

**FY 2020 Q2 Earnings Release Conference Call Transcript
December 19, 2019**

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PRESENTATION

Operator:

Good afternoon, everyone. Welcome to NIKE, Inc.'s Fiscal 2020 Second Quarter Conference Call. For those who want to reference today's press release, you'll find it at <http://investors.nike.com>. Leading today's call is Matt Friend, CFO, NIKE Operating Segments and Vice President, Investor Relations.

Before I turn the call over to Mr. Friend, 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 the reports filed with the SEC, including the Annual Report filed on Form 10-K. Some forward-looking statements may concern expectations of future revenue growth or gross margin.

In addition, participants may discuss non-GAAP financial measures, including references to constant dollar revenue. References to constant dollar revenue are intended to provide context as to the performance of the business, eliminating foreign exchange fluctuations.

Participants may also make references to other non-public financial and statistical information and non-GAAP financial measures. To the extent non-public financial and statistical information is discussed, presentations of comparable GAAP measures and quantitative reconciliations will be made available at NIKE's website, <http://investors.nike.com>.

Now, I would like to turn the call over to Matt Friend, CFO, Operating Segments and Vice President, Investor Relations.

Matt Friend, CFO, NIKE Operating Segments and Vice President, Investor Relations:

Thank you, operator.

Hello, everyone, and thank you for joining us today to discuss NIKE Inc.'s fiscal 2020 Second Quarter Results.

As the operator indicated, participants on today's call may discuss non-GAAP financial measures. You will find the appropriate reconciliations in our press release, which was issued about an hour ago, or at our website, investors.nike.com.

Joining us on today's call will be NIKE Inc. Chairman, President and CEO, Mark Parker; and our Chief Financial Officer, Andy Campion. Following their prepared remarks, we will take your 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 questions to two. In the event you have additional questions that are not covered by others, please feel free to re-queue and we will do our best to come back to you. Thanks for your cooperation on this.

I'll now turn the call over to NIKE Inc. Chairman, President and CEO, Mark Parker.

Mark Parker, Chairman, Chief Executive Officer and President, NIKE, Inc.:

Thanks, Matt, and hello, everybody. As most of you know, this is my final quarterly earnings call as Nike's CEO, and while I'm tempted to go right to the results to let another strong quarter speak for itself, there are a few things I want to say right up front.

I'm excited to take on a new role as Executive Chairman, remaining a part of the management team and leading the board. This has been a very thoughtful transition that has been planned for many months. I strongly believe the best time to make change is from a position of strength and our brand and our business are as strong as they've ever been. We're focused, we're competitive, we're creating a future of our own design. Most of all, the time is right because of the team we have at Nike, and of course, John Donahoe, himself. I can't say enough about the incredible people I get to work with every single day. With their expertise, their commitment and their enthusiasm for the business, the entire Nike team has been fueling our current momentum, and because of the depth and the quality of the leadership team we have at Nike, the transition with John will be seamless.

As for John, his proven experience in leading global strategy, digital commerce and enterprise technology will be invaluable as we continue our digital transformation. And his passion for sport, his commitment to developing teams and talent and his growth mindset will make him a great Nike CEO. John will help elevate Nike to the next level and accelerate our strategic transformation, and I look forward to working with him even more closely.

With that, let's take a look at our Q2 results where we continue to show the greater focus is the key to accelerating growth. Overall, revenue for the quarter grew 10%, up 13% on a currency-neutral basis. The big takeaways from the last 90 days are proving that innovation is Nike's greatest competitive advantage. The consumer is voting for our brands across the whole portfolio and up and down price points. The passion for sport and active lifestyles is thriving around the world. Our international business grew 18%, led by Greater China at 23%, and we continue to grow Nike's digital advantage in the marketplace. The NIKE App and the SNKRS App are outperforming all other channels, driving digital growth of 38% for Q2.

I'll get into the details by sharing some of our Q2 product wins and insights into how our obsession on product and innovation is creating separation for Nike. Starting with Sportswear. We're opening new lanes of opportunity by reimagining our top products. One example is how we're bringing fresh points of view to some of our most-loved iconic Footwear with the Air Force 1, the Air Jordan 1 and our deep lineup of Air Max. Our deliberate strategy is to add new styles and colors to the Air Jordan 1, which allows us to bring the world's most popular sneakers to more people while offering consumers more choice. And with women and the Air Force 1, we're running on nimble key city offense through the Express Lane, using local feedback to create and move product to meet shift in consumer tastes. We'll apply that process to a new classic strategy for women that'll ramp up in the back half of the fiscal year.

2X innovation is creating a continuous cycle of scalable, distinct platforms. For example, in this quarter, the top three growth drivers in Air Max were all introduced in the last year, with the Air Max 270, 720 and the 200. In Basketball Footwear, we're leveraging signature athletes to create innovation that matches different styles of play and creates real differentiation across price points. It starts with new expressions of platforms like Zoom Air, an articulated cushioning unit in the KYRIE 6 from quick cutting to a higher stack height for more responsive jumping with the new AlphaDunk. With the LeBron 17 we created a new cushioning system to propel the game's most explosive player during his incredible run with the Lakers this season.

We're seeing very strong sell-through in our signature athlete footwear, especially through digital and in China. Next quarter gives us a number of storytelling opportunities to create even more energy, with Chinese New Year, the first NBA regular season game in Paris and the NBA All-Star game in Chicago. Running continues to create tremendous energy with consumers across both performance and lifestyle. At Nike, we leverage innovation to help athletes perform better while catalyzing energy and growth in running-inspired Sportswear styles. That starts with serving the widest range of runners, and over the past two years, we've introduced several performance innovation platforms into the running category including React, Vaporfly 4%, NEXT% and Joyride.

Vaporfly 4% and NEXT% continue to transform the sport, taking over the fields in marathons around the world, including this quarters sub-two-hour marathon from Eliud Kipchoge in Vienna and Brigid Kosgei's women's

marathon world record in Chicago. While Joyride and React continue to fuel the everyday runner, early next year, we'll keep the cadence of new platforms going. In January, we'll start with the Nike React Infinity Run which blends responsiveness and comfort for both efficiency and impact reduction. And for Tokyo 2020, we'll introduce a new Zoom Air Running platform that'll scale across both performance and lifestyle.

A more complete running offense also means delivering greater value at core price points, and a number of initiatives are developing such as our exciting renew platform offering a plush resilient ride similar to the properties of React cushioning. We're selectively leveraging one of Nike's most iconic innovations, Air Max, into core price points, and we're designing women's core products from the ground up, bringing both unique style and tuned cushioning to her preferences.

In apparel, we delivered strong 10% growth in the quarter, and we see a major opportunity ahead. We're getting better every season at capturing the value of one of the world's strongest brands. Obsessing the fundamentals of fleece, T-shirts and outerwear is giving more consumers access to the Nike brand across a range of price points, and that's being led by seasonal capsules and collections which encourage consumers to keep coming back for the latest chapters of storytelling, color and prints, and this formula has been an especially strong driver for women's Sportswear Apparel which grew revenue double-digits for the quarter.

We've also piloted a new model of launching high-heat apparel on the SNKRS App this quarter. We're taking the energy and storytelling we drive in Footwear and amplifying one of our biggest growth opportunities. We're seeing strong sell-through of our Apparel collections that we've co-designed with collaborations on SNKRS. The Jordan brand, on wholesale equivalent basis, just earned its first billion-dollar quarter an incredible milestone and just as important is that it was very high-quality growth. The brand is very strong internationally and in North America. The marketplace is healthy, and in many cases, demand is exceeding supply. Performance innovation like the Jordan 34 is complementing one of the world's hottest franchises in the Air Jordan 1 and Women's and Apparel continue to reach new audiences.

What's most exciting is we're still in the early stages of diversifying the Jordan portfolio and we've continued the momentum into Q3 with a significant holiday launch of the Jordan 11 "Bred" meeting demand for one of SNKRS cultures all-time favorites at an incredible scale. So, as we look ahead, we're about to enter a hyper intense cycle of new product introductions with the Tokyo 2020 games and the football Euro Champs on the horizon. Both will be a springboard for new innovation that'll help define the performance and aesthetic of Nike product for years to come.

Euro Champs will be another great catalyst for EMEA apparel in the back half of the year, and for the Olympics and Paralympics, we'll be revealing the specifics about our explosive line-up next quarter, but you can expect to see the next Air revolution with new approaches to Zoom Air and a renewed VaporMax platform, a celebration of Women's Basketball like never before, highlighting the opportunity we see to grow the women's game and our business, and our teams using the world stage of Tokyo 2020 to elevate sustainable design at an incredible scale.

Across-the-board, our product teams are proving that innovation is Nike's greatest competitive edge. We're turning athlete insights into breakthrough innovation, we're offering more choice on the industry's top icons, we're delivering more complete and more productive assortments and we're being opportunistic with the consumer in real-time.

Another way we continue to create separation is through Nike's digital advantage. Our digital commerce revenue grew an impressive 38% in Q2, powered by an outstanding performance during our most important holiday moments in November. For Black Friday, digital sales grew over 70% in North America and broke records for the weekend across many of our metrics, including our highest week of member engagement ever. Buying members also grew 45% versus last year. We also saw phenomenal success in EMEA with an increase of nearly 50% in demand as Black Friday week grows in importance to the European consumer.

Singles Day showed current strength of our brand and product portfolio with the Chinese consumer. Through Singles Day, we created demand generating nearly half a billion dollars in revenue. We strengthened our relationships through NikePlus adding 3 million members. We served our consumer faster, delivering 20% of the 11/11 orders the same day and we finished as the number one athletic brand on Tmall.

China is, in many ways, the world's most compelling digital marketplace, and while the digital share of the business in Greater China is larger than any other geography for Nike, we still see so much potential ahead. At the end of Q2, we added the Nike App to a powerful portfolio in China that includes Nike.com, SNKRS, NRC, NTC and our branded experiences with Tmall and WeChat. The Chinese consumer is already telling us they're excited about the Nike App downloading it one million times during launch. Incredibly, it's already the number one shopping app in China.

Of course, we continue to stay engaged with all of our stakeholders in Greater China, monitoring trade conversations and the state of the consumer across the region. Overall, we feel very good about the sell-through of our product and the health of our marketplace, about our support of the growing community of everyday athletes, as well as China's top leagues and Federations and the immense opportunity to create tailored experiences for the Chinese consumer.

We've talked a lot about the scale of the investments we've been making to fuel our digital transformation and there are many components. Industry-leading consumer retail experiences that merge online and offline, new operational capabilities and powerful partnerships and all enabled by the digital talent we've added through five recent acquisitions and investments in our teams. The common thread to these work streams is that they've put the consumer at the center. They're all designed to reduce friction and create a more direct connection with our customers, and ultimately invite them to become members.

Membership is the sharp point of our growth. For the quarter, SNKRS App grew strong double-digits. The Nike App more than doubled, and both Apps now make up over one-third of our digital revenue, and active users for our Apps are growing almost triple-digits. The Nike App at retail continues to be one of our greatest opportunities to create scale, as we pair the App with physical retail across our owned and partnered doors. Through the Nike App at retail, personalization and convenience move to another level.

Inside the store, members can unlock tailored offers based on their past engagement with Nike and shop at their pace on the retail floor, scanning products for information and checking out on their own. Nike's also changing the experience of finding product and how it's delivered. Members can reserve product online and have it waiting for them at their nearest store so they can try it on first. Or if they can't find a product they want, new investments in RFID will enable the consumer to instantly track another one down somewhere else in the store, online or potentially in another retail partners channel.

We have a culture of testing and iterating new retail concepts very quickly and we're in the early stages of scaling some of our best ideas around the world in our own doors and with our partners. For example, our first test of Nike Live internationally opened in Shibuya, our smallest Nike Live door in the world but serving millions through the power of digital.

Nike's not only deeply committed to using our digital advantage to make the consumer experience better. We're also using data science to inform how much product we supply and where. Through our acquisition of Celect, we're applying and developing new unique algorithms to make us better attuned to what the consumer is telling us. We're leveraging data that includes past and present consumer interest in products and purchasing signals to better predict demand so we can decide how to stage inventory in our distribution centers and our stores in different ways.

For Singles Day, we shipped product from over 200 stores instead of DCs to meet the needs of consumers faster and more profitably, bringing science to the art of retail remains one of Nike's greatest opportunities.

Before handing it off to Andy, I do want to take a moment to recognize you, our shareholders. Many of you have been invested in Nike for years, some even decades, and I've greatly appreciated your engagement and your long-term focus. As you know, I tend to think more about what's coming than reflecting, but my time as CEO really has been a humbling experience. I'm leaving this role with so much optimism for the future of this company. Sport continues to inspire and move the world forward in incredible ways. Our brand is connecting deeply with consumers everywhere.

Our innovation is helping athletes prove that there are no limits. We're challenging the conventions of retail at every turn. We're growing our biggest businesses and focused on our greatest opportunities, and we're bringing tremendous talent into Nike to add to our already deep bench of leaders.

It's clear that sport is thriving, that Nike has the right people and the right plan. What's great is I won't be a spectator to all this success. I'll be part of the team that's creating it.

So, with that, for the last time I'll say thank you, and here's Andy.

Andy Campion, Executive Vice President & Chief Financial Officer:

Hello, and happy holidays to everyone on the call. First, I want to thank and recognize Mark. We've all been fortunate to be guided by Mark's extraordinary vision and leadership as Nike's Chief Executive Officer over the past 14 years. I've told Mark this personally. He's the most creative, inquisitive, and frankly, also the most demanding leader for whom I've ever worked, and at the same time, he's the most patient, thoughtful and balanced. We will all continue to benefit from Mark's leadership as Nike's Executive Chairman.

We're also extremely fortunate to have John Donahoe joining us as Chief Executive Officer. Few companies are guided by an inspirational founder as well as a 14-year former CEO and 40-year veteran of the company, and now John Donahoe. John is clearly a proven CEO who brings extraordinary people leadership and talent development experience as well as deep expertise in strategy, consumer digital technology and enterprise technology. This abundance of strong leadership is yet another competitive advantage that we enjoy at Nike, and this planful transition is happening as Nike's momentum is accelerating, driven by the increasingly deeper execution of our Consumer Direct Offense by our talented teams around the world.

As we're still in the early innings of our digital transformation, now, as Mark said, is the perfect time for John to be joining and leading our team. Simply put, I'm extremely excited about the future for Nike.

Before we talk more about the future, let's focus on the present for just a few moments. In Q2, we delivered revenue growth of 13% on a currency-neutral basis. Our strong topline growth was amplified by gross margin expansion and significant SG&A leverage. The result was EPS growing 35%. There are three key strategic and financial themes that stand out as we reflect on our strong Q2 results. First, as we've said before, Nike is a growth company. Growth is how we measure the value we create for consumers and delivering strong, sustainable growth at scale is how Nike creates extraordinary value for shareholders over the long-term.

Second, while we will continue to prioritize investments that drive focused growth and build capabilities that differentiate Nike, we're now also increasingly editing and divesting more deliberately in other areas. Third, we are extending Nike's digital advantage and we are positioning Nike for even greater competitive separation over the long-term. As we transform elements of the consumer journey, our individual investments will have an exponential impact on Nike's long-term growth, profitability and returns in the aggregate. I'll provide just a bit more context on each of these themes.

First, Nike is a growth company. In fact, our rate of growth in constant-currency terms has exceeded the long-term financial model that we communicated at our Investor Day in October 2017. More notably, our growth has been profitable, capital efficient and broad-based across our entire global portfolio. That's because our growth is being fueled by focused strategic execution of the Triple Double by our teams around the world.

At our Investor Day, we said our goal was to double the percent of revenue generated by recently introduced innovation platforms. In other words, we would 2X Innovation. As of this quarter we've, in fact, more than tripled innovation as a percent of revenue and we're not slowing down. We will sustain this level of innovation driven by the incredible breadth and depth of our innovation pipeline. In particular, all that we have in-store for the Tokyo 2020 Olympics.

Our strong growth also continues to be fueled by an increasingly more direct connection to consumers in the marketplace. Nike Direct grew 17% on a currency-neutral basis in Q2 led by Nike Digital growing at 38%. Our digital growth was driven primarily by the Nike App and SNKRS App with both now live in over 20 countries. In Q2

we also opened two Nike Live stores in Long Beach, California, and Shibuya, Tokyo, which leveraged digital to better serve members within a more moderate-sized and efficient physical retail format.

Our growth also continues to be balanced across all Nike brand geographies. That's because we are executing our offense first and foremost in the 12 key cities and 10 key countries with the greatest potential impact. Our growth in Q2 in those key cities and countries continues to over-index the broader market.

That brings me to my second key takeaway. Our investments continue to be focused on the areas where we see the greatest potential to drive growth and on building capabilities that will truly differentiate Nike. At the same time, we're now increasingly editing and divesting in other areas. Again, at our Investor Day we told you that we would focus and invest in the following areas: innovation, speed and direct. Our priority categories and the 12 key cities and 10 key countries that would deliver over 80% of our incremental revenue growth over the five-year horizon. Over the past two years, that is precisely what we have done, and our results are giving us even greater confidence that we're investing in what matters most.

As we all know, investing in the future always comes before editing and divesting legacy operating models, but we are now increasingly doing both. We are editing and shifting how we deploy resources within our marketplaces, across our categories and geographically. While we're investing in differentiated Nike brand experiences, owned and partnered, we are also more efficiently managing the broader retail marketplace, leveraging digital tools, such as our Nike.net business-to-business sales platform. As a result, we are delivering strong overall revenue growth despite intentionally flat to declining sales in undifferentiated multi-brand retail.

Quite frankly, we could sell more in the short-term in these undifferentiated channels, but our focus is on building a more compelling marketplace for the consumer and unbreakable relationships with Nike members. In early Q3, we also sold the Hurley brand which has become one of the leading brands in Surf Apparel. Hurley will benefit from new ownerships focus on the Surf category. Our sale of Hurley will further sharpen Nike's focus and investment on the key categories that will drive our long-term growth.

Going forward, we will refine our operating model with respect to dimensions of our business that have historically been less profitable and/or have lesser growth potential. For a bit of context, today we currently operate essentially the same business model in over 45 countries. One of our many competitive advantages at Nike is that we have unrivalled resources. The more focused and efficient we are in deploying those resources the more we will extend Nike's lead with the consumer and the greater the value we will create for our shareholders.

Finally, the third key takeaway from the quarter is that we continue to expand Nike's digital advantage. As we systematically transform individual elements of the consumer journey, the more exponential the impact is on our long-term growth, profitability and returns on invested capital. In Q2, more than half of our total digital traffic came from logged-in members. A Nike member is a consumer who has chosen to create a profile with Nike. Even in just these early stages of digital transformation at Nike, the average order value for members is significantly greater than for non-members, and we're seeing revenue growth from members continue to expand based on two factors. One, strong rates of growth in new members, and two, greater member engagement year-over-year as measured by monthly active users.

As we consider investments in transforming how we operate, we always look to our consumer first and more specifically our members and assess where we have the greatest potential to improve their experience. It starts with digital demand sensing. Our acquisition of Celect accelerates our ability to better predict the right supply of products that consumers love down to the style, color and size. Celect's tools will also enable more accurate forward positioning of inventory in stores, online and in our distribution centers. Note that Celect also brings other tools that improve pricing and markdown efficiency.

As consumers shop, our investments in connected inventory provide our store employees nearly 100% accurate visibility into the precise location of specific inventory, whether that one pair is in the stockroom, or elsewhere on the floor, at a partner store or in one of our distribution centers, and thanks to our investment in Invertex, Nike Fit will give consumers confidence that they are getting the right size in that specific style.

Our investments in Data and Analytics help us learn from each of these consumer experiences and translate those

learnings into for example curated content, product offerings and more personalized digital experiences for members. And as they say, that which is measured, improves. Our acquisition of Zodiac allows us to assess real-time how each new offering impacts engagement and consumer lifetime value. Transforming the consumer journey also has significant financial impacts. We will capture greater demand at the moment of truth. We will have stronger full-price sell-through and more efficient markdowns, we'll have fewer days in inventory and we'll have greater member retention and repeat buying.

This digital transformation is beginning to impact our results. In fact, our constant-currency revenue growth and margin expansion, excluding foreign exchange headwinds over the past two-years has exceeded the financial model we communicated at our Investor Day, and we believe that building on our digital advantage is certain to further extend Nike's lead and amplify our long-term growth potential.

Before providing more context on our outlook, I'll first reflect on the details of our financial results overall and for our key operating segments. Nike, Inc. Revenue grew 10% in Q2 up 13% on a currency-neutral basis reflecting strong, balanced growth across the portfolio, led by Greater China and Digital. Gross Margin expanded by 20 basis points in Q2 as strong gross pricing margin which is essentially average selling price net of average product cost and strong growth in higher-margin Nike Direct was partially offset by the impact of new tariffs implemented in September, strategic supply chain investments and foreign exchange headwinds. SG&A leveraged as compared to Revenue growth growing just 6% in the quarter as investments in digital capabilities were partially offset by productivity within our operating overhead, efficiencies, within our demand creation spend, and our decision to defer demand creation to the second-half as we ramp-up to Air Max Day, the NBA All-Star Weekend, European Championships and the Tokyo Olympics.

Our Effective Tax Rate for the quarter was 10.7% compared to 15% for the same period last year due to greater stock-based compensation benefits. Second quarter diluted EPS was \$0.70 growing 35% versus prior year. Inventories were up 15% in dollar terms, 10% in units, reflecting strong consumer demand globally, strong growth in Nike Direct and a higher-rate of on-time factory deliveries, versus the prior year.

With that, let's turn to our reported operating segments. In North America, Q2 revenue grew 5% on a reported and currency-neutral basis. Nike Digital grew 32% in the quarter fueled in part by a strong Black Friday. Overall growth was fueled by those dimensions of the marketplace that we are transforming. In particular, Nike Direct and through differentiated wholesale partners, like Foot Locker, JD, Finish Line and Dick's. We continue to intentionally right size undifferentiated dimensions of the marketplace. We have strong momentum in North America, which makes it the ideal time to effect this transformation. Our key city focus is also fueling North America's transformational growth. New York and Los Angeles are outpacing the broader market.

In New York, for example, Nike Direct is already well over 50% of our business and digital is already well over 30% penetrated. We see our momentum continuing in North America over the second half of fiscal year 20 with comparable growth in the strong mid-single-digit range. That said, our reported rate of revenue growth will not be comparable. Year-over-year revenue growth in North America will be negatively impacted in the short-term by our value-accretive sale of Hurley. This transaction will create a roughly 2-point unfavorable comparison on North America revenue growth versus the prior-year unadjusted, which equates to roughly 1 point for Nike, Inc. That said, this is accretive from a capital deployment and profitability perspective, and our North America business on a comparable basis remains strong and we're right on plan.

Now let's turn to EMEA where the Nike brand is on fire and continues to take significant market share. In Q2, revenue in EMEA grew 14% on a currency-neutral basis, with double-digit growth in most key categories led by Sportswear and Jordan. Nike continues to be the number one brand in all of our key cities within EMEA. To deepen our brand connection with consumers, we launched two powerful local relevant campaigns in EMEA in Q2. We launched a Kids-focused Just Do It campaign celebrating girls and on the back of that campaign, we saw our Kids' business grow strong double-digits.

We also launched a campaign around the 30th Anniversary of the Berlin Wall coming down, with a focus on the power of sport to unite. Notably our increasingly localized approach has resulted in Nike becoming the number one footwear market leader in Germany. Our Women's business also grew faster in EMEA than in any other geography

in Q2. Through our Express Lane we brought the T-100 Women's apparel pack to market in less than 120 days from initial consumer insight. The products sold out immediately through Nike Direct, Asos and Zalando.

On that note, Nike Digital in EMEA grew 27% in the quarter, faster than any other dimension. We also continued to expand our brand-accretive partnership with Zalando, including rolling out a connected inventory pilot to seven countries. Based on the strong incremental revenue generated from the initial launch in Germany. We have extraordinary momentum in EMEA, and we expect to extend our lead fueled by the Euro Champs and the Olympics over the second half of fiscal year 20 and into fiscal year 21.

In APLA, revenue grew 18% on a currency-neutral basis fueled by growth in Korea and Japan. Nike Digital and APLA was up 67% in Q2 and continues to lead all dimensions of growth. We're also putting the Nike Brand in the path of more consumers through our partnerships with digital platforms such as Zozotown and Flipkart. These partners are affording the Nike brand and our product premium positioning while also serving as an on-ramp to Nike membership.

In Q2 we also opened our first Nike international live store in Tokyo, next to one of the busiest train stations in the world. At the same time, we leveraged our Express Lane to create a unique Air Force 1 inspired by the Shibuya neighborhood and launched through the Nike SNKRS App.

Finally, our Running business has tremendous momentum in Japan. Nike's market share in Running reached a record high in Q2 led by the success of the Vaporfly 4% and NEXT%. We're excited to build on this energy with the launch of new styles like the Nike React Infinity Run next month and the strong portfolio of innovation to come around the Tokyo Olympics.

Now let's turn to Greater China. This past quarter, we delivered 23% currency-neutral revenue growth in Greater China. We saw strong double-digit growth in every key category, and every dimension of the market. Nike Digital once again led our growth at plus-44% on a currency-neutral basis fueled by a record-breaking Singles Day that exceeded our own ambitious expectations. We continue to deliver strong digital growth in Greater China despite only having just launched the Nike App earlier this month. That is one of the many reasons we believe that while we have great current momentum in China, we are still far from realizing our full potential.

While we're of course very mindful of the geopolitical dynamics in Greater China, the Nike brand continues to deeply resonate with consumers and our growth continues to be strong and sustainable. We are proactively managing inventory in the Hong Kong market, based upon the more recent declines in Hong Kong retail traffic. These actions will create a short-term headwind on what will remain a very strong rate of growth for Greater China.

With that, I'll now share our outlook. On a currency-neutral basis, our outlook for the full year continues to improve. For the full year, we now expect currency-neutral revenue growth approaching the low double-digit range. Even after taking into account the non-comp impact from the sale of Hurley. With continued geopolitical volatility, we expect foreign exchange to remain a 2-3 point headwind on Reported Revenue Growth.

Taking into account all of these factors, we continue to expect high single digit Reported Revenue Growth for the full year. We also continue to expect gross margin expansion within the 50 to 70 basis point range and SG&A growing in the high single digit range, even including the impact of acquisitions. We expect our Effective Tax Rate to be in the low-to-mid-teens, and for OIE, net of Interest Expense, we now expect roughly \$100 million to \$150 million of income for the year.

Based on quarterly volatility, let me provide more context on our Q3 Outlook. We expect reported revenue growth in Q3 to be in the high single digit range, albeit at the very low-end of that range. Our continued strong currency-neutral revenue growth will be partially offset by roughly two points of foreign exchange headwinds and the non-comp impact related to the sale of Hurley. Put differently, Q3 reported revenue will be in-line with our reported revenue growth in Q1.

We expect Gross Margin in Q3 to be flat compared to the prior year. We expect continued strong underlying product margin expansion reflecting the strength of our product pipeline. However, that expansion will be largely offset by tariffs in North America and investments in our supply chain. In addition, foreign exchange headwinds

within Gross Margin will be more in-line with what we reported back in Q1. The impact of geopolitical trade dynamics on FX and more recently tariffs do create quarterly anomalies.

That said, as we all know, one quarter or one data point does not equate to a trend. Over the past two years, our Gross Margin expansion has significantly exceeded our goals but for these dynamics. And again, for the full year, we continue to expect 50 to 75 basis points of gross margin expansion.

We see continued strong fundamental expansion in our margin fueled by our strong product pipeline and the higher rate of growth in Nike Direct. In Q3 we expect SG&A growth in the low double-digit to low-teens range driven by our decision within Q2 to shift demand creation into the second-half in order to amplify the NBA All-Star Weekend, European Championships, the Tokyo Olympics and our launch of innovative new products. We expect our Effective Tax Rate to be in the low-to-mid-teens range.

For OIE, net of interest expense, we expect income in Q3 to be roughly \$50 million to \$75 million. Q2 was another strong quarter fueled by execution of the Consumer Direct Offense by our unrivalled team around the world. That said, as Mark will continue to remind all of us, there is no finish line. We are still in the early stages of this transformation at Nike with tremendous growth potential ahead of us. I could not be more excited about the future for Nike.

With that, we'll now open-up the call for your questions.

QUESTION AND ANSWER SECTION

[Operator Instructions]

Our first question comes from Bob Drbul with Guggenheim.

<Q – Bob Drbul>: Hey. Good afternoon, and, Mark, good luck on the next chapter, and thanks for all of the help over the last numerous years. It's been a lot of fun.

<A – Mark Parker>: Thanks, Bob. Appreciate that.

<Q – Bob Drbul>: I guess the first question I have is if we could just talk a bit in the quarter, but can you talk a little bit about the North American Apparel market and sort of the performance and/or the outlook and sort of some of the assumptions there's been a lot of press recently around the MLB partnership that you are launching right now.

<A – Andy Campion>: Yeah, I'll take that one, Bob. Overall, I'll start just overall with our apparel business. We've got incredible momentum in the apparel business overall. Globally, apparel grew 10% in the quarter, and frankly, we think we have much greater opportunities ahead that we haven't even yet capitalized on and we've spoken quite a bit about that. Our international geographies growth has been phenomenal. Sportswear and Jordan are leading the growth in lifestyle apparel for both men and women. In North America in particular, the rate of growth in the quarter was impacted by prior-year comparison, so in the prior-year, this may sound like not that significant of an impact, but it actually was. The shift of LeBron James to the Lakers and the initial impact from the sale of his jerseys was significant, but for that, the growth rate in North America would have been more in the mid-single-digit range.

For context, what I would tell you is that in the prior-year, North America apparel actually grew 10% in part aided by that comparison, so we continue to feel one, both great about the state of our apparel business and Brand in North America, but at the same time, nowhere near satisfied in terms of the opportunities ahead that we have to really drive more epic growth in apparel.

<Q – Bob Drbul>: Got it. Okay. And then if I could just ask a follow-up for Mark, sort of a closing question for you. With all the attention on the Vaporfly, NEXT%, I was just wondering, can you just share with us how much you shaved off your personal record or personal best with the pair of shoes that you've been using?

<A – Mark Parker>: Okay. Well, I could just tell you that the time it takes me to walk across the NIKE campus here, at headquarters, has dropped by at least 4%. So, I'm feeling good about it. Feeling really good.

<Q – Bob Drbul>: Great. Thank you very much. Good luck.

<A – Mark Parker>: Thank you, Bob.

Matt Friend>: Thanks, Bob. Okay. Operator, we're ready for the next caller.

Operator: Your next question is from Paul Trussell with Deutsche Bank. Your line is open.

<Q – Paul Trussell >: Good afternoon. Great results, and my congratulations as well to you, Mark.

<A – Mark Parker>: Thank you.

<Q – Paul Trussell >: Wanted to touch on gross margins. A number of puts-and-takes going on. Maybe just touch first on what transpired in the second quarter especially relative to your expectations and maybe give a little bit more detail around the updated kind of third quarter and second-half guidance. Thank you.

<A – Andy Champion>: Sure. I'll start with that one, Paul. In the quarter, as you know, our Gross Margin expansion landed about as close as we've ever been to the guidance that we provided, so at the same time, there are some really important highlights to call out within our margin. Our gross pricing margin as we call it, so that's our average selling prices net of product costs were very strong. We had strong average selling price increases thanks to the strong product pipeline that we have and the innovation that we've been bringing to market.

Of course, some of the other impacts in the quarter include tariffs. Tariffs in the quarter were roughly 40-50 basis point impact. Obviously pretty significant if you were to add that back alone, so that's the second impact I'd call out. We also continue to make investments in our supply chain. A little bit of detail there. We're expanding our distribution center capacity in the Memphis and Mississippi areas to increase both capacity and speed, especially with our growing digital business and omnichannel strategy with online to offline services. We're expanding some apparel distribution capability in EMEA, which again is reflective of just the great opportunity we see ahead in apparel, and the momentum that we have in that market. Tokyo and Mexico City are also areas we're investing in our supply chain.

We've invested more broadly across our entire supply chain and putting RFID in our product. We now have RFID in about 100% of our footwear, about three-quarters of our apparel and for a little context the benefits of that are still to come, so the RFID is in the product, the ability to scan in the distribution centers is significant with at least eight of our distribution centers having that ability. We're still in the early stages of rolling out the ability to leverage that in stores but it's happening, but more in the dozens of stores.

FX was an impact, although that's one of the things I'll end there, by saying, if there are a lot of puts-and-takes within margin in any given quarter and I would tell you not to focus on a quarterly margin expansion result especially in these times, as indicative of a trend. The real trend is strong gross pricing margin, the shift toward NIKE Direct, the ability to capture more full-price sell-through et cetera. But if I was to give you one of the more distinctive variances between Q3 and Q2, FX was in maybe the 15-basis point headwind zone in Q2 and we see the impact of FX being more in-line with what we saw in Q1, which is say roughly 50 basis points, so that alone more than equates for the difference between what we delivered in Q2 and guidance.

<Q – Paul Trussell >: That's helpful color. Thank you. Maybe turning now to SG&A. Just maybe talk a little bit more about the timing shift and just also how should we be thinking bigger picture as we move towards all of these key sporting events, especially the excitement around Tokyo 2020 as it relates to demand creation expenses, and how maybe some of that will be offset by where you're finding some efficiencies in the operations? Thank you.

<A – Andy Champion>: Yeah, I guess what I'll start by saying is if you reflect on Q2, we both had stronger revenue than we expected going into the quarter and obviously what you can infer is we felt less of a need to spend demand creation in the quarter to drive it. We've got an incredibly strong pull market and just had and have great momentum. And so, in the spirit of realizing we've got unrivalled resources in this industry. It's even more important then, when we see an opportunity, to really leverage those resources in a focused way. We make decisions and shift real-time, so we looked at the situation and said we didn't need that demand creation in Q2. We want to save that powder so to speak for the big events and the big launches that we have in the second half of the year and going into fiscal year 2021, so that's really the biggest driver of that shift in SG&A.

To your question about Tokyo. Mark's probably the best person to give color on how excited we are about the product, but you can infer from us wanting to shift, part of demand creation is getting our voice out there and communicating the benefits of our product and how excited we are, and we, in fact, are. That's why we've deferred that demand creation.

<A – Mark Parker>: Yeah, I'll just quickly add that the excitement around Tokyo is tremendous here at NIKE in terms of what's coming in the innovation pipeline. I mentioned the performance product that we have coming for Tokyo both in footwear and apparel, and then we're leveraging that across Sportswear, and I think for men and women, so it's really a Complete Offense plan around Tokyo and we think that we have to Andy's point a lot to leverage with that demand creation spend. This is a big moment for us. This is every four years and we really rally around this event in a major way. So, the impact on the revenue you're going to see in the year but you're also going to see it carry on and influence our potential going forward.

<Q – Paul Trussell >: Thank you.

Operator: Your next question comes from Alex Walvis with Goldman Sachs. Your line is open.

<Q – Alexandra Walvis >: Good afternoon. Thanks very much for taking the question here. So, first question is on North America footwear. A strong acceleration in that category in the region during the quarter. Can you go into a little bit more detail on what's driving that from a styles and channels perspective and perhaps any feedback from your partners on the new styles that are selling into that channel?

<A – Mark Parker>: Yeah, I speak to Complete Offense quite a bit, and the second half of the fiscal year, we're really trying to dial up our offense particularly in the core product, footwear product innovation space and some of the new styles we have coming there I think will give us a real boost in the second half. The reaction from retailers has been very positive in terms of some of the new styles we've got, including the React product that we have coming. It's a new version of React called Infinity React Run which is actually a high-performance shoe that we think will give us more access to that core runner. We have new core Running styles coming in underneath that, as well, both in Men's and Women's styles.

We also have Air Max coming down into the core price range, selectively leveraging the Air Max platform. We have others. If you look at some of the other styles, we've got on the Sportswear side, we've got Dunk, Blazer, the MJ product ...the MJ Air Jordan 1. Our Air Force 1 continues to be actually very strong for us. We're continuing to iterate new styles on both those franchises, and with the addition of the Blazer and the Dunk in the mix we think that'll continue to create some good momentum for us on the footwear side. So, it's really a more Complete Offense for the second-half on footwear with a big emphasis on core for us, particularly in our own channel in the Digital Direct space so we think that's going to be a good boost for us.

<Q – Alexandra Walvis >: I'm super glad. Thanks very much and second question if I may, is on Converse. Really strong momentum in that brand now for another quarter. Can you talk about what's driving the growth rate there? And then it seems to be that that is focused on international regions. Is there anything you can share on the outlook for North America and whether that can meet the growth rate seen elsewhere?

<A – Mark Parker>: Yeah, much of the growth in Converse is being led by international, specifically, Asia Pacific really led by China. And then we're also seeing strong performance in EMEA, and much of that also is driven by digital. So, we're seeing incredible momentum for Converse really starting to build in those markets.

We have some gaps to close in North America. I think we are continuing to differentiate our product line beyond the Chuck and I think that will create some more opportunities for us in Basketball. We're looking at Running and some other dimensions of the Converse Footwear portfolio. Apparel as well. We are seeing by the way strong growth in North America for Converse in the digital space, so we think that's a sign of some optimism for us, for Converse in North America going forward, and I think the expansion of our digital platform for Converse is going to be a driver globally. Certainly, led currently by China, but we'll start to see that happen more and more in North America and for Europe.

<A – Andy Champion>: And I'd just add one thing, Mark spoke about, adding diversification relative to the Chuck business. We've got some real momentum within the Chuck franchise, in particular driven by a style called the Chuck 70 which is growing really strong double to triple-digits in at geographies. In fact, it's already a pretty significant percent of total Chuck business in markets like China and elsewhere, and it's ramping up quickly in the U.S. So, we see great energy in terms of as Mark would say providing more choice and differentiation within a style that has the kind of expansive opportunity that the Chuck has. And that is a more premium version of the Chuck which also kind of raises the tent pole and adds to the opportunity to expand on that franchise.

<Q – Alexandra Walvis >: Thank you.

Matt Friend>: Okay. Thanks, Alex. Next question, operator?

Operator:

Your next question is from Omar Saad with Evercore ISI. Your line is open.

<Q – Omar Saad >: Yeah, thanks for taking my question. Congrats on the great run, Mark.

<A – Mark Parker>: Thank you.

<Q – Omar Saad >: So, while I have you in a reflective mood, I'd love to hear your thoughts on two things. Number one, the decision to terminate the Amazon trial. Maybe if you could get into a little bit into the why and what might get the Nike Brand to come back, and the second question I have, as the NIKE, Inc. CEO and having seen the various evolutions of the portfolio, do you think NIKE is going to be a multi-brand or a mono-brand company 10 years from now. And the reason I ask this on the one hand you're talking about kind of shedding some of the legacy assets and you've divested Hurley but on the other hand you're talking about describing these amazing kind of technologically enabled capabilities from back-end to front-end and it feels like maybe there's an opportunity to plug some great brands into your platform and leverage what you've built so would love your kind of musings on those two topics. Thanks.

<A – Mark Parker>: Yeah, well, we have a clear framework for partners in the digital space, and what's guiding us is really to be in the path of the consumer in a way that's really right for the brand. We continue to see, just on a macro basis, great momentum with our partners, including partners like Instagram and Google and Tmall and WeChat. So, Brand-Right is really what's important here, and that's building those relationships with the consumer through better presentation. I think elevated, authentic consumer experiences on whatever digital platform and this means insuring that we have an environment where the consumer can be certain that they're buying authentic NIKE product from authorized retailers, so that's been our focus is to really to elevate the brand, strengthen the connection with the consumer, much like we do with the differentiated wholesale strategy so that's kind of led us to our decisions in terms of moving forward.

We have, your second question on multiple brands or one brand, mono-brand, I would say pretty convincingly or confidently that we will be a multi-brand company in the future. We have multiple brands now: NIKE, Jordan, Converse. We see tremendous upside potential with those brands. We're in the early stages of strengthening our portfolio and expanding our portfolio within the Jordan Brand. Obviously, Sportswear is very strong. Performance Basketball is more upside. Other performance categories, there's upside. Apparel, Women's, international growth. So, there's tremendous growth opportunity within that Jordan Brand for NIKE.

And then Converse, likewise. I think as we just talked about as we diversify that portfolio, strengthen our position in North America, tremendous upside, I think for the Converse brand and taking some of that pressure off Nike to be everything to everybody. I think that's important, and then we can leverage our capabilities, our digital capabilities for example, across that portfolio. And then I think as we transform our operating model, we'll enable more and more opportunity for the broader NIKE portfolio.

<Q – Omar Saad >: Congratulations on a job well done.

<A – Mark Parker>: Thank you, Omar. Thanks very much.

Matt Friend>: Operator, one last call before we wrap up.

Operator:

Our last question comes from Matthew Boss with JPMorgan. Your line is open.

<Q – Matthew Boss >: Great. Thanks. Nice quarter, and, Mark, congrats on the transition.

<A – Mark Parker>: Thank you.

<Q – Matthew Boss >: So, with five straight quarters of double-digit constant-currency revenue growth I guess maybe at a higher-level, Mark, what do you see that's been driving the upside versus your high-single-digit growth algorithm and what's your confidence in the multiyear product and innovation pipeline to sustain this stronger momentum?

<A – Mark Parker>: Well, I can honestly say I've never been more confident than I am right now. What's driving those results, those consistently strong results are not only the innovative product that really is where the consumer votes ultimately, so the product has to be strong, the Complete Offensive of products, Footwear and Apparel up and down the price points, across the categories, Men's and Women's. I think we've been driving a more Complete Offense and much of that has been driven by the innovation that represents so much more of the percentage of our revenue growth than it had even just a few years ago so that's absolutely critical.

And then of course, I'll say it, we get teased for saying digital transformation as much as we do but it's clearly driving some incredible results for us and I sit here today firmly believing and more confident than ever that that will continue to drive great opportunity and upside for us and I'm excited to have John come in and be a part of accelerating that transformation for us going forward. It's going to be, to me, a win-win situation between the incredible team we have on the field today, John with his expertise, my guidance, continue to focus on things that I think are really important for the company, particularly in the innovation, design, product, marketing space. I think those continue to be core fundamental driving principles for NIKE, and that's exciting for me going forward.

And then last thing I'll say is what's really driving all of this, all of the above, is the team that we have here. We have incredible talent at Nike. Not only individual talent across the company, the functions, the geos, the categories, but the collective team and how that team comes together. It's really, the chemistry of the team is one of those things that doesn't get talked about in business very often, but we have great chemistry, an incredibly competitive, driven team, and that ultimately is what's going to drive the success of any company, and that's certainly, the case here at Nike.

<Q – Matthew Boss >: That's great. Well said. Congrats again on the quarter and to you, Mark.

<A – Mark Parker>: Thank you.

Matt Friend>: Thanks, Matt, and thanks, everyone, for joining us today. We look forward to speaking with you next quarter. Happy holidays to everyone.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect.