

FY26 Q4 Earnings Release Conference Call Transcript

June 30, 2026

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[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2026 Fourth 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 Mr. Paul Trussell. Please go ahead, sir.

[PAUL TRUSSELL]

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2026 fourth quarter results. Joining us on today's call will be NIKE, Inc.'s President and CEO, Elliott Hill; 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 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 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, Elliott Hill.

[ELLIOTT HILL]

Thank you, Paul. I'm proud of the progress our team made in fiscal year '26. When I look back at where we started the year and where we are today, it's clear that we're building a much stronger foundation for our company. Through our Win Now priorities, we're elevating the fundamentals of our business across our team culture, innovative product, brand strength and how we serve consumers in our countries and cities. We're making meaningful structural improvements in each of them. Win Now is making the comeback possible.

And importantly, it's what's enabled us to move about 8,000 teammates into vertical sport teams under our new operating model, the Sport Offense, while also taking meaningful steps to simplify and accelerate our supply chain and technology. As our foundation improves, the Sport Offense is starting to create impact. Our renewed obsession with sport and the success of our athletes is fueling energy for our brands and building momentum in our performance business, which grew mid-single digits this fiscal year.

Overall, the results aren't there yet. We know we're not living up to our full potential, particularly in NIKE Sportswear and Jordan Streetwear, where sell-through remains challenged, impacting both current discounting and future order books. We're operating in a more complex macro environment, where we're seeing added pressure on traffic and discretionary spending across our geographies. But we're focused on what we can control, bringing each sport together across product, brand, marketplace and operations and deepening our connections with athletes, consumers and partners.

When those dimensions connect, they create the NIKE multiplier. It's repeatable and

sustainable. That's why I'm confident we're building NIKE the right way, not for the next quarter, but for the next decade. Now the opportunity is consistency, execution across every part of the portfolio. From here, we have to prove it every season.

Now let me walk you through the details of the clearest signals of our progress in FY '26. This year, we directed our marketing, social and communications outreach to build influence across a wide network of sport-specific communities. We did that through our deep portfolio of athletes, creators and sport partners. And through those networks, we brought energy and a uniquely NIKE point of view to sports moments, both big and small. When we lead with sport authentically, consumers respond and we see that in both internal and external brand tracking.

Our focus now is translating that brand strength into healthier demand, cleaner marketplaces and sustainable growth. You can see the same energy in our broader product pipeline, too. We've now delivered 5 consecutive quarters of double-digit growth in NIKE Running. And over that period, we've added roughly \$1 billion to our Running business. In FY '26, across Western Europe and North America, we gained 5 points of running market share in statement footwear, more than any other top 5 brand.

The integrated marketplace is one of our most important areas of transformation. We've been rebuilding our wholesale relationships, expanding our outreach and improving how we show up across channels. For the fiscal year, wholesale revenue grew 4%, led by double-digit growth in North America. And we've also made significant investments in physical marketplace, refreshing more than 15,000 spaces in wholesale doors around the world.

In NIKE Direct, we've taken equally important steps. We're elevating the user experience by leading with performance, celebrating sport moments, and we're discounting less on NIKE Digital. In FY '26, we've elevated more than 150 stores with sport-led experiences. Over time, we will continue to rezone and elevate our fleet and close the doors that are no longer aligned to our strategy. At our scale, this takes time. We're not finished yet. I'm confident our investments in the integrated marketplace will pay dividends for years to come.

We're also investing in experiences in our key countries and cities to accelerate demand. In global football, our grassroots tournament, Toma has reached more than 10,000 kids across 25 cities to date. In basketball, we continue to invest globally from our partnerships with the Chinese High School Basketball League and its 600 teams to Jordan's The One tournament in 20 cities around the world.

In Running, we launched the After Dark Tour in Shanghai. It will reach 7 cities this fall. Last year, 50,000 runners joined and 1/3 were first-time runners. And with our more expanded reach, we expect even more impact. Being more local matters, it deepens connection, it builds loyalty and it creates a pull market for our brands and products. As we strengthen NIKE, Inc.'s foundation, we're taking decisive action across our supply chain to lower cost, streamline operations and rightsize our distribution network to match the demand ahead.

We've redeployed resources from our NIKE Direct technology teams to better support the company end-to-end across the entire value chain. And we're investing in advanced tools and capabilities to improve speed, precision and reliability in everything we create from Air manufacturing and materials innovation to how we plan, make and move product to the marketplace. At its core, this work is about serving athletes better and creating a more profitable business. That's especially important in Greater China, a critical long-term growth market for NIKE, where we are fully committed to winning.

Our teams in China are executing a comprehensive reset, returning to sport and innovation, taking a more local approach to product creation and building a territory level offense.

At the same time, we're reimagining how we operate in the marketplace. We are working with partners and evaluating new ways to accelerate our return to growth so we can be more premium, more culturally connected and move at the speed of the Chinese consumer with seamless journeys across digital and physical retail.

In the near term, we're executing, cleaning up inventory, investing in must-win doors. And when we invest, we're seeing sales increase high single digits. I'm confident in our leaders and our plans to restore long-term marketplace health in Greater China.

Converse sharpened its strategy this quarter. It's getting clearer on the role it plays within NIKE, Inc. and where it will grow, especially with the Chuck Taylor and Jack Purcell franchises. As part of that focus, we announced that Shai Gilgeous-Alexander has joined the NIKE Basketball family. Shai and NIKE Basketball are a perfect match. This move allows Converse to fully focus on serving creators through its lifestyle business. That clarity matters.

When we're focused, we win. And right now, global football is the best example of that playing out through the Sport Offense. It's been an incredible few weeks of the World Cup. What feels different this time around is we're not treating the tournament as a single moment. We're using it to reshape our business, telling a connected story over time, engaging different communities in relevant ways and building momentum that carries well beyond the tournament.

We built a full NIKE football universe. It started with a simple image of 31 Polaroids, a map of what was to come. An epic film called Rip the Script followed, branching off into individual athlete stories, collaborator collections, innovation unveils, retail experiences and local tournaments. We built it this way because the next generation wants to engage with sport on their terms, discovering and sharing and participating in the story as it unfolds. Every beat, every story is a doorway, giving different micro communities their own way in. This is the way to reach scale in today's culture.

By the first week of the World Cup, we had 1.5 billion views of our various stories. This is about deeply understanding today's consumers and building modern, meaningful and innovative connections with them. This is nothing new for NIKE. Once again, we're out front rewriting our own marketing playbook.

At the center of the NIKE Football universe is amazing product. We launched Aero-FIT in our national team kits to help athletes compete in extreme conditions. By the start of the tournament, we had already sold 2.5x the number of kits compared to the same period in World Cup '22. Earlier in the year, we redesigned our Tiempo and Phantom franchises. And before the tournament, we launched our new Mercurial in two expressions of speed. At launch, the Mercurial became the fastest-selling 24-hour launch for cleated footwear in the history of NIKE Direct.

We also connected NIKE Mind to the tournament in team colors to fuel our new innovation. With our X2 collections, we created amazing energy with leading creatives, and we reached scale through NIKE Sportswear, Skate, Cactus Jack and N7 to connect deeper with broader football culture. And as we talked about last quarter, we're activating the marketplace, elevating over 5,000 football doors around the world. The World Cup is always a moment to prove ourselves. It's one of the toughest battlegrounds in sport, and we're coming with our best. We're leading the conversation and shaping football culture, a strong early proof point for the Sport Offense.

As we move into fiscal year '27, we're focused on building on that momentum. Here's what you can expect from our teams. As we scale the Sport Offense across more sports, we expect growth to expand beyond running into training, basketball and ACG. But that progress will continue to be uneven. We expect Sportswear and Jordan Streetwear to continue to be negative this fiscal year with improvement expected in the back half. We know changing their trajectory is critical to restoring sustainable top-line growth because together, they represent approximately half of our revenue. We are moving quickly to reposition both businesses.

In the second half, NIKE Sportswear will introduce more than a dozen new footwear styles each with distinct consumer journeys. But this work will take time to scale and translate into consistent results. Our teams are also focused on inspiring the consumer in modern ways while driving commercial impact at local sports moments. And we will continue to invest in how we show up as a premium brand in both digital and physical retail, including a plan to elevate 50% of our NIKE Direct owned fleet by the end of the fiscal year.

Across the enterprise, we'll operate with even greater discipline to improve planning accuracy, strengthen inventory management and expand our margins over time. Most importantly, we look forward to sharing the next phase of our growth strategy at our Investor Day on November 16 and 17.

Before I pass it to Matt, I want to take a moment and recognize him for his many contributions to NIKE over his nearly 18 years at this company. Matt helped guide the company through a demanding stretch, and he has been a trusted partner to me and to this team. I appreciate his continued support and his commitment to ensuring a seamless transition in the coming weeks and months. I'd like to thank him for all that he has done for NIKE and wish him the very best in his next chapter.

[MATT FRIEND]

Thanks, Elliott. I've truly valued the partnership with you and this team, and I'm proud of the progress that we've made together. As we closed fiscal '26, we made meaningful progress across the business through rebalancing the product portfolio, driving momentum and growth in performance while reducing classic footwear franchises by more than \$2 billion, keeping revenue flat on a reported basis versus the prior year, stabilizing gross margins, excluding the impact of incremental tariffs, taking initial steps to reset our cost base and improve operating efficiency and effectiveness and our balance sheet is strong with substantial liquidity and flexibility to operate as we go forward.

Our fourth quarter financial performance was in line with our expectations. However, the operating environment became more challenging as we progressed through the quarter. After a stronger start in March, especially in North America, by mid-April, we began to see a deceleration in retail sales trends. Our consumer is under pressure around the world, and we can particularly see it having a larger impact on sportswear, which declined double digits in the quarter with a similar decline in retail sales.

At the same time, momentum in performance sports continued to build, growing mid-single digits and delivering positive year-over-year retail sales comps across running, training and global football as well as other sports. We are monitoring marketplace inventory and promotions closely and adjusting buy plans to manage future supply and sell-in with demand and improvement in full-price sales.

Before I turn to our results, I want to address an unplanned benefit related to tariffs, which was recognized in the quarter and was not included in our previous financial guidance. In the fourth quarter, we determined that the financial recovery of claims related to incremental tariffs paid under IEEPA had become probable. This resulted in the recognition of a one-time benefit of \$986 million, offsetting the IEEPA tariffs embedded within cost of sales that had been expensed through the income statement throughout fiscal '26.

As of quarter end on May 31, we collected over \$300 million of cash related to these claims. The remainder of the benefit was recorded to accounts receivable as we await recovery. Tariffs remain a dynamic cost headwind that we expect to continue looking forward. And so I will share more on our rate assumptions later in my remarks.

Now I will turn to our fourth quarter results. For the quarter, revenues were down 1% on a reported basis and down 4% on a currency-neutral basis, reflecting modest growth in North America, more than offset by expected declines in Greater China, EMEA and Converse. NIKE Direct was down 9%, with NIKE Digital declining 12% and NIKE stores down 7%. Wholesale grew 1%. Gross margin was 49.2%, up 890 basis points versus the prior year, driven by a 900 basis point benefit related to recovery of IEEPA tariffs. Excluding this benefit, gross margin would have been 40.2%, down 10 basis points versus the prior year, which included additional severance costs related to supply chain actions in North America and EMEA we highlighted last quarter.

We expect these actions will deliver positive operating leverage and gross margin in fiscal '27. SG&A was down 2% on a reported basis versus the prior year, reflecting continued discipline managing expenses while accelerating investment for the World Cup. Our effective tax rate was 19.6%. Earnings per share for the quarter was \$0.72 and excluding the benefit on tariff recovery was \$0.20. Inventory was flat versus the prior year, with continued progress made to address aged inventory in Greater China.

For the full year, revenue was flat on a reported basis and down 2% on a currency-neutral basis. Gross margin was 42.9%, up 20 basis points versus the prior year, including a 210 basis point benefit related to recovery of IEEPA tariffs. Excluding the benefit, gross margin would have been 40.8%. Diluted earnings per share was \$2.10, down 3% versus the prior year. Excluding the benefit on tariff recovery, earnings per share would have been \$1.58.

Looking at our reported full year results for fiscal '26, you can clearly see that our gross margin slightly expanded while earnings per share modestly declined despite significant investment and nearly \$400 million of severance charges made to reposition and create a healthier foundation for our business.

Now I will turn to performance in the geographies. In North America, Q4 revenue grew 3%. NIKE Direct was down 6%, while NIKE Digital was down 5%. NIKE stores were down 7%. Wholesale grew 10%. EBIT increased 91% on a reported basis. And excluding the tariff refund benefit, EBIT would have declined 1%. North America continues to drive momentum in performance, including strong double-digit growth in global football and running as well as growth in kids and golf. Sportswear was down high single digits. Retail sales grew over the first 6 weeks of the quarter. However, we did see a deceleration in late April, which we continue to monitor closely, particularly in Sportswear and Jordan Streetwear.

Wholesale revenue growth was driven by new and existing distribution. One highlight I'd like to note is that our revenue growth and retail sales comps with Foot Locker were positive for the first time in 4 years, and we continue to be encouraged about the path ahead. Inventory grew mid-single digits, in line with our plans with a healthy closeout mix. And importantly, excluding the

tariff refund benefit, underlying gross margin profitability continued to improve year-over-year.

In EMEA, Q4 revenue was down 6%. NIKE Direct declined 16% with NIKE Digital down 24% and NIKE stores down 9%. Wholesale was down 1%. EBIT was down 8% on a reported basis. EMEA continues to work through heightened inventory and promotional levels, disruption in the Middle East and a higher portfolio mix with sportswear than our other geographies. We had continued momentum in performance through running, global football and golf, all of which grew double digits versus the prior year.

Although digital revenue declined, off-price was down over 50% following aggressive actions to reduce promotions. This resulted in a 15-point improvement in full price realization. Sportswear declined double digits and sell-through continues to be challenging. And so we have tightened buys and moderated sell-in plans for the near term. Total inventory dollars were up low double digits with actions in place to reduce supply and accelerate liquidation to improve marketplace health.

In Greater China, Q4 revenue declined 17%. NIKE Direct declined 14%, with NIKE Digital down 25% and NIKE stores down 9%. Wholesale declined 19%. EBIT was down 20% on a reported basis. As you heard Elliott say, there are several changes underway in Greater China, and the team continues to execute on their plan. In-season sell-through has improved sequentially and average retail discounts are down. We are seeing recovery in full price realization on digital after more aggressive actions to reduce promotions over the last 2 quarters. Running grew mid-single digits and global football and tennis were up double digits.

Our pinnacle retail expression, the House of Innovation in Shanghai, posted double-digit growth for the quarter. We also saw sales growth in the doors that we have reset and encouraging initial results at our newest ACG door in Nanjing. Inventory was down double digits with units also down double digits. We continue to take actions with partners to clean up the marketplace and expect revenue trends in Greater China over the near term to be in line with recent performance.

In APLA, Q4 revenue was down 1%. NIKE Direct declined 3% with NIKE Digital down 8% and NIKE stores up 2%. Wholesale was up 1%. EBIT declined 1% on a reported basis. The business across this geography continues to be mixed, with strength in select territories and performance sports, offset by ongoing pressure in sportswear. Running and Global Football grew double digits with high single-digit growth in tennis and ACG. Across the marketplace, the team is focused on elevation and expansion. Where we have invested in elevated retail, we are seeing a strong increase in comps sales growth.

We also added new digital partners across 5 Southeast Asian countries. Inventory grew high single digits versus the prior year with a sequential improvement in closeout mix as inventory actions continue across the geography.

Now I will turn to our outlook. The environment around us continues to be volatile, including evolving tariff policies, ongoing disruption in the Middle East, oil prices and other factors that could impact operating costs, consumer behavior and weakness in store traffic and retail sales. These assumptions reflect the macro environment as it stands today, and we are not expecting the environment to improve meaningfully over the next 6 months.

Last quarter, we provided guidance, which cumulatively included the fourth quarter of fiscal '26 through the first 2 quarters of fiscal '27 with revenues to be down low single digits, gross margins to inflect positive in Q2 and earnings to be flattish over this period. We reiterate our expectation for earnings to be flattish over that time period, excluding the benefit from tariff recovery. However, the composition has shifted.

Considering the current macro environment as well as recent sell-through trends, we are taking actions to tighten buys, reduce future sell-in and manage inventory. This will result in revenue moderating, but also higher gross margins. We now expect revenue to be down low to mid-single digits, with Q2 having a sequential deceleration from Q1 due to some unique factors equating to a multipoint headwind, including higher digital promotions in the prior year in EMEA and timing of North America wholesale shipments. We now expect gross margin expansion earlier beginning in Q1.

We will continue to be disciplined with SG&A management, driving productivity benefits and operating overhead beginning in Q1. Specifically for the first quarter, we expect reported revenues to be down low to mid-single digits with no expected benefit from foreign exchange and currency-neutral revenue growth consistent with recent performance. We expect gross margin in Q1 to be slightly positive. The tariff environment continues to be uncertain. Our forecast is based on incremental tariff rates of 10% continuing through the end of July and then increasing to 15% thereafter as we communicated last quarter.

We expect Q1 SG&A dollars to be flat with operating overhead declining, while demand creation grows high single digits as we invest into the World Cup. We expect our full year tax rate to be in the low 20% range. While the environment remains volatile and it is taking more time for the top-line to inflect positively, we remain confident in the actions we control to improve EBIT margins and increase cash flow from operations. We are tightly managing expenses, reallocating resources to elevate retail and drive deeper consumer connections and taking actions to structurally improve the efficiency and profitability of our supply chain as well as NIKE's overall business.

With that, I will pass it back to Elliott.

[ELLIOTT HILL]

Before we go to questions, I want to leave you with one thought. We spent a lot of time this quarter talking about sport, the highs, the setbacks, the pressures that define teams, yet there's one I keep coming back to. Earlier this month, we watched something special happen in New York. The Knicks became NBA champions, a team that had carried the weight of expectations for more than 50 years, finally broke through. And when you look at what happened at the final buzzer, the trophy, the celebration, the joy across the city, it's easy to think that's where it was won, but it wasn't.

The championship wasn't built on a single series or even in one season. It was built over time

through stepbacks and step-forwards through relationships and buying into a system where everyone knows their role. You saw it when it mattered most because every one of those wins in the finals was a fight, double-digit deficits. They didn't flinch. They didn't panic. They went to work, chipping away, one stop, one bucket, another stop again and again. That's not luck. That's a team that's ready. Most importantly, that's belief, belief in their system, belief in each other.

Brunson kept coming. Towns was disruptive at both ends. Hart made hustle plays, different players, one goal, all focused on closing the gap, possession by possession. And that's what I see in our team. We believe in our system and each other and the way we're building this, not because the work is finished and not because every result is where we want it to be today but because we know what it's built on.

I see the progress. I see the structural change. I see the foundation getting stronger. I see the Sport Offense taking hold. I see a team that's been tested and is ready for what's in front of us. The Knicks reminded all of us of something important. The real story is never just a celebration. The real story is everything it took to get there. And that's exactly how we're building NIKE, the right way because the goal isn't one championship. It's to build a team that can do it again and again.

Operator we are ready for questions.

[OPERATOR]

Our first question will come from the line of Adrienne Yih with Barclays.

[ADRIENNE YIH]

Elliott, one of the things we talked about was kind of the difficulty in full price sell-through of primarily Sportswear. I'm just trying to figure out how much R&D and innovation investments in the Sportswear category to drive kind of future growth? If you're pulling back on inventory, and focusing on full price selling, having struggled in full price selling. Just wondering how you can get the performance success to halo out to Sportswear.

[ELLIOTT HILL]

Great question. Thank you, Adrienne. Let me start first with the Sport Offense because I think it's really important for everyone on the call to understand. We understand the importance of getting both NIKE Sportswear and Jordan Streetwear back to growth. With that said, our point of differentiation or point of distinction, what creates authenticity for NIKE is our sport business. And that creates the halo over both of those brands. It's also what differentiates us from fashion brands. And so the reason why we've put so much time on the Sport Offense is because we believe that's how we create that authenticity around that business.

We've created a portfolio of sport verticals, small functional teams focused on consumer, NIKE Running, which I'm sure we'll dive into here in a minute. It led the way. And as you heard in the prepared remarks, we've had great response with the sharp, sharp focus on the consumer whether it's the product, whether it's the investments we've made on the ground in retail, with Ekins or tech reps, and the results are clear. Running grew \$5 billion -- \$1 billion over the last 5 quarters, and we gained 5 market share points.

Shifting over to other sports. We see it in the Sport Offense. It's working in real time, NIKE Basketball. That team, yes, we have AJ1, AJ2, the Ja 3, but the way they respond around the Knicks, championship has been phenomenal. The ad we ran, the championship product, the preorders in footwear, NIKE Football, I'm inspired. You heard me talk about that in my prepared remarks around the way the NIKE Football team is leveraging the World Cup to create a halo over the NIKE brand, not just sport, but also culture, and we would not be doing that if we weren't in the Sport Offense, and we see momentum gaining in training, tennis, golf, outdoor. I'll use one example before I jump to Sportswear. I'm not sure if you guys watched Serena today, but she had the Radical Air on. That's a performance product, and that will start to show up, that innovation will start to show up in some of our Sportswear as well. So when we lead with sport, we win. As it relates to Sportswear and Jordan, we have taken \$2 billion out of the market in FY '26 of our classic franchises.

We do have now dedicated teams against each of those consumers. And so that team now is looking to the future. And in the second half of FY '27, Sportswear is going to introduce more

than a dozen new footwear styles. And it's not just going back to the Vault and doing old retro shoes, it is leveraging innovation, and you'll see some newness and freshness coming in new silhouettes. And so the Sportswear team is moving to quickly reposition the business being more community-driven, on the ground, working with local creators, authentic storytelling and product. We're investing in accelerating our local product creation as well. You'll see us leverage that more around the world. And in the end, it's going to take time to scale, but I'm confident in the work that the teams are doing.

[OPERATOR]

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

[BOB DRBUL]

Matt, I just want to say thanks for the last 17 years. It's been a pleasure, and wish you all the best.

[MATT FRIEND]

Thanks, Bob.

[BOB DRBUL]

I guess if I could shift, Elliott, when you look at the innovation pipeline, I think one of the bright spots really has been the Mind. I guess, two parts to this is that when you think about your ability to scale the Mind shoe and sort of broaden that out, can you talk about what you're doing throughout the business how quickly that can occur. And I guess the second piece of it is just when you think about the innovation over the next 6 to 18 months, where are you most optimistic, most excited about what is coming in the pipeline?

[ELLIOTT HILL]

Yes. Thank you, Bob. Here -- I'll go back to -- we're leading with the Sport Offense. We had now had those small cross-functional teams against each of the sports, obsessing the consumer, taking the insights for the consumer, translating that into a relentless flow of innovative, beautiful coveted product across footwear, apparel and accessories. And we needed to get that going,

Bob. That's where a NIKE Mind comes from, as an example. And so the first time you're going to see the product across all of the sports that the team's worked on from brief to the market will be spring '27. So that will be the first time you're going to see the fruits of those team's efforts.

But nevertheless, I am excited what the team continues to do in Running where they set it up. This quarter alone, we launched the PEG 42, and it was a full length encapsulated Zoom Air bag and sold through well. As I look forward to Running the Aero-FIT product that we launched in football is going to show up in Running. Apparel in fall '26. We've got a Vomero Plus 2 coming in, new in Running. ACG continues to bring really interesting product, the Radical Airflow is amazing looking products, and that sold well. The long sleeve sold out immediately. And you'll see us then also leverage that innovation across multiple sport categories.

Football, we've talked a lot about Aero-FIT, the Mercurial pack coming back next year with the Women's World Cup, I'm excited. We're hosting a bunch of retailers today -- yesterday and today in New York. We've had tremendous feedback to the product coming there, both in sport and in culture. Basketball, excited about the dimension that the team is bringing there. Of course, Caitlin Clark's coming, that will be launched in the -- in holiday '26.

Training, NIKE Mind, we see a big opportunity there, and you'll see us scale that beyond the slide coming in spring of '27. Free MetCon, another performance fabric innovation with Free. That's doing well. NIKE Pro, men's and women's. And so the point there is -- and it's not just performance, I think the team is doing a nice job of launching new products in Sportswear. Probably the best example this quarter would be the Moon Shoe. So short answer to your question is it's taken time to get the flow of innovation and product going, but I'm excited by what the team is doing. I'm confident in the teams and you'll start to see a season in, season out, that relentless flow of product that we expect and you expect out of NIKE.

[OPERATOR]

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

[MATT BOSS]

So Elliott, could you elaborate on the sequential cadence of sell-through trends across Performance relative to Sportswear. And what you see as the optimal mix between Performance and Sportswear roughly versus the roughly 50-50 split today? And then, Matt, just on the numbers, could you help us just bridge the drivers of first quarter revenue is down low to mid-single digits, further moderation in the second quarter just relative to the negative 1% decline here in the fourth quarter as the base.

[ELLIOTT HILL]

Thank you, Matthew. Again, we don't break out sell-through by Sport and Sportswear. What I can tell you is, we had a strong start in March, especially in North America on sell-through. We watch it. The teams watch it, track it every single week. We're on it, watching sell-through. And then by mid-April, we began to see a deceleration in retail sales trends. And that softness did coincide with our -- we believe our consumer being more under pressure, impacting traffic and discretionary spend. But Matt did touch on it, I think, in his prepared remarks, we are seeing a strong bounce back with the World Cup momentum right now. So as we moved into June, we are seeing a halo that is being created by the World Cup. So it's something that we will continue to monitor every single quarter -- or excuse me, every single week and make the necessary adjustments that we need to make on forward orders.

In terms of optimal mix, I think, ultimately, the consumer is going to decide what the optimal mix is. It's not something that's predetermined. I think if we predetermine we want x business to be bigger than the other, I think it forces our teams to do unnatural things to get to that number. So it is not a number that we're driving the teams towards. We're going to let the consumer ultimately decide the mix of Sport to Sportswear.

[MATT FRIEND]

And Matt, on the revenue guide, I think the way to think about it is we provided specificity on the first quarter that we expect revenue to be down low- to mid-single digits. And I think the

biggest driver in Q1 versus Q4 is the fact that FX will no longer be a tailwind to revenue. Outside of that, we don't expect a meaningful change in the mix of the portfolio or anything else. As it relates to Q2, we just wanted to highlight that we expect the sequential deceleration relative to Q1. As you'll recall, in Q2 of last year, there were some anomalies that drove our revenue in that particular quarter. And the two largest ones that equate to a multi-point headwind were much higher level of digital promotions in EMEA last year in the second quarter.

And you can see from our results this quarter, we've taken a massive turn on the amount of promotional activity that's on nike.com and on our digital platforms in Europe. And our off-price business was down 50% versus the prior year. It's the right decision. It's strategically what Elliott highlighted as he came in, that we need to reposition digital to be a premium business. But that's going to create a comp issue in Q2 of next year. And then we also had extraordinarily high wholesale growth in North America in Q2 last year, also related to some timing anomalies. So we just wanted to call that out in advance as we think about this performance over the next two quarters.

[OPERATOR]

Our next question will come from the line of Lorraine Hutchinson with Bank of America.

[LORRAINE HUTCHINSON]

I was hoping you could go into a little more detail on your China strategy. It sounds like there are some renovations underway for the physical fleet, but how are you thinking about the direct-to-consumer, particularly the digital business from here?

[ELLIOTT HILL]

Yes. Lorraine, and I've said this every quarter that I've been on this call, and I'll continue to say it. China, it's the second largest market today. It will be the second largest market in near term or 3, 5 years from now. And so we remain committed to serving the Chinese consumer. We're going to do it through Sport. I think the key in China is we have to get back to growth in China, we have to be more premium and culturally relevant, and we have to lead with Sport. It's those

three things.

In Sport, some of the proof points Running did grow mid-single digits this quarter. We had a great launch of the Peg 42 there. The team just didn't sell it online. We sold it in physical doors. 2,000 doors, and we really elevated the presentation, which is what we need to do more of. Global Football was up double digits. We launched the Mercurial. We had a really good storytelling, both digitally and physical on that. The team is moving resources out to our territories in our cities, connecting with consumers, which I think is also critical to our success there. We've got the After Dark Tour from a Running perspective up and going there. We celebrated the Chinese basketball league, I talked about that. But we know that's not enough, Lorraine. And so we are going to take additional actions to reimagine the marketplace.

Number one, it's got to be easier for a consumer to find, and we do have to be more culturally connected. We're repositioning the brands as premium to do that. We've got to continue to clean up the marketplace and elevate the marketplace. We have to invest in elevating online and offline storefronts, so that we have a consistent consumer experience between that online experience that you referenced and then the offline experience. And we know that success in China is going to require deep local partnerships, and we continue to execute the reset with both online and brick-and-mortar in mind and those partners in mind. And so we're working closely with them.

Two last points local for local. We have hired and are resourcing our Greater China local product creation team. They will be delivering locally designed, developed and manufactured product in China in holiday '27. And then the last thing I'll say is it's been great to have Cathy Sparks leading that team. I have a tremendous amount of confidence in her and her team. We have a clear diagnosis. We have a plan in place, and we're moving with urgency. So overall, pleased with the progress we're making in China.

[OPERATOR]

Our next question comes from the line of...

[MATT FRIEND]

I was just going to add that we also highlighted this quarter the progress that the team continues to make in China. And I just wanted to reiterate a couple of things that I said on the call. We're seeing recovery in full price realization on digital. So in addition to what everything Elliott said, the team has taken aggressive actions to reduce promotions over the last two quarters, and we are seeing that bear fruit on our -- across the digital properties in Greater China, including partners. Our pinnacle retail store, the most premium NIKE Store that we have in China is in Shanghai, the House of Innovation, and it grew double digits in the quarter, a reflection of elevating retail and focusing on sport in the market.

And then as Elliott referenced in his remarks, where we've elevated our other retail doors with our partners, as we talked about our top door Offense, we're seeing strong comp performance in those doors for another sequential quarter. And so we continue to be encouraged by the actions that we're taking and the decision that we've taken to sell in less inventory into the marketplace in order to create a more full-price business. And the progress that we're making with our partners on aged inventory in the marketplace is meaningful. And so as we look forward, we do expect that the revenue trends in Greater China over the near term will be in line with our recent performance. And we continue to believe that profitability will bottom before sales in this market.

[OPERATOR]

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

[MICHAEL BINETTI]

Matthew, let me add my thank you for the last 17 years, wishing you all the best.

[MATT FRIEND]

Thanks, Michael.

[MICHAEL BINETTI]

Maybe just a couple of brief comments on where the order books on the wholesale side saw the most impact what geos got better or worse. But then maybe just a qualitative thought on the back half of fiscal '27. I know you commented Sportswear, it will be down for the year but improves in the second half. Is that -- so that's negative for the full year, is that negative as you start to look out to the spring summer '27 books? And how are retailers in general approaching spring/summer '27 overall, given the pretty aggressive actions you guys are taking as you work through the channels here.

[ELLIOTT HILL]

Well, so here's what I'd just say on the outlook as we look out, and we reiterate that we expect earnings to be flattish. I want to start there over the 3-quarter period that we guided. But we do know the composition has changed. Matt hit on that in his prepared remarks. Part of that is the softer sell-through and weaker macro environment. And we are tracking the sell-through weekly and making adjustments. But we expect revenues over that period that we guided to be down low single digits to mid-single digits. At the same time, we expect gross margins to expand in Q1, and we are actively managing costs in our business, and we will see the benefits beginning in Q2. And so we look forward to sharing more about our overall view to the future at Investor Day from an outlook perspective. So again, overall, that's how we're seeing the balance of this calendar year. And then we -- like I said, we continue to track sell-through, the order books, and we're making the adjustments that we need to make.

[OPERATOR]

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

[ANEESHA SHERMAN]

Best wishes to you, Matt. Elliott, about 6 months ago, you talked about being in the middle innings on the turnaround. We now go into fiscal '27. Can you give us an update on where you're at? And do you expect FY '28 to be the first "normal" year of operations? And then, Matt, a follow-up on margins. You've said there's a clear path to double-digit margins today. You guided for a faster inflection in margins than before. Can you walk through some of the main drivers of this margin inflection that are aside from operating leverage, so excluding sales

growth, what gives you the confidence that margins will inflect first?

[ELLIOTT HILL]

Yes. Well, first of all, I don't think there's been anything normal since I've sat in this chair. There's been nothing normal about this, but we -- in December of '24, we launched the Win Now actions, and it helped us, without question, rebuild the foundation of NIKE. And we do remain on track to sunset the Win Now actions by the end of this calendar year. So I'm going to reiterate that. The idea is we wanted to move through the actions in a really thoughtful sequence. We began first around culture, getting the team refocused on sport and growth and really inspiring our teammates around that. And I think we've made tremendous progress there. It was also about reigniting our brand, being more emotional and inspiring with consumer connections. Hopefully, you're seeing and feeling some of that through this quarter.

Then we started to focus on our product portfolio driving a steady flow of innovative coveted beautiful products. And so next, it's about how we then start to execute out into the countries and the cities around the world that make a difference for us. So we continue to elevate. And so I think we're making tremendous progress, and we are prepared as we move through this calendar year to sunset. What that then does sets us up to run the Sport Offense, and we are going to share more of what's to come next at our Investor Day this fall.

And I'll just sort of end here is that we're not building this business for the next quarter or the next year. We're building it for the decade to come, and we're sunsetting Win Now is just sort of the next step on our journey. And so again, we look forward to outlining more in November.

[MATT FRIEND]

On margins, Aneesha, I would say that our performance this quarter has given us increasing confidence that our margins are stabilizing, and that we're starting to see a pathway back towards gross margin expansion. In the fourth quarter, our margins, if you exclude the tariff benefit were down 10 basis points versus the prior year. And that was better than how we guided. We guided to be down 25 to 75 basis points. And I would say that the biggest driver was discount

improvement that we're seeing in North America. We're seeing lower sales-related reserves in North America, lower cancellations and lower discounts. And so that's been giving us confidence that margins are coming back.

We also have had we had 4 quarters of sequential improvement in our margins overall throughout fiscal '26. And then I do think it's really important to note that we highlighted in the third quarter, and we've talked about this a couple of times now that we see meaningful opportunity to structurally improve our gross margins, really focused on taking out cost of our supply chain and the make of our product. And the actions that we took in Q3 and Q4 were the initial steps of us, reducing the number of facilities we operate to changing the size of our workforce to changing the way we flow product from factory to retail.

And we expect that while those were costs largely in fiscal year '26, we expect those to drive margin expansion in fiscal year '27 and contribute to this trajectory to get back to double-digit margins as you referenced. And then obviously, as we continue to take actions on our business, reducing tightening buys, reducing the order book in holiday and thinking about the -- and reducing the order book as we look beyond. We do expect that we're going to have a more full price business and a higher and healthier business, and that should help us pull margins up in the geographies outside the U.S., that are still depressed relative to where they were.

[OPERATOR]

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

[IKE BORUCHOW]

Matt, congrats on the 17 years. I just want to focus on North America wholesale. I know you guys don't guide by geography or channel. But just in terms of the shaping I guess my highest level question is, are there any quarters next fiscal year, you're expecting North America wholesale to decline just based on the sell-in and some of the comments that you made on POS. So just kind of curious if you could kind of help shape that, at least for the first half that

you kind of had walked us through.

[ELLIOTT HILL]

So let me just -- North America, here's what I'd say about North America. They continue to lead the comeback that team does, what Tom Peddie and his crew have done. And I think part of it is because the biggest part is they've centered on sport and they're elevating the marketplace, not only our own digital footprint and physical footprint, NIKE but also the relationships with the wholesale team as well. And so again, I think what they've been able to do is the model for the rest of the geos to follow.

And the only other thing that I would say really quickly is that when we do elevate, we see better sell-through, stronger sell-through, both in our own doors and our partner doors. The team is doing a great job of managing sell-through every single week, making certain that we're adjusting order books, making certain we're shipping in the appropriate level of inventory so that we drive not only revenue for ourselves, but revenue and profitability for our wholesale partners as well. So I think the team's got -- they found a really good rhythm there. And I'm really -- I remain very bullish on North America and their ability to continue to have sustainable growth moving forward.

[MATT FRIEND]

Yes. And I would just add, I think when you look at Q4 and you look at the North America wholesale growth reported up 10% I just want to make the point that we didn't sell in up 10%. There was a meaningful amount of that revenue growth that was associated with lower returns or sales-related reserves and returns, lower discount and lower cancellations. And so it's a healthier business in North America that contributed to that growth in Q4. It isn't just -- that wasn't just a wholesale comp.

But when you look forward into '27 specifically to your question, Q2 has a tough compare in North America. And what I would say is that without getting into the specificities of every quarter, Q2 does have a tough compare in North America. And we continue to believe North America is leading our progress.

We've talked for several quarters about the fact that the geos are operating on different time lines. And while we've seen a little bit of a blip associated with retail sales in North America. It's highly correlated as we can see with gas prices and how those fluctuated in North America. We continue to believe that North America is out front leading us in our turnaround and our comeback.

And we're looking forward to the momentum that we continue to build in that geography. I referenced Foot Locker and the fact that this quarter was the first quarter that we grew both NIKE revenue plus NIKE retail sales in Foot Locker in over 4 years. And so we're encouraged by that relationship. You know they're an important partner to us in North America and outside, but especially in North America. And then we continue to be furthest ahead in the progress we're making in NIKE Direct in North America and in Digital. And so we're continuing to take the steps forward there to a more full-price business. And believe that we're on the right path as it relates to that marketplace.

[OPERATOR]

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

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