

FY27 Q1 Earnings Release Conference Call Transcript

October 1, 2026

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[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s First Quarter Fiscal 2027 conference call. For those who want to reference today's press release you'll find it at investors.nike.com. Leading today's call is Paul Trussell, VP of Corporate Finance and Treasurer.

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

[PAUL TRUSSELL]

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s First Quarter Fiscal 2027 results.

Joining us on today's call will be NIKE, Inc. President and CEO Elliott Hill, and CFO, Dave Denton.

Before we begin, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in NIKE's reports filed with the SEC. In addition, participants may discuss non-GAAP financial measures and non-public financial and statistical information. Please refer to NIKE's earnings press release or NIKE's website,

investors.nike.com, for comparable GAAP measures and quantitative reconciliations. All growth comparisons on the call today are presented on a year-over-over 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 would 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]

Before I begin, I want to welcome David Denton to NIKE. Dave brings deep financial expertise, strong operational leadership and a proven track record of helping world-class companies grow. I'm excited to partner with him and the rest of our senior leadership team to serve consumers better, accelerate our profitability and create long-term value for shareholders.

For the first quarter, results were in line with our expectations. NIKE, Inc. revenue was within the range we guided to. Gross margin improved as we said it would, and we managed costs with discipline. Importantly, the quarter showed the Sport Offense is driving results. Our NIKE Brand Performance portfolio continued to grow. Last fiscal year, we grew this business to \$16 billion. We built on that foundation this quarter, growing NIKE Performance by another high single digits. Today, I'll share more about the momentum we're seeing across our key sports.

Despite that progress, our NIKE Performance business is not yet large enough to offset the pressure we're seeing in NIKE Sportswear, Jordan Brand and Greater China. We're taking deliberate actions to strengthen those businesses, but realizing the full benefit of those efforts will take time. On the call, I'll provide

more detail on what we're doing and why. And finally, Dave and I will share how we're transforming NIKE's operating model to scale the success of the Sport Offense across the company. This work has been underway for some time, and it's an important part of building NIKE the right way for the long term.

Let me start with NIKE Sportswear, Jordan Brand and Greater China. We've identified the areas that need improvement and are actively repositioning these important businesses. NIKE Sportswear, which accounted for just under half of this quarter's revenue, was down low double digits. The decline reflected a combination of deliberate actions, product underperformance and broader marketplace pressure. The first factor was one we expected. As planned, we reduced revenue from the Dunk by nearly 50% in the quarter. That resulted in roughly \$200 million headwind in Sportswear. In addition, some aged, higher volume, sportswear footwear sold through below expectations.

Looking ahead, that has impacted our future order books as we proactively work with our wholesale partners to work through excess inventory to create a healthy marketplace. Overall, there's a lack of energy in the lifestyle space right now, which is impacting traffic. Yes, the consumer is cautious. But as the leader in the industry, it's on us to bring more creativity to sportswear.

The headline decline only tells part of the story. Within Sportswear, several major franchises are healthy and growing. The Air Force 1, one of the most important sneakers in the world, is now driving a stable full-price business through new dimensions and seasonal materials and colors. We also had a handful of Sportswear Footwear franchises that have scaled over several seasons that grew by strong double digits in this quarter, led by our Running-inspired silhouettes, the P-6000 and the V5 Runner. And where we have introduced newness at scale, we've seen early success. We launched Studio Fleece for women and Solo Fleece for men during back-to-school season, and the Studio Fleece was the best-performing apparel collection of the quarter in all of NIKE, Inc.

The common thread across these successful franchises is clarity. They know exactly who

they are serving. That's the lesson. The Sportswear consumer isn't one audience. It's a collection of consumers with distinct needs, tastes and motivations. So we're organizing Sportswear assortments the same way we've organized our performance business around specific consumer insights and distinct style preferences.

We're breaking down the Sportswear business into smaller areas of focus to create a more diverse product portfolio and a more differentiated marketplace. We'll see less of a sea of sameness that's hurting the lifestyle marketplace across our brands and our competitors right now. That's how we believe we'll move from managing a few successful Sportswear franchises to building a deep bench of winners across the entire marketplace.

With Jordan Brand Footwear, we're going to get back to leading the scarcity model that we created. Simply put, we've been oversupplying our iconic retro product, asking them to do too much. And as we've done with the Air Jordan 1, we will deliberately reduce the volume and frequency of specific Jordan Retro launches. We've discussed it with our wholesale partners. Together, we will restore balance to the marketplace to create a foundation for more profitable and sustainable growth. In the near term, North America will feel the biggest impact.

To give you a better sense of the scale of these actions in Q1, the Jordan Brand represented 13% of our global business with revenue falling by mid-teens. Here's why we're doing this. When consumers see the Jumpman, it should feel special, it should feel earned. And every decision we're making is designed to ensure the Jordan Brand remains as coveted a decade from now as it has been for the past several decades.

Let's turn to Greater China, where for the quarter, revenue declined 26%. With a new leadership team in place for the past 6 months, we have been moving with urgency to alter the landscape and improve our position in the marketplace. As we announced in July, we are activating a plan to clean up the digital side of this market. We are eliminating distribution through channels that are not aligned with our marketplace strategy, which will decrease the deep discounting of our brands. We will anchor NIKE's and Jordan's digital marketplace in China around fewer, higher-quality experiences through the official NIKE

flagship storefronts on Tmall, JD and Douyin alongside NIKE.com and the NIKE app.

We believe a tightened digital ecosystem of NIKE flagships will enable a more premium brand presentation with clearer product stories and a more connected consumer journey. The focus will allow our top partners to concentrate on creating inspirational brick-and-mortar retail experiences. The majority of our partners' physical doors in Greater China have not been refreshed in the past 7 years. When we elevate retail experience and lead with sport, we see results. In Shanghai, our House of Innovation has delivered 10 consecutive months of growth since making that shift. In the near term, revenues and profitability in China will be impacted. We expect our digital cleanup to take multiple seasons as we continue to take targeted actions with our partners to improve inventory levels. Taken together, Sportswear, Jordan Brand and Greater China represent significant work ahead, but we know what healthy looks like and we're taking deliberate actions to get there.

These challenges are significant, but they are not the whole story at NIKE. At the same time, the Sport Offense is delivering measurable progress against our performance portfolio. Here's what that looked like this quarter. Running is up double digits again with consistent share gains. Global Football benefited from World Cup energy to drive strong double-digit growth in all 4 geos. Training grew globally, led by EMEA. Basketball was up double digits in North America with expectation that the sport will continue its momentum in Q2, and both tennis and golf grew double digits.

In NIKE Running, our innovation in Max cushioning helped reignite this business, led by the strength of the Vomero franchise, we've nearly tripled our share of the Max cushioning category over the past year. Now we're entering the next phase of NIKE Running. Over the past 2 months, we've introduced 4 new footwear innovations, 3 in our racing silo and 1 in our Pegasus silo, each built around a different runner, a distance and a goal. In August, we launched the Pegasus Plus 2, a fast-tempo training shoe with a curved Air Zoom unit for a quick smooth ride. In September, we unveiled the Alphafly 4, a lighter, more energy-

giving version of our most celebrated marathon shoe. And yesterday, we introduced 2 new shoes that span the spectrum of runners. The Swooshfly, our entry-level marathon racing shoe designed for the 4-hour-plus runner, and NIKE Apex, a super shoe with double-stacked Air Zoom units that deliver an incredible 40% more energy than the Alphafly 3.

In Global Football, we're pleased with our World Cup results as we doubled our World Cup team kits sales compared to the 2022 tournament. One of our strategies going into the tournament was to use the energy to invest in a much needed refresh of the Global Football marketplace. This quarter, the newly elevated marketplace helped drive stronger sales in our club football kits this quarter, which was up high teens. That's critical because club football fans buy season after season.

Training is one of NIKE's largest untapped performance opportunities because every athlete trains. We're seeing success across the portfolio. Nike Mind has quickly become one of our top-selling franchises. NIKE Pro and Metcon, our industry icons, and we just introduced the NIKE Hybrid Footwear System for both running and strength movements to serve the fast-growing world of hybrid training and racing. The new Hyperslide brings the next recovery innovation from our NIKE x Hyperice partnership to a more accessible price point.

In Basketball, where we are the global leaders, one of our most powerful growth opportunities is the women's game. NIKE Basketball has grown our women's signature business nearly 500% from FY '22 to FY '26. Today, we activated the largest women's signature shoe launch in NIKE's history, the Caitlin 1.

It will launch in 5,000 doors, twice the average for a NIKE Basketball signature shoe, supported by our largest NIKE product campaign for the holiday season.

What we've learned through the Sport Offense is that focus wins. When teams get closer to the athlete, the consumer and the marketplace, they make better decisions. And over the past year, we've taken steps to make certain that the rest of the company can move at the same speed. That's the thinking behind Pace, a program that brings several

operational changes together under one effort. The purpose of Pace is clear, accelerate the Sport Offense. It will change how and where we work, move decisions and roles closer to the consumer and build capabilities that will allow us to move faster.

The Sport Offense has proven itself, Pace is how we scale it. The first element is the work that's already underway to evolve our supply chain from a mostly fixed structure to one that is more flexible, responsive and cost-effective. As a next step, we're establishing a new campus in Bengaluru, India. Its mission is to drive new capabilities and ways of working for NIKE. They will work closely with the teams around the world to run the business with greater speed and precision. These full-time NIKE teammates will span across a number of functions across the company. As part of Pace, we also plan to organize into 3 geographies. The Americas, which brings together North America and Latin America, APGC, which combines Asia Pacific and Greater China, and EMEA, Europe, Middle East and Africa, will continue operating as it is today. We'll reduce layers and move more resources to the countries, territories and cities, and give our local teams more ownership of winning in their markets. We expect teams to move into this new formation in fiscal year '28.

And the final part of Pace is enhancing the way we work across NIKE, which will change the shape and size of our workforce. In some areas, we will add capabilities to increase speed and scale, at others we will eliminate duplication. Over time, those changes will reduce the overall number of roles across NIKE Inc. As Dave will outline, we expect Pace to streamline decision-making so we can capture demand faster and improve productivity while also creating greater capacity to invest in what has always set NIKE apart, serving athletes, creating industry-leading innovation and building the world's strongest sports brands.

At our Investor Day in November, we will provide a clearer view of our long-term growth algorithm, the actions behind our portfolio priorities and how our operating model will support sustainable growth and value creation.

With that, I'll hand it over to Dave.

[DAVE DENTON]

Thank you, Elliott, and good afternoon, everyone. Over the past few weeks, I've had the opportunity to connect with many analysts and stakeholders, but importantly, I look forward to working with all of you as I begin my tenure here at NIKE. I've long admired NIKE as an iconic brand, not only for its relentless commitment to innovation, but also for the way it inspires athletes through the power of sport. I'm pleased to be joining NIKE at such a pivotal time with so much opportunity ahead of us. It's clear to me that there is an enormous potential to drive significant long-term shareholder value.

NIKE operates in a growing, vibrant but yet competitive sector where it remains a clear leader despite recent results that have fallen short of expectations. A key part of my role is to ensure that our performance business grows sustainably and profitably over the long term, while also focused on getting Sportswear and our Jordan and Converse brands back to financial health. That means ensuring we are appropriately resourcing our priorities, taking the right actions with discipline and urgency and maintaining accountability across the organization.

We will continue our unwavering focus on driving shareholder value which requires us to restore the NIKE portfolio of brands back to premium positions, improve the company's operating margin through enhanced productivity and better ways of working, invest with purpose to drive higher quality top line results and unlock new growth opportunities, and appropriately allocating capital to maximize shareholder value creation.

Under Elliott's tenure, it's clear we have made significant strides towards these objectives, but we still have more work to do. Our results are below both our expectations and our potential, and we are focused on closing this gap. And today, I'll cover our financial performance for the quarter, then I'll highlight a

key program focused on improving operating margins across the enterprise. And then I'll close with our guidance for fiscal '27.

Our first quarter results reflected progress in several areas, while also showing where we still have work to do to return our business to a healthier position. In Q1, revenues were \$11.2 billion, a decline of 4% on a reported basis and 5% on a currency-neutral basis. And by geography, Greater China declined 26%, EMEA declined 5%, while APLA was flat, partially offset by a 2% growth in North America.

From a financial standpoint, the quarter continues to be defined by 2 different realities. Our NIKE Performance portfolio delivered strong growth while NIKE Sportswear, the Jordan Brand and Greater China remains significant headwinds to our consolidated results. In fact, NIKE Sportswear and the Jordan Brand, including men's, women's and kids, represented a high single-digit drag on consolidated NIKE. And if you were to isolate our NIKE Performance business, it was up high single digits this quarter, benefiting from the World Cup. Additionally, if you were to exclude the reset in Greater China, NIKE Performance would have been up low double digits in Q1. Performance was driven by double-digit growth in Running, Global Football, Tennis and Golf.

Gross margin was 42.8%, up 60 basis points compared to LY. The results included benefits from our supply chain cost management efforts and FX tailwinds, partially offset by increased discounts as well as channel mix. Importantly, SG&A declined 3% on a reported basis. The team has maintained strong discipline on expenses in the quarter while increasing investments in demand creation associated with the World Cup. Earnings per share for the quarter were \$0.48, down 2% versus LY. Overall, our financial results were largely in line with our expectations for the quarter but clearly below the company's long-term potential. The company's balance sheet remains very strong. We ended the quarter in a net cash position with \$8.4 billion in cash and short-term investments, with leverage at roughly 2x. We remain disciplined in how we allocate capital with an emphasis on prioritizing investments that can strengthen the business and improving returns on those investments over time.

In the quarter, we returned approximately \$610 million to shareholders through dividends, and the dividend remains a significant priority in our capital allocation strategy. Taken together, the quarter shows a business in transition. We are not where we want to be yet, but we have a strong understanding of the trends throughout the business and importantly, the actions required to improve results over the long term.

As Elliott mentioned, we have we are taking strategic actions to build a healthier and more productive operating model that gives us greater flexibility to invest for growth, improve operating margins and create long-term shareholder value through a program we're calling Pace. Pace is focused on improving how and where work gets done, improving our speed to market, streamlining decision-making and sharpening our focus in areas that matter most to both consumers and athletes. We expect this program will enhance productivity and drive a lower cost base at NIKE. We expect Pace will deliver approximately \$2.5 billion in savings. As we move forward with this work, we intend to reinvest a portion of the savings from Pace back into the business with discipline, prioritizing the opportunities with a clear strategic impact and the strongest return.

We also expect the cost to implement Pace will be approximately \$1 billion over the program's life, which is in addition to approximately \$300 million of severance-related costs in fiscal '26. We have begun taking actions and expect the majority of the program savings to be realized in fiscal years '29 and '30, with the full realization of the program to continue into fiscal year '31. Now we expect to provide additional details on these actions, our investment priorities and the measures we will use to assess our progress at our upcoming Investor Day.

Now I'd like to just spend a few minutes discussing our outlook for fiscal '27. And before I discuss the outlook, let me share my approach to guidance. I believe guidance should be grounded in the realities of the business, informed by both the risk and the opportunities ahead of us and set at a level that we believe is reasonable and attainable based on the information we have today and importantly, the actions we are taking to drive the business

forward. One of my objectives is to build on our financial discipline and provide investors with a clear framework for understanding our performance as well as our outlook. To that end, beginning today, we intend to provide a view of our expectations for the full fiscal year and update that perspective as the year progresses.

Today's outlook should be viewed as our initial assessment of fiscal '27 based on a comprehensive business and financial review conducted over the past several weeks. We expect to provide additional context in November as we further refine our plans as well as our priorities.

Starting with revenue. For fiscal '27, we currently expect revenues to decline in the high single-digit range. As Elliott outlined, we are making deliberate choices across portions of the portfolio, particularly in NIKE Sportswear, the Jordan Brand and Greater China to improve the health of these businesses over time. We will continue to take actions to reduce supply across key parts of the marketplace in support of a healthier marketplace environment and stronger full-price realization. We expect those actions will create pressure on reported revenues for the remainder of fiscal '27 and into '28. And as a reminder, in the second quarter, we are also lapping significant promotional activities in EMEA from Cyber Week and a higher comparison of North America sell-in activities versus last year. These 2 items will represent a headwind of approximately 400 basis points to revenues in the second quarter. While these decisions can dampen near-term top line results, our focus is on improving the quality of revenue and creating a more sustainable foundation for long-term growth.

Now turning to profitability. We currently expect EBIT to decline by a greater percentage than revenue. This outlook reflects continued pressure on gross margin and fixed cost deleverage associated with lower revenue levels, higher input costs, but partially offset by disciplined expense management. At the same time, we remain focused on the levers that we can control. These include improving inventory management, increasing full price realization strengthening sourcing and supply chain execution while managing our cost structure. We also expect SG&A to remain down year-over-year as we continue to identify

opportunities to improve efficiencies, simplify operations and increase productivity across the organization. Our priority is to direct more resources towards the consumer, sport, product innovation and the growth opportunities with the greatest long-term potential.

And finally, with respect to adjusted earnings per share, we currently expect fiscal '27 adjusted earnings per share to be in the range of \$1.15 to \$1.35. This range excludes approximately \$0.15 of impact

from the Pace program. We look forward to providing additional perspectives on our strategic priorities, investment approach, and our long-term financial objectives in November. Here's what I've taken away from the last 6 weeks. We are not at a standing start. Significant and valuable work has already been done to build a better NIKE, and we intend to accelerate those efforts over time.

From a financial perspective, I hope you come away with a clear sense of our focus on moving the company forward with discipline, accountability and urgency. Our teams are working with purpose to restore the business to stronger financial health, while prioritizing the long-term strength of the company and positioning NIKE for sustainable success.

And with that, I'll pass it back over to Elliott.

[ELLIOTT HILL]

A few weeks ago, the University of Texas hosted the Ohio State and what many call the biggest game of the college football season. Most people will remember how Texas came back from a 20-point deficit against the #1 team in the country. But what stood out to me wasn't the final score. It was how they got there. A series of methodical drives, a few calculated risks, extra effort in critical moments. They stayed committed to the plan and eventually the scoreboard caught up. That resonates with me because as Dave and I just shared, we have a lot more work to do. That's just the reality we're in.

Increasingly, I see signals that remind me why our strategy is right. That happened in Austin

and it happened off the field. For 6 days leading into Saturday night, we helped turn the football game into a broader consumer moment. We activated every dimension of NIKE, bringing down the Running, Training, Football and Sportswear. We leveraged Blue Ribbon Elite, NIKE's program for NIL athletes and our retail partners to capture the attention of an entire campus. Students went for a guided run along Lady Bird Lake with our icons. They did yoga with our trainers on the South Lawn. They got a special invite to work out at the Texas football weight room. They lined up at 5:30 a.m. to shop at our SKIMS pop-up on Speedway, they customized Studio Fleece and Solo Fleece designed specifically for Texas, and we sold through the collection. We seeded custom Vaporposite cleats with our top athletes. And we announced 13 new NIL athletes across 8 sports, even UT legend Kevin Durant showed up to welcome new athletes to join Team KD.

This was NIKE surrounding a moment, deploying our full Sport Offense, something no one else can do. It was the kind of focus on the ground game that helps us become more locally relevant. And when you have 1,000 partnerships like we do across universities in North America, that reach over 13 million students, it's clear to me that Austin wasn't a destination. It was a reminder of what's possible, of a larger opportunity in front of us, of what happens when NIKE plays to our strengths.

Now 1 week in Austin doesn't change the work in front of us. We have a lot to prove, but it reinforced something special. The closer we get to the athlete, the closer we get to the consumer, the more opportunities we uncover to serve them. This is NIKE using our partnerships in bigger, more creative ways. We can do it with Texas, the Ohio State and soon Miami in football.

With the upcoming German Football Association partnership or with FC Barcelona and Paris Saint-Germain and Global Football at our major marathons and at March Madness. That's how we create more value for athletes and fans, strengthen our brands, and that's how we expand the opportunities ahead for NIKE and our shareholders. With that, Dave and I will now answer your questions.

[OPERATOR]

Our first question comes from the line of Simeon Siegel with Guggenheim Securities.

[SIMEON SIEGEL]

Dave, welcome, looking forward to working with you. Elliott, any way to frame for us how large performance versus Sportswear and Jordan are in the U.S.? I'm just trying to align the positive and negative comments with the fact that North America still grew revenues. And if I'm looking at it correctly, I think you saw the first regional positive inflection in EBIT margin in dollars. So that would be helpful just in terms of sizing.

And then, Dave, just maybe a higher level, curious if you can speak to your confidence in these numbers and your thoughts on how much you've been able to learn and touch in the short time you've been with the company?

[ELLIOTT HILL]

Simeon, thank you. It's good to hear from you. Let me start first with performance. I'm going to start bigger picture. The Sport Offense is, in fact, working and you can see it as our performance business continues to grow. It's a proof point. We believe that when you really get sharp on a distinct consumer segment, that's when we win. Performance delivered broad-based growth in Q1 across all key sports. We grew high single digits in Q1. Performance did overall. That was driven by football, running, training, basketball, tennis and golf all contributed to performance growth. So it was across the board growth there.

And so Q1 performance, and we said this in the remarks, growth. That the Q1 performance growth was on top of the performance growing mid-single digits in FY '26 to \$16 billion. And Simeon, what I would say is innovation is really driving that growth. And I won't go through

every one of them, but in running, training, golf, you go through innovation is what's driving the performance business. But it's also not just about product. It's about how we line up what we call our Sport Offense, not just the sport, but how we execute at the country level across products, across marketing and across the marketplace. And you can see that what we did in the World Cup. I was really proud of the work that the teams did there here in the United States and around the world.

The Caitlin launch today has been incredibly successful. The NIKE Hybrid launch that we did at the HYROX World Championships in Stockholm. Those are proof points. When we get performance, innovation, product and the moment all lined up, we have great success there.

As it relates to North America, North America did grow 2%, as we said, and it was driven by performance led by Running, Global Football and Basketball, those were the drivers there. So overall, excited about the direction that we're headed from a performance perspective. And like I'll say about North America, we are seeing good sell-through across all channels, whether it's sporting in North America specifically, whether it's sporting goods at a DICK'S, an Academy, SCHEELS, Athletic Specialties, JD Foot Locker performance product is selling and then also at our specialty accounts. So overall, we're pleased with the sell-through and performance product in North America.

[DAVE DENTON]

Simeon, Dave here. I really look forward to working with you. Maybe just a couple of comments on guidance. First and foremost, you should understand that we've really performed over the past several weeks, a bottoms up, comprehensive business plan review and a financial plan review. Taking into consideration all the realities that we're seeing within our business across all the dimensions of our business. And importantly, the risk and opportunities and the actions that we're taking to manage this business and return it to health over the long term.

Obviously, I gave a range from an earnings perspective. And that just shows that we've pressure tested a series of continued trends across the business and feel comfortable that this range reflects our best assessment of where this business stands today and the outlook. So I sit here today feeling very confident the teams are focused against this. These financial measures are pushed into the business and everybody is accountable for delivering against these results. So this is our best estimate. I feel good about where we stand, and we're focused against delivering not only this year but the years ahead of us.

[OPERATOR]

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

[BROOKE ROACH]

Elliott, Dave, I was hoping you could provide better context on the magnitude and cadence of pressure that you expect in Greater China relative to the 26% decline observed in 1Q. Are there additional strategic actions that you think are still necessary to be taken on top of what's already been taken to improve the health of the China business beyond the reset of NIKE Digital?

[ELLIOTT HILL]

Thanks, Brooke. We continue to execute a marketplace reset in China, and you saw that reflected in the numbers this quarter. The teams, and we're working with the teams on the ground are focused on becoming a more premium and culturally relevant brand.

I'll start first, as I always do on this question is China does remain an incredibly important marketplace. This year marks our 45th year of doing business in China, and we remain committed to serving the Chinese consumers through sport. And we know, Brooke, when we lead with sport, that's when we win. I can point to running this quarter, it continues to grow. We've lined up in China, not only the innovative product, local experiences, which

are critically important in China After Dark Tour this quarter. We had almost 4,000 runners registered selling out in the first day. We are driving double-digit growth, and it's our sixth quarter of growth in running.

So when we lead with sport and line up the experience in marketing, it does work. We are aggressively cleaning up the marketplace, at the same time, elevating the consumer experience. The digital marketplace, as you stated, we haven't taken some actions. It was too broad. It wasn't differentiated and it had become promotional. So we did we did eliminate some online distribution that was unprofitable and brand dilutive. We're anchoring, as we said in our prepared remarks around some fewer flagships. At the same time, it's not just about digital. We have to be elevating our physical retail, and we're investing with our partners in their must-win doors to create more, I would say, consistent and elevated experiences because we know when we do that, we've had some great successes in our House of Innovation flagship. We're driving growth there.

The last component of this is about being more local. So we will continue to invest in product creation teams on the ground in China and working on future seasons. Our first collection coming out of China, made for China will launch in October. It will be a brick-and-mortar only launch purposely. And then we will continue to deliver products over time, products and assortments that are locally designed, developed and even manufactured in China. So we're excited about what the team is doing in China. I'm confident in Cathy and her team. It's just going to take us time resetting the marketplace and we will see we will continue to see pressure on revenue and profitability in the near term, but again, confident in Cathy and the team.

[DAVE DENTON]

Brooke, this is Dave. Just real quickly, as Elliott said, we have multiple efforts underway in China to improve the performance of the marketplace and improve our performance within

the marketplace. But from a specific guidance perspective, we the guidance range that I just provided to you assumes that China actually gets worse from a revenue perspective for the balance of this year, and that's because of some of the actions we're taking today to make sure that we return this business to health in the long term. So I think that's what you should expect from that business for the balance of fiscal '27.

[OPERATOR]

Our next question will come from the line of Jay Sole with UBS Securities.

[JAY SOLE]

Great. Question is on 2Q. I didn't think I heard full second quarter guidance other than the comment about the 400 basis point headwind. Can you give us a little bit of help on how you're thinking about revenues for Q2? I mean and then maybe on gross margin as well. And then even if for the fiscal '27 outlook, I know you said SG&A down year-over-year, but you have sort of an unusual compare in fourth quarter. Can you just a little bit of help on where you think the gross margin lands for fiscal '27?

[DAVE DENTON]

Yes. Thank you. This is David. Actually, we're probably not going to provide guidance specifically for gross margin. But for the year. But at this point in time, there are puts and takes. I think one thing that's really constructive from a gross margin perspective is we're making fairly significant moves in our supply chain and sourcing programs today. That is actually bolstering gross margin. At the same time, we are taking discounts and resetting the marketplace, which is dampening gross margins over time. So there's a little push and pull for this year as we go through the balance of fiscal '27.

I will say as it relates to Q2, I just wanted to highlight, because of the actions that occurred last year, we're up against a tough comparison with what happened in Cyber Week in

Europe as well as what happened in the North America sell-in last year Q2. So if you look sequentially quarter-over-quarter, you will see because of that comparison, growth rates being pressured in Q2. So I hope that helps.

[OPERATOR]

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

[BOB DRBUL]

Dave, welcome. Elliott, I was wondering if you could spend some time a little bit more on I'd love to hear the decision to let Mbappe go from your roster. But the other piece of this, I'd love to hear more clarity on the game plan in basketball, signature basketball. You've had some moving pieces there with Shai coming into NIKE. So can you put some meat on the bone around some of that for us, please?

[ELLIOTT HILL]

Yes. Thank you, Bob. Just in terms of Mbappe, we've had a relationship with him for over 2 decades. And we've had some great moments together, working together with him and he was an important part of NIKE Football. And what I would say is that we're proud of what we achieved together on and off the pitch. And we wish him much success as he makes the move. And so again, we're happy for him. And we are excited about what our portfolio has in NIKE football. Great stable of athletes, great stable of federations and also countries. So and I'm very proud of the work that our team has done around the football boots. So I'm excited about our opportunities in football.

In terms of basketball, you'll see us continue to dimensionalize basketball, both men's and women's. We had a tremendous launch today with Caitlin and Caitlin is just part of the women's business. Obviously, we have our women's business was up over 600% over the

last few years. So it's a new opportunity. We see the women's game helping us dimensionalize the overall basketball business between A'ja and Sabrina and now Caitlin. And so Caitlin was our largest, by the way, signature launch for women ever at 5,000 doors and great sell-through.

In terms of NIKE Basketball, we also launched SHAI shoe today. I don't know if you saw that SHAI shoe and good sell-through there and we'll continue to lead basketball with some signature athletes, but we also are excited about what we're seeing in our GT series as well.

So overall, excited about where the team is headed in basketball, and we're starting to see growth there. We even called it out. North America had growth in basketball again. So we see it as another growth opportunity from a performance perspective.

[OPERATOR]

Our next question will come from the line of Sam Poser with Williams Trading.

[SAM POSER]

I've got 3. I'm just going to read it real quick. The can you give us what you expect you talked about China, the regional expectation by geography for the year sort of relative to Q1, where you anticipate sales will trend. Two you've talked about Pace and the Pace project and increasing speed. You're now I think, about 18 months to market, what are you trying to get that speed up to like when you optimize it? And then in the family channel and your sub core products, sub-\$100 price point, is most of that product live in Sportswear?

[ELLIOTT HILL]

Yes. Let me I'll take by the way, you broke all the rules, Sam. We've got 3 questions in. I'll hit Family and Pace. And in terms of Family Footwear that channel of business, which is

what we call core footwear here internally, Sam. That it cuts across all performance sports. So we have an entry-level core product across running across basketball, across training. And then of course, we do have it in sportswear. So it is a cross sportswear opportunity in that Family Footwear channel. And that's at \$65 to \$85 segment. And again, the teams continue to focus on that and are driving, I think, some really nice progress there.

As it relates to Pace, we'll dive deeper in terms of the 18 months question at our Investor Day. But I'm going to since you asked the question, I want to make sure I hit Pace for everybody on this call. So I might spend a bit more time. I'll go at a little higher level, and that is that we are setting Pace up to help scale the success of the Sport Offense. And I want to remind everybody the Sport Offense is creating product through the lens of sport, but it's paying it off at a country level. And so we're building an operating model that we need closer to the athlete, the consumer in the marketplace, and we'll do that through some work that we're doing around our supply chain, which we went through in some detail around our new capability center in India and moving from 4 to 3 geos, Americas, EMEA and then Asia Pacific, Greater China, getting resources closer to the countries and then changing the size and shape of our workforce.

And so at a high level, that's the progress or the work that we're doing around Pace, and it will help us build a stronger NIKE for the future and help support a more profitable and sustainable growth into the future. And we'll share more details at Investor Day.

[DAVE DENTON]

Yes. And maybe I'll just touch on a couple of things real quickly. One, on the Pace program, as Elliott said, this is a program that, at the end of the day, is working in tandem with the objective of creating operating profit leverage over time. And so this will be an important program and leverage an initiative to be able to do that. Secondly is we're not going to give guidance, obviously, by region. But as I said earlier, the actions that we're taking in China will further dampen China compared to Q1 from a growth perspective for the balance of this year.

[OPERATOR]

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

[ALEX STRATON]

Perfect. Maybe just a big picture one for you, Elliott. If we just go back a couple of years when you first started, I feel like we knew what the main -- or we were having a better understanding of what the main pressure points were with Jordan, with China, with Sportswear. Things haven't entirely moved that much. They've gotten a little bit worse in some of those areas. So can you just walk through maybe what you underappreciated about some of the challenges there at that time? And then what gives you confidence that some of the revised strategies you outlined today are the right ones?

[ELLIOTT HILL]

Yes. Thanks, Alex. What I would say is since I've returned, I believe strongly that we have strengthened the foundation of our business and our direction is super clear that we're building NIKE the right way, and we're building NIKE for the long term. And I would characterize that our comeback is ongoing at our size and scale, meaningful change takes time. Our turnaround is happening 1 sport community, 1 city, 1 country at a time, and we are reallocating resources against our biggest opportunities. So we're building for the long term.

I would say that we started with the areas that mattered most, focusing on our culture, getting this company focused back on sport. Innovation. We started with running and you see now that momentum through our Performance business. We thought it was critically important to re-anchor this company in sport. We reignited our marketing efforts. We started serving consumers across an entire marketplace, rebuilding our wholesale partnerships

and organizing against the Sport Offense. And so we understand that we still have work to do. It's Sportswear, Jordan and Greater China. And again, from a sportswear perspective, what we are going to do is break this big business called Sportswear. And I think this is one that I probably did underappreciate breaking it down into segments focused on a distinct consumer, which will allow us to have greater clarity around the products, the stories and the retail experiences for those consumers.

In terms of Jordan, we're repositioning the Jordan Brand, restoring the scarcity model for retro styles and you will see us dimensionalize the brand through sport, and we're already seeing some success in growth in our football or excuse me, our cleated business, our golf business, our training business.

And then in terms of China, we're leading with sport and innovation. I talked a lot about that and we're taking some really decisive actions in the marketplace and that we build a healthier business over time. So we look forward to sharing what comes next for each of those businesses at Investor Day.

[OPERATOR]

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

[MATT BOSS]

So Elliott, could you elaborate on the level of potential pain before gain? It seems like that's a key theme here that you're laying out today. What segments of the business may further moderate tied to the strategic actions that you noted would impact the business for the balance of this year and into early fiscal '28? And just on Pace, would it be fiscal '29 where we could expect this transformation work to bear fruit at a P&L level?

[DAVE DENTON]

So maybe this is Dave. Maybe I'll start. First, I think as we indicated, those 3 areas, whether they be Sportswear, Jordan and China, we're taking deliberate actions in those areas to improve performance for the long term, and that's going to dampen performance now. So yes, we're going to experience some as you described it, some additional pain. But I think that and that's going to be through the balance of this year and probably bleed in a little bit into fiscal '28 as well. But that's all in the goal of returning these businesses to health and driving really outsized shareholder value creation over time, number one.

Secondly, as it relates to Pace, we are beginning to see savings now even through Q1, some of the actions that we took as it related to supply chain are bearing fruit and gross margin. So you're beginning to see some improvement in our P&L today from Pace. But clearly, the savings are going to ramp over time starting now with the maximum savings to be appreciated and accrued in '29 and '30.

[OPERATOR]

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

[MICHAEL BINETTI]

Let me add my welcome, Dave. It's nice to work with you. I just want to ask another way on China, you mentioned that it's going to take multiple seasons to reset it to health. And you mentioned revenue pressure a couple of times will bleed into fiscal '28. I'm assuming maybe there's a connection there. If you just talk to us about what you mean when you frame China in multiple seasons. And if you see a path to total company revenue positivity at some point in fiscal '28.

And then, Dave, you did mention the dividend and as we take kind of an initial pass at the cash model, it sounds like you're alluding to some ongoing top line challenges here for a little bit on the guidance midpoint today, I think the dividend ratio is over 100%. So just given the investment needs in the business, talk to us about the priority there for the

dividend.

[DAVE DENTON]

Yes. First and foremost, let me hit that right off the gate. Dividend is a very significant priority for us here at NIKE. It is a significant priority from the capital allocation program. And under all scenarios, we have support for maintaining and ultimately growing the dividend over time. So just we can put that to bed with that statement.

Secondly, I look forward to spending some time with you in November because in November, we're going to give you a financial algorithm, so you can begin to assess what not just '27 looks like, but what does the next 5 years begin to look like, both from a top line and a bottom line perspective. So why don't we hold that question, we'll come back to it at Investor Day, and we'll hit that head on.

[OPERATOR]

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