Eric Sprunk, Chief Operating Officer:

Hi, everyone. I'm Eric Sprunk, NIKE's Chief Operating Officer. I'm always happy to have the privilege of sharing with you the great work happening in operations at NIKE. As you heard this morning, our goal at NIKE is to keep the consumer at the center of everything we do. And our operations offense achieves that by building capabilities across the complete value chain to deliver against the Triple Double with a special emphasis on delivering 2X speed. We've been talking to you about innovation and manufacturing for the past 4 years now, and we've told you we'll do it at scale. Consumers demand it. We're proud we're able to tell you what we're going to do and then do it.

We're leading with innovation in 2 ways: Continuing to develop new methods of manufacturing and relentlessly driving automation in our traditional methods of make. We do it by both expanding these capabilities with our existing strategic partners and by bringing new manufacturers into the industry, like Flex and Tegra. And I'll talk about all of these strategies this morning.

As a reminder, let me share some specifics on what the complete value chain at NIKE delivers today. We will ship 1.3 billion units in fiscal year '18. These units will be manufactured in 566 factories, employing more than 1 million workers. And we'll ship them through 75 distribution centers to more than 30,000 retailers in more than 190 countries. We are transforming the sophisticated global supply chain from one where a futures order was historically our signal to start supplying the market into one, where consumer demand is our signal to anticipate and respond. To make this shift, we're digitizing our end-to-end supply chain and creating a model with shorter lead times to deliver what consumers want, when they want it, where they want it.
Much of this has been made possible by our investment in the Advanced Product Creation Center, or APCC. When you were here 2 years ago, we announced we were building this new innovation center. We completed it, and many of you will get the chance to see it later this afternoon. The 125,000-square-foot APCC is where we dream, create, innovate and deliver on the future for NIKE. In a few minutes, I'll share several new innovations that were conceived of and created in the APCC.

Now this strategic shift also requires transformation across our business model. We appropriately focus a lot of our attention on the manufacturing of our product, but we're also building exciting new capabilities through our logistics networks and forging new relationships that allow us to serve consumers better and faster than anybody in our industry.

You've heard from Trevor already about the importance of our key cities to the Consumer Direct Offense. To serve them, we've created a distribution network that provides same-day delivery in many of these cities already and next-day service to many more. Our goal is to provide same-day service in all of our key cities around the world.

Just like manufacturing gets a lot of our attention, so too does footwear, where we've always invested in innovation in our apparel business. And we are both digitizing and vertically integrating our apparel supply chain. In collaboration with Tegra, we are creating a vertically integrated and responsive on-shore and nearshore network, enabling closer-to-market manufacturing, embellishment and responsiveness capabilities.
This will allow us to serve our largest geography, North America, with what is arguably our most important performance product, Promo, Team and Licensed. This is product worn by elite athletes on the biggest stages of sport. This new relationship will give us the ability to reach millions of NBA, NFL and college athletes and fans with their favorite gear on short lead times. We are in the early stages of what is a tremendous shift within our supply chain and shows our strong commitment to consumers, speed and innovation in apparel.

Now, I want to talk to you about manufacturing innovation in footwear. Since we last met, we've created several new groundbreaking innovations that directly drive speed to market. We now have a portfolio of innovation and automation that impacts the entire spectrum of our footwear manufacturing process.

A great example of one of these new innovations developed in the APCC is our work in digital printing. We're now scaling the printing of high-quality graphics, like the one you see here behind me, on a large portion of our materials. In many applications, digital printing is faster, higher quality, more flexible than traditional dyeing processes.
We’ve reduced the amount of processing steps, freed ourselves of design limitations and reduced water consumption and CO2 emissions. But more importantly than that, this new innovation allows us to stage greige goods or blank materials, to delay color and print decisions to the last possible moment, delivering on our goal of closer to the end-market decision-making. We’ll continue to innovate across to our entire manufacturing process.

But we’re now also relentlessly focused on connecting these innovations together to make scalable, impactful changes to how we manufacture our product. These efforts have led to an entirely new revolutionary method of make that transforms how we make footwear uppers, an innovation we first created in the APCC. It challenges traditional methods of manufacturing by using advanced robotics and digitization to deliver a continuous, automated sequential flow of upper-making production. With 30% fewer steps and up to 50% less labor, we can produce a complete pair of uppers in just 30 seconds at scale with less waste. Now let me give you a little preview of how we brought the future of manufacturing innovation to life today.

[Video In Room]

As I said, what you just saw represents the future of manufacturing innovation. So much potential here. As we talk about our focus on connecting all of our manufacturing innovations to drive scale, let me shift gears a little bit and talk more about a material innovation Mark mentioned earlier, NIKE Flyleather.

NIKE Flyleather is a new recycled leather with at least 50% leather fiber made on a roll versus leather coming from a hide. Mark already told you this, but I think it’s worth repeating. NIKE Flyleather is 40% lighter and 5x more abrasion-resistant than traditional full grain leather manufacturing. What we’re most energized about with this new material is that it dramatically improves the way we make leather footwear. Because NIKE Flyleather is produced as a traditional rolled good instead of an imperfect hide, we’re able to make shoes much faster with more flexibility and reduce our material costs. NIKE Flyleather is another example of our ability to innovate across the entire supply chain.

Now 2 years ago, I introduced you to our strategic relationship with Flex. Many of these game-changing innovations are being brought to market and scaled faster than ever before through this strategic partnership.

We’ve just moved into a new nearshore purpose-built footwear factory with Flex that will deliver over 3 million pairs to North America in fiscal year ‘18 alone. By 2023, together with Flex, we plan to produce tens of millions of pairs nearshore with more than 25% of those volumes delivered through NIKE Direct on a short lead time responsive model. This strategic relationship allows us to take our standard time from just manufacturing to market from about 60 days to 10 days or less. And Flex isn’t just another contract manufacturer. We’re inventing new manufacturing capabilities at scale together. We collaborate, innovate, and when appropriate, we bring these capabilities across to our entire source base.
With Flex, we're already commercializing Flyknit, end to end, 12 weeks faster than through our traditional manufacturing process. And we're now also delivering responsive capabilities to North America consumers through experiences like our Flyknit iD pilot. You can go to NIKE iD today, design your own customized Free Run Flyknit shoes and literally have them knitted to order. We promise to deliver them to you in under 10 days, but we're hearing from consumers that many of them are getting them in 3 or 4. This is real speed in creating shoes on demand.

At the same time, we continue to drive manufacturing innovation across our entire source base by elevating our world-class Asian-based strategic partners. We have modernized manufacturing for more than 1,500 models of footwear across every NIKE category. With a focus on just 4 core technologies, cutting, cementing, assembly and bottom-making, we will have deployed more than 1,200 new automated machines by the end of this fiscal year.

This is not about making one model in one factory. For us, this is about scaling digitization, automation and robotics across our entire source base and across our entire product line. In fact, we currently make 13 of our iconic Air Jordan retro products with these technologies.

So let me show you the new journey of the Air Jordan XIII with our strategic contract manufacturer, Feng Tay.

[Video In Room]

Okay. What you just saw, with some really snazzy music, I know, was 5 of 11 new automated technologies used in the Air Jordan XIII that drive approximately 30% less labor and 50% increase in pairs per hour. And most importantly, better product. More consistent and more precise. In addition to the 5 processes you see here, we also used UV spray, oscillating knife, laser-cut, laser-trim, phylon mold transfer and computerized stitching. It's a perfect example of our commitment to driving automation and productivity across the entire product line and throughout our entire source base. We know a significant unlock exists
in our ability to connect multiple manufacturing innovations and automation together, like you just saw in the Jordan video and with our new method of make you saw a few minutes ago.

Much of the work we have shared with you today and over the years, frankly, is about the upper. Flyknit is another great example of upper manufacturing innovation. We haven't spent a lot of time talking about the bottom of the shoe because it's challenging work. It requires different tools, different innovation and very unique manufacturing. But we've recently had some great breakthroughs in innovation for the bottom, too.

Today, we are building a scalable solution capable of delivering a pair of midsoles and outsoles, the bottom, on average, in 2.5 minutes, compared to more than 50 in the past. Our new process uses 75% less energy, 50% less tooling cost and has a 60% reduction in labor. This is incredible progress and is just one of the great innovation projects in flight for manufacturing bottoms. As you can see, we now have manufacturing innovation across the entire footwear process.

Let me recap the great game-changing work that's happening at NIKE in global operations. Our whole strategy is around speed and scale, getting faster in the creation of our product, getting faster in the manufacturing of our product and getting our product more quickly to our consumers. We're laser-focused on getting faster, and we know one of the best ways to do that is to digitize as much of the process as we can, as quickly as we can. We're making it smarter, more connected and more automated to get closer to consumers more quickly. We've been on this journey for a few years now. We've made great progress, including the work Michael showed you, in digitizing our product creation process and in rapid prototyping. But we all know there is so much more we can do.
So I want to ask you to think about the future. Our consumer can place an order on Nike.com or through our SNKRS app and have it delivered the same day in key cities around the world. Your favorite team wins a championship. And in a few days, we have designed, manufactured and delivered brand-distinctive, innovative product to your doorstep. Not just for certain products, not just in certain colors. For all of our products.

No other brand in our industry can do what NIKE does to inspire and engage millions of consumers around the world. The innovation and re-imagination of our end-to-end value chain allows us to serve these consumers in an unparalleled way. We have changed the paradigm in our industry from driving a strategy focused on where we make our product to how we make our product. So we can decide to make it anywhere we want. And what I talked about today is just the start, and that's probably what I'm most excited about. I look forward to seeing many of you later today at the APCC.

And now, you're going to hear from Heidi and Adam and then Elliott about how we bring all of this together in the marketplace. Thank you.