top priority for me and my leadership team. While it will take time, we see the path back to double-digit EBIT margins for NIKE, Inc. That formula includes a multi-branded and diverse product portfolio that is constantly refreshing and bringing in newness and seeking to drive value out of every relationship we have in the marketplace. It also requires us to be bolder and more creative in how we operate.

I made another change within my leadership team this quarter, asking Venkatesh Alagirisamy to be in the role of our Chief Operating Officer. He and his team will look end-to-end to ensure technology is fully integrated across the company in how we create, plan, make, deliver and sell our world-class innovations. We see significant opportunity to get our core operations running more efficiently and more profitably. I look forward to sharing

more in the coming quarters.

With that, I'll turn it over to Matt to go deeper into the quarter and then offer some closing thoughts before we take your questions.

[MATT FRIEND]

Thanks, Elliott, and happy holidays to everyone on the call. Our second quarter results demonstrated the resilience of our portfolio with modest year-over-year reported top line growth, despite managing headwinds from the actions we have taken to reposition our business. As I look back on where we are, 1 year from Elliott joining the company and moving forward with our Win Now actions, our business is in a better position.

Sport dimensions represent a larger mix of the portfolio, led by Running, and we are seeing momentum build in other sports. The Classics footwear franchises are on track to decline from peak levels by more than \$4 billion by fiscal year-end. Wholesale has returned to growth, with a growing order book globally in both spring and summer. NIKE Digital has reduced promotional activity and is operating more strategically in sync with our partners. And inventory is in a healthy and clean position in North America and EMEA.

While we are encouraged by all of this, as we have said, our progress will not be linear as each brand, sport and geography is recovering on a different time line, and we continue to read and react every day in service of the long-term health of our brands. We highlighted last quarter that it will take more time to return to healthy growth in Greater China and Converse, and we expect headwinds to continue for the balance of the fiscal year. There are also puts and takes across EMEA and APLA. Meanwhile, North America and Running stand out again this quarter, and we are growing more confident in our ability to sustain the momentum as we look forward.

Being in the middle innings, as Elliott referenced, also means it will take time for the actions we have put into place to change the trajectory on EBIT margins. We have been navigating

transitory headwinds to margin due to our Win Now actions and shifts in the business, including product and channel mix and continued inventory liquidation. As we highlighted last quarter, we are also navigating new structural headwinds from the \$1.5 billion of annualized incremental product costs due to higher U.S. tariffs.

This represents a gross headwind of approximately 320 basis points to gross margin in fiscal '26. And while we have begun to take actions to reduce this to a net impact of approximately 120 basis points, it is still a significant factor impacting our near-term EBIT margins amidst a turnaround in a very dynamic operating environment. All in all, we have made meaningful progress through our 5 Win Now actions, yet there is more work to do, and our teams are hustling.

For this quarter, revenues were up 1% on a reported basis, and flat on a currency-neutral basis. NIKE Direct was down 9%, with NIKE Digital declining 14% and NIKE stores down 3%. Wholesale grew 8%. This included a top line headwind of approximately \$550 million from the reduction of our Classics franchises, down over 20% versus the prior year. This means our currency-neutral revenue grew 6% excluding the impact of this headwind.

Gross margins declined 300 basis points to 40.6% on a reported basis, primarily due to increased product costs due to higher tariffs in North America as well as inventory obsolescence in Greater China that was not contemplated 90 days ago. SG&A was up 1% on a reported basis year-over-year, driven by higher brand marketing expense, partially offset by lower operating overhead. Relative to expectations, SG&A was lower due to operating overhead savings, reflecting the team's continued focus on disciplined cost management.

Our effective tax rate was 20.7% compared to 17.9% for the same period last year, primarily due to changes in earnings mix. Earnings per share was \$0.53. Inventory decreased 3% versus the prior year, with units down high single digits. In North America and EMEA, which represent almost 3/4 of our business, we have returned to a healthy marketplace. We still have work to do in Greater China, parts of APLA and Converse.

Now I will turn to the geographies, and once again focus my remarks on specific context and insights of our Win Now progress. In North America, Q2 revenue grew 9%. NIKE Direct declined 10%, with NIKE Digital down 16%. NIKE stores were down 2%, wholesale grew 24% and EBIT declined 8% on a reported basis. As Elliott said, North America is our best example of executing our Win Now actions, and we are taking the learnings from their playbook to execute across all other geos. Momentum is extending beyond Running into additional sports including basketball and training.

As it relates to the North America marketplace, wholesale delivered strong growth in the quarter. While the quarter certainly benefited from liquidation to value channels as we cleaned up the marketplace, we also saw a balanced contribution of growth from both new and existing partners. North America also made additional progress on repositioning NIKE Digital to a more premium representation of the NIKE brand, with fewer days of promotion, lower markdown rates and increased demand at full price.

NIKE.com posted its best Black Friday ever this year, partially driven by strong sell-through of the Jordan Black Cat launch. Growth in the quarter was driven by Running, kids, basketball and training, with running delivering high double-digit growth in NIKE-owned stores, NIKE Digital and wholesale. Sportswear saw sequential improvement, up low single digits in the quarter, with Classic footwear franchises declining approximately 20% year-over-year. Inventory declined mid-single digits versus the prior year, with units down double digits. Closeout units declined double digits, and the mix is very healthy.

Last, I want to point out that North America gross margins only declined 330 basis points versus the prior year, despite 520 basis points of impact from new U.S. tariffs. This gives us confidence that our Win Now actions are working, profitability is recovering, and we are on the path back to sustainable, profitable growth.

In EMEA, Q2 revenue was down 1%. NIKE Direct declined 3%, with NIKE Digital down 2% and NIKE stores down 5%. Wholesale was flat. EBIT declined 12% on a reported basis. EMEA has maintained a healthy marketplace, although promotional activity has been

heavier than expected. We saw growth in Central and Eastern Europe and the Middle East, offset by slight declines in Western Europe.

In Q2, our performance business continued to build momentum, driven by double-digit growth in Running. We also saw growth in Training and Sportswear. Sportswear growth was driven by apparel, with footwear flat, as a mid-20s percent decline in Classic footwear franchises was offset by growth in Air Max and the look of Running styles. Inventory grew double digits versus the prior year with units flat and the spread primarily due to foreign exchange rates. Closeout mix in the geography is healthy.

In Greater China, Q2 revenue declined 16%. NIKE Direct declined 18%, with NIKE Digital down 36% and NIKE stores down 5%. Wholesale declined 15%. EBIT declined 49% on a reported basis. Our priority in Greater China is to create greater brand distinction through sport and innovation, leveraging deep local insights in a premium and more consistently managed integrated marketplace across both physical and digital channels.

Over the past several seasons, we have faced consistent challenges with declining store traffic, softer in-season sell-through rates and higher levels of aged inventory across the marketplace. Our brands have consistently been off-price for consumers, especially in digital, affecting our premium positioning across the entire integrated marketplace. These challenges resulted in a higher mix of off-price sales with higher markdowns, higher sales-related returns, higher wholesale discounts and higher obsolescence charges to clean marketplace inventory levels. This cycle has had a significant effect on the profitability of Greater China.

This quarter, we took the following actions in China. We continued to obsess our initial NIKE store pilot, which delivered encouraging results this quarter with better traffic and comp sales growth relative to trends across the broader fleet. We focused on sport, combining new product innovation with elevated retail presentation, and we saw Running continue to grow in the quarter. We were less promotional during 11.11, resulting in an approximate 35% decline versus the prior year, in line with our plans. We accelerated

returns of aged inventory owned by partners and wrote-off both partner and NIKE inventory in the quarter.

We reduced NIKE inventory by mid-teens versus the prior year and by 20% in units. And we reduced our sell-in plans for spring, and we cut our buys for summer to improve sell-through and full price realization. We will need to make further shifts in the integrated marketplace to break the cycle that we've been managing through. There is more work ahead to scale the momentum of the initial store pilot to more doors, to elevate our brands across all digital platforms and to clean up excess product in the marketplace. We expect headwinds to continue, but we are working to set the foundation for a return to growth in this important geography.

In APLA, Q2 revenue was down 4%. NIKE Direct declined 5% with NIKE Digital down 10% and NIKE stores up 1%. Wholesale was down 3%. EBIT declined 15% on a reported basis. APLA continues to deliver mixed results across countries, with positive results in Latin America, more than offset by headwinds in Asia Pacific countries. During the quarter, the team leveraged promotions to make progress on pockets of excess inventory in the marketplace. In the quarter, Running grew double digits, and apparel grew mid-single digits overall. Inventory grew double digits versus the prior year, with units up mid-single digits, though we saw pockets of improvement year-over-year.

Now I will turn to our third quarter guidance. We continue to operate in a dynamic environment, both for consumers and our global business, and we remain focused on what we can control to make forward progress for the long-term health of our brands. Our outlook reflects our best assessment of these factors based on the data we have available to us today. We expect Q3 revenues to be down low single digits, with modest growth in North America as we see reduced liquidation activity versus prior quarters, performance in Greater China and Converse similar to Q2 as well as a 3-point benefit from foreign exchange.

We expect Q3 gross margins to be down approximately 175 to 225 basis points. However,

excluding the 315 basis point impact of higher gross product costs related to new tariffs, gross margin expansion would be positive in the third quarter. We expect Q3 SG&A dollars to be up low single digits due to higher demand creation and investments in our sport offense. We expect other expense, net of interest income, to be an income of \$0 to \$10 million in the third quarter.

Now I'll close with a few final thoughts. We are making progress in the areas we focused on first, and we are increasingly confident in our path forward, led by momentum in North America. We are making the investments required to position our full portfolio for a recovery and making decisions in service of the long-term health of our brands. Operationalizing the sport offense, elevating the marketplace and rebuilding our key city teams are critical priorities to return to sustainable, profitable growth across all brands, all sports and all geographies.

Finally, as you heard from Elliott, we are focused on improving the profitability and operating efficiency of our business and realigning costs while also investing to reignite growth. We look forward to sharing more in upcoming quarters.

With that, I'll pass it back to Elliott.

[ELLIOTT HILL]

Thank you, Matt. This quarter, the Los Angeles Dodgers reminded us what it takes to win at the highest level, back-to-back World Series titles, something no team had done in 25 years. They gave us a Game 7 for the ages. They didn't take the lead until the 11th inning. Down 3-0 early, every outside voice said, it's over, but they kept chipping away. Every setback became a lesson. They leaned on each other. They believed when belief was hard.

Manager Dave Roberts shared those insights with us at the opening of our new NIKE store in Portland just days after that win. He talked about what guided his decisions, not just

analytics, but trust, feel and sacrifice. That included putting in bench player Miggy Rojas who hit an improbable home run in the ninth, followed by a bases-loaded throw to the plate in the bottom of the inning. With one more out to go, Roberts swapped in Pages, who immediately made a leaping, game-saving catch.

Every decision mattered and every player was ready when called upon. But the boldest move he made was managing Yoshinobu Yamamoto's innings, our Nike guy and World Series MVP, who won a historic 3 games in the series. The day after throwing nearly 100 pitches, he surprised everyone to close out Game 7. That wasn't just effort. That was a statement, I'm leaving nothing on the table. It inspired the entire team. That's what greatness looks like. It's not about perfection. It's about perseverance. It's about sticking to the plan and performing when the pressure is highest.

NIKE is in a similar moment. We're the industry leader. Expectations are high. And yes, we face pressure and setbacks. But like the Dodgers, we're leaning on each other, focused on the fundamentals, making the hard calls and building for the long game. Because in the end, greatness isn't promised, it's earned. And we're ready to earn it again and again. Thank you.

And now Matt and I will take your questions.

[OPERATOR]

Our first question will come from the line of Matthew Boss with JPMorgan.

[MATT BOSS]

So Elliott, you led both in the release and on the call by citing the turnaround is in middle innings. Could you elaborate maybe where you've scored runs so far versus where you have opportunity remaining and just your overall confidence today that you can win the

game? And then, Matt, if you could just elaborate on the components of gross margin that you cited. I think you cited underlying expansion, excluding tariffs for the third quarter and just the progression that we should think about moving forward.

[ELLIOTT HILL]

Thank you, Matthew, and appreciate the question. And let me start by saying the path back to sustainable, profitable growth is going to go through our Win Now actions, and that will be and they will be accelerated by our sport offense. And I would also say that I'm incredibly inspired by the way our teammates have responded to the actions in the new offense.

The drivers of our growth right now for NIKE, they came through the Win Now actions which were our near-term actions around culture, product, storytelling, the marketplace and winning on the ground with consumers. But it's our sport offense is the accelerator of those actions. It's how we take athlete-centered innovation, and it travels through every country, channel and account to drive growth. And the sport offense is what's bringing the balance to our portfolio. We have a relentless flow of innovative product now coming across our 3 brands through multiple sports, performance and sportswear, men's, women's and kids, and it's and we pay it off across 190 countries.

So we've had some meaningful progress, Matthew, over the last 90 days. NIKE brand is growing. Sport is growing with Running leading the effort there at up over 20% and taking market share. We're beginning to diversify the portfolio, rightsizing our classics. As Matt said, we declined roughly \$4 billion from its peak. North America grew 9%. Wholesale grew. Our order book for the spring and summer is up. So we have a healthier base from which to grow profitable, sustainable growth.

So in terms of middle innings specifically, I think the best way to think about it is that we have our businesses the dimensions of our businesses moving at different speeds and the time lines are going to vary by geo, channel and sport dimension. So by brand, as an example, Nike is *off* to a strong start. We had growth this quarter. Jordan, I think, still has

some room to dimensionalize beyond Streetwear into things like Jordan Basketball, Jordan Training, et cetera, but we've seen some real good progress around Streetwear there. We're resetting the marketplace for Converse under new leadership.

In terms of product, performance is growing, but sportswear is still in the early stages of diversification. We've done a great job of rightsizing the franchises, but we still need to diversify that portfolio, middle innings. And then from a geography, North America is leading, EMEA just transitioned to the sport offense, followed by APLA, which, as Matt pointed out, had some mixed results. And then China has our longest road ahead.

And that's why we're sitting there saying we're in middle innings, great success in North America, work to do in China. And -but all I would say here, just to sort of close it out, Matthew, is the middle innings, while we keep saying we're in the middle innings, I will say this, the Win Now actions and the sport offense is working, and it will lead us back to profitable, sustainable growth.

[MATT FRIEND]

And Matt, as it relates to margins, I would just say that our business is still in a transition in the middle innings, and we are navigating through both transitory and structural headwinds across the portfolio. But as Elliott said, we've made meaningful progress through the Win Now actions, and you can really see that in the progress that we made in North America in Q2.

North America's gross margins were down 330 basis points, despite more than 500 basis points of a headwind to product costs due to the gross impact from the new tariffs. And so that's a marketplace where we're furthest along in repositioning digital. We're back to growth in wholesale, and we've made the most progress in cleaning up the marketplace. And so as I look ahead to Q3, we guided our margins to be down 175 to 225 basis points. That includes 315 basis points of higher product costs related to new tariffs. And so we expect so expansion, excluding the impact of new tariffs, really reflecting the beginning of

recovery of the transitory headwinds at the corporate level.

And we continue to expect to see momentum building in North America given where the state of the marketplace is. We're watching promotional activity in Europe, but inventory in Europe is in a healthy place. And then as I mentioned, there's puts and takes across APLA. And we expect the trends in Greater China and Converse for Q3 to be relatively in line with what we saw in Q2 as we continue to take actions on both of those resets. And so I would say that overall, we're encouraged by the momentum and the progress that we're seeing, but we've still got some work to do.

[OPERATOR]

Our next question will come from the line of Ike Boruchow with Wells Fargo.

[IKE BORUCHOW]

I guess maybe for Elliott, it may be a similar type of question as Matt's, but you've mentioned the recovery won't be linear several times over the past year or in transition, and it totally makes sense. I guess I'd like to know if you're able to share when you believe that maybe that caveat won't be needed anymore and you'll be able to better kind of hold momentum, create better visibility for investors on what's clearly becoming a reset base of revenue and earnings.

[ELLIOTT HILL]

Yes. Thanks, Ike. Here's the best way that I would think about it is each geo let's first start with the brands. Each of the brands are at different stages in terms of diversifying their product portfolio. We just got into the sport offense in September, so we got these small cross-functional teams. We're getting them up and running as fast as we can.

Same thing is happening in the countries and key cities around the world. That's happening

at different stages. And so that's we believe in the strategy, and we know that the path back to profitable sustainable growth is through the Win Now action. We also believe in the sport offense and our ability to create beautiful products and then pay it off in an integrated marketplace.

We just have 3 brands in multiple sports and 4 geos and 190 countries, and they're all operating at different time lines. And so that's the reason why we keep saying that we have different time lines, and it's just going to take time. So I will just sort of point to the place we focus first, which is North America, and we're having great success there. So we're confident in our path forward.

[MATT FRIEND]

Yes. And I just would add, Ike, that we said on North America that we're growing increasingly confident that we can sustain that momentum. I would also say that we've said that we believe we're going to drive modest growth in wholesale this year, starting to have more confidence in that dimensionality of the business.

But what you also heard on the call today was that we took some unplanned actions in Greater China as we're navigating real time through some of the challenges that we see in some of the businesses that are under reset. And so we're going to continue to take it 90 days at a time for now to give ourselves the flexibility to make the right decisions for the long-term health of our brands. And much of what we said today is consistent with what we've been talking about for the past couple quarters.

[OPERATOR]

Our next question will come from the line of Bob Drbul with BTIG.

[BOB DRBUL]

Just if I could ask 2 questions. I think the first one is on the commitment, sort of the focus on the return to double-digit EBIT margin, it's a big priority for you guys. Is there a time line at which you could talk to when you think you'll get there? And I think the second question, just like part of that, I think, is on China. Long road ahead, Q2 revenues similar, Q3 similar to Q2. How deep a reset do you think is necessary in China? And are we near a bottom in revenue or EBIT declines in China?

[ELLIOTT HILL]

Okay. So Bob, let me do this. You snuck in 2 questions on me, but here's what I'm going to do. Let's take EBIT first, and then we'll take China because I don't want to confuse the 2. But let me first just say that improving margins continues to be a top priority. And I said it before and I'll continue to say it, we do see a path back to double-digit EBIT margins. Margins are under pressure for 2 reasons. First, the driver of our is our Win Now actions and that we've intentionally taken to clean up the marketplaces around the world.

The second is the impact of tariffs where we implement which were implemented after we activated the Win Now actions. And we're seeing the benefits of us taking those actions. We've said it North America back to growth, running back to growth, wholesale up, the order book and we have a healthier base for top line growth moving forward. In addition to the top line growth, we also have opportunity to improve the efficiency and productivity in how we operate the business, and we're going to share more in the coming quarters. Matt, I don't know if you want to add anything to that.

[MATT FRIEND]

I would just say something that will sound familiar. We're clear on what the path back looks like. It starts with growth, and I think that the investments that we've made to drive the Win Now actions are paying fruit. You see it with a second quarter of top line growth and

specifically the growth that North America was able to deliver in the quarter, which is where we'd focused our demand creation investments and where we'd focused our investments in our commercial teams in order to be able to get back on the offense in the marketplace. Part of what's going to drive expansion is recovery of our full-price mix as we continue to manage the off-price, full-price mix in the marketplace. And again, I point to North America where we've now cleaned

the inventory in the marketplace, and we're starting to see margin expansion excluding the headwind of tariffs. Another big opportunity for us is to leverage the supply chain costs as we grow. And that's been a meaningful headwind over the last year as our business has reduced in size and growth will help us with that, but there's also a lot of focus and attention on that as well.

And then the last piece of it, I would say, is the work that we're doing to be disciplined in the way we're managing costs across the business. We've been investing in marketing, and we feel good about where we've leveled our brand marketing investment. We've locked in some of our most important team franchises for the long term, which strategically puts us at a great position in the world of sport. But we've been very focused on managing operating overhead, and we will continue to do that, and we look forward to sharing more about that in the upcoming quarters.

[ELLIOTT HILL]

Okay. I'll jump back now, and I'll take let me take China. China continues to be one of the most powerful opportunities in sport. We're confident that the Win Now actions and the sport offense will allow us to continue to invite 1.4 billion consumers into the world of sport, fitness and the lifestyle sport. So we see China as a big opportunity. With that said, it's clear that we need to reset our approach to the China marketplace and it's going to start with structure. The geos are now reporting to me. Angela, who is our GM in Greater China, is now part of my SLT, Senior Leadership Team, and I look forward to working with her and the rest of our team more closely.

Let me share a little bit of diagnosis of where we are. And we believe and firmly believe and will always believe that our growth will come through sport, but the reality is we've become a lifestyle brand competing on price in China. We also reduced the feet on the ground, people on the ground. As you know, it's a mono-brand marketplace with thousands of 5,000 doors with the teams working the presentation of our product at retail and we weren't making the investment in our store fleet, so our stores aren't compelling.

And as Matt mentioned, the cycle that it started to feed itself, soft demand leading to consistent promotions and then impacting profitability. And we did signal last quarter because of these structural differences that China would be on a different time line. So we're taking action. We're cleaning up the marketplace of aged product. We're getting back to the basics of retail, consumer right assortments, better storytelling and elevated visual presentation.

We're increasing investments in Shanghai and Beijing, resetting key doors. Matt referenced those in his prepared remarks. We're seeing early success. But I'll say this, it's not happening at the pace we like. So we have more to do. It's going to take a fresh perspective, a new approach, and we will have to come through this with new capabilities as well. And we're working closely with our partners, Pou Sheng and Topsports, to adapt our approach. But I'll just sort of end here. I've done this before, have a deep history in the market. We've diagnosed the problem, and we will return NIKE to a beloved premium and innovative brand in China.

[OPERATOR]

Our next question comes from the line of Aneesha Sherman with Bernstein.

[ANEESHA SHERMAN]

Elliott, at the start of 2025, you expressed your strong confidence in the pipeline for Running and you laid out this 3x3 framework that you discussed with partners and we're now seeing

strong acceptance in the market and the business is growing over 20%. As you look across the other verticals, I know you talked about new innovation across all of them, but how do you see the phasing of the growth? And are there particular areas where you have that same level of conviction that you had in Running a year ago and where you expect the business to ramp very quickly versus some that are a little slower?

And then a follow-up on North America. Matt and Elliott, you both talked about the contribution of new distribution and same-store sales on the wholesale growth. Are you happy with the mix of partners you have now? Or is the goal to continue to ramp up new distribution points into next fiscal year as well?

[ELLIOTT HILL]

Aneesha, thanks for the questions. I'll start, let me take the product portfolio piece first. Here's what I'd say. The teams are doing a really nice job of building a more diverse portfolio. You can start to see it in our numbers. We do have an unmatched portfolio with depth and dimension across performance and sportswear, men's, women's kids, footwear, apparel, accessories and up and down price points.

And we believe that moving into this sport-obsessed teams through our sport offense, we're already starting to see the pipeline and the flow of innovation coming through across the 3 brands: Nike, Jordan and Converse. So we know when we focus on sport, we win. You called out Running already. I will hit very quickly that we launched Vomero Premium as part of that 9-box construct that you referenced this quarter and had very good sell-through. And we also launched Structure 26 in our stability silo, and we're launching Structure Plus next month. So we're continuing to fill that out. But it's not just about footwear, it's also about apparel. We have some really strong apparel coming through in Running as well. So we will continue to grow and dimensionalize Running as Nike Running as an opportunity.

In terms of other business opportunities, global football, it's probably the furthest along in terms of their construct. We have 3 silos there: footwear silos, the Mercurial, Tiempo which

will launch in Q3 and then our Phantom which had a really strong launch in Q1. So 3 silos also connecting deeply with each of the consumers that play a different style of football.

Apparel and footwear also dimensionalizes that opportunity, national team kits, World Cup, really strong read there, 40% up on the order book versus World Cup '22. Training, 24/7 apparel, continuing to diversify the footwear. I see that coming. That's not yet hit, but we feel good about what's coming from training and footwear.

SKIMS had a successful launch. We launched in EMEA and APLA next quarter in basketball. We're dimensionalizing through women's, Sabrina, Asia and now we have Caitlin coming and our men's business continues to do well. Ja sold through extremely well. And then we just launched the G.T. Future, and we had kids lining up for that shoe. So starting to dimensionalize beyond or dimensionalize the portfolio.

And then I could dive into innovation a bit more further out. I think it's getting stronger every season. We're investing significantly in our Nike Sports Research lab, and we're being intentional about connecting that R&D to our sport offense. And we announced a few big which I talked about product innovations, Nike Mind and then Aero-FIT. So I feel good about the pipeline, and we see the response in our order book which is up for the back half of the year.

[MATT FRIEND]

Maybe I'll jump in on marketplace, Elliott, and then you can add to it. Aneesha, we feel good about the North America marketplace and our partners. We've got great partnerships. We've been working incredibly close with our partners as we're working to elevate the marketplace and reposition the NIKE brand in a segmented and differentiated way across accounts and across the marketplace.

Tom Petty and the team have just been crushing it in terms of leading us through our Win Now actions. And when I look at the order book for the back half of the year, the order book

is very balanced in terms of growth between new partners and existing partners. And so we feel great about the quality of the growth that we see in the back half across a balanced integrated marketplace.

Our teams are always looking for opportunities because our marketplace strategy is a consumer-based strategy. We want to be in the path of the consumer, leveraging our partners across digital and physical owned and partnered. And so I wouldn't rule out the possibility of it, but I wouldn't say that that's what's needed in order for us to be able to sustain the momentum that we see in North America.

[ELLIOTT HILL]

I was going to add to it, but you've already embraced your new job, right? I think the only thing that I would add to it, Aneesha, because I think Matt did such a nice job is that, again, that Tom and the leadership team have done a really great job of just rightsizing the product, getting the marketing going. And then I would say the thing that's the big difference is setting 3-year visions with each of and this is into the details but it matters, setting 3-year visions by account on the consumers that we want to serve by sport and then bringing that back to 1-year plans and then to seasonal plans. And that's how you get back to driving profitable, sustainable growth between with the partners. And again, the team's done a really nice job. So leading the way and therein lies the opportunity in the other geos for us. We've got to get the other geos keeping pace, and we're working hard to do just that.

[OPERATOR]

Our next question will come from the line of Jonathan Komp with Baird.

[JONATHAN KOMP]

Maybe one more on China. Do you think the North America experience where, Elliott, we saw maybe 2 or 3 quarters of severe pressures after you came in and accelerated the Win

Now actions followed by now a return to growth and healthier conditions. Is that a reasonable time line or playbook to think about China? And then just maybe bigger picture, if you are viewing some of these headwinds currently and resets more as temporary, maybe just expand on why not providing maybe 2- or 3-year out targets or a little bit more specificity around the time line to get back to double-digit margins.

[ELLIOTT HILL]

Yes. In terms of China, what I said earlier is we've taken actions. We're cleaning up. We feel good about having a handle on what has happened in China and more importantly, what we must go do. And it's going to take a fresh perspective and a new approach and ultimately some new capabilities. And so and we're working with and through partners which, again, that's where it gets tough to put an exact date on it, but we're confident in the path forward and the team that we have in place, and we're ready to get that business moved and turned as quickly as we possibly can.

[MATT FRIEND]

Jon, I'd just say on your timing question, we're operating in a dynamic environment for both consumers and for a global business. And we're trying to turn around our business across 3 brands, multiple sports in 4 geographies. And as a result of that, it's complicated what we're trying to do. We're encouraged by what we've been able to do in North America.

And I think we've got a clear path of what we need to do across the other dimensions of our business. But we're reading and reacting every day. And it's important right now that we've got the flexibility to be able to make the right decisions every week as we're trading the business in order to be able to establish the long-term health of our brands. And so for the near term, we're going to continue with this consistent practice that we've been doing. And as our confidence grows, we will certainly share greater insight into how we're thinking about the longer term.

[OPERATOR]

Our final question will come from the line of Simeon Siegel with Guggenheim Securities.

[SIMEON SIEGEL]

So Elliott, just to follow-up a little bit, the North America revenue growth, it was just such a big number even before accounting for just the large Classics reset. So can you just speak to what product is growing domestically so much that is enough to accelerate that revenue growth this much and just way more than offset the ongoing reset?

And then, Matt, it feels like the growing wholesale penetration should help that operating overhead maybe structurally. So just curious if you can give us any thoughts where operating overhead goes. And then as you think about that opportunity, is the idea that you can take a portion of that and fund it back into demand creation, which has always been one of your key competitive advantage?

[ELLIOTT HILL]

Yes. Simeon, thanks and also wishing you and your family a happy holidays as well. In terms of North America growth, Running, obviously, is a big piece, and it's not just growth, sell-in, what we're encouraged by sell-through. We're actually having taken market share. So we're feeling good about that.

Global football, soccer, we're seeing growth there. We're seeing growth in training. SKIMS as well would be another one I'd call out. And then basketball. The team is doing a really good job with basketball right now. And again, I touched on a few, but like the G.T. Future this weekend was phenomenal. And while sportswear is not growing, they've done a really nice job of rightsizing sportswear and starting to diversify the portfolio across the look of Running, which is primarily driving it. But we also have some footwear on the women's side in sportswear, Air Max Muse and the Superfly, that's doing well.

And then, of course, Jordan. I've got to call Jordan out when we speak about North America. They've done a really nice job, and we had a great sell-through of the AJ4 Black Cat. We're getting back to telling stories. By the way, that was our largest Black Friday ever. That Black Cat was launch ever. And then just recently it's not in this quarter, but the AJ11 Gamma, we had people lining up for that shoe again, which is fun to see, see kids lining up for sneakers again. So I think the team has done a really nice job of making certain that they're running a complete and balanced portfolio across the brands in sports.

[MATT FRIEND]

Simeon, I'd just add that the growth that we delivered in North America in Q2 was certainly strong. And if you look at what our guidance for Q3, we said that we expect modest growth in North America, and you can really sort of connect the dots between the amount how much liquidation fueled the growth in Q3 versus what's going to be great comp full price growth as we get into the third quarter. And so hopefully, that helps you connect the dots a little bit between the second quarter and the guidance for Q3.

In terms of your question on cost leverage, absolutely correct. Growth creates leverage on the cost structure. Wholesale growth, in particular, creates meaningful growth on the cost structure led by unit growth. And you see it not only in the supply chain costs where you're shipping pallets of product to partners versus shipping 101 units to consumers, but you also will see it more broadly across our operating overhead.

We're certainly focused on continuing to prioritize our investment in demand creation. I wouldn't lead that to believe that we've necessarily decided we're going to go much higher than the 10% of revenue at this point in time because we feel like that gives us a good amount of investment to be able to continue to drive our brand forward. But if I'm prioritizing between the 2, we certainly want to have more flexible liquid demand creation to create big moments that impact consumers and to be able to activate that on the ground in key cities. And so we're going to continue to tightly manage costs on the operating overhead side. As Elliott said, we've got a number of things that we're looking at here, and we look forward to

sharing more in the coming quarters.

[OPERATOR]

And that will conclude our question-and-answer session and our call today. Thank you all for joining. You may now disconnect.

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