REMARKS AS PREPARED FOR DELIVERY

Q2FY24 NIKE Inc. Conference Call

December 21, 2023

[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2024 second quarter conference call. For those who want to reference today's press release you'll find it at investors.nike.com. Leading today's call is Paul Trussell, VP of Corporate Finance and Treasurer.

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

[PAUL TRUSSELL]

Thank you, operator.

Hello everyone and thank you for joining us today to discuss NIKE, Inc.'s fiscal 2024 second quarter results.

Joining us on today's call will be NIKE, Inc. President, and CEO John Donahoe, and our CFO, Matt Friend.

Before we begin, let me remind you that participants on this call will make forward-looking statements based on current expectations and those statements are subject to certain risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties are detailed in NIKE's reports filed with the SEC.

In addition, participants may discuss non-GAAP financial measures and 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 up for questions. We would like to allow as many of you to ask questions as possible in our allotted time. So, we would appreciate you limiting your initial question to one. Thanks for your cooperation on this.

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

[JOHN DONAHOE]

Thank you, Paul, and hello to everyone on today's call.

Nike is the market leader in sport. It's a role we take seriously.

We create innovation that pushes human potential. We expand the world of sport, inviting new generations all around the globe into the community of athletes. And we fuel the energy and excitement of sport itself, both on the global stage and on the ground in communities and cities everywhere.

One thing that distinguishes Nike more than any other brand in the world is that we get our inspiration from athletes and sport.

And it was a great quarter for Nike and the athletes who inspire us. Here's just a few examples:

Kelvin Kiptum broke the marathon world record wearing the AlphaFly 3, which builds on our proprietary system of speed that continues to set the standard.

A'ja Wilson earned WNBA Finals MVP after leading the Las Vegas Aces to their second straight title.

LeBron James and Anthony Davis led the Lakers to the first-ever NBA In-Season Tournament championship.

Aitana Bonmati won the Women's Ballon d'Or.

And Sha'Carri Richardson was named USA Track & Field's Female Athlete of the Year.

Being inspired by world-class athletes like these keeps us focused on redefining what's possible. That's what sets us apart. No one changes the game like Nike, from our breakthrough innovation for toddlers with the Swoosh 1 shoe to being able to elevate beloved product like Kobe's into an entire franchise to NBA players increasingly choosing to play in the Sabrina 1, a shoe deeply resonating across gender. Again and again, it's Nike that pushes what's possible to break the status quo.

In addition to creating best-in-class innovation, great companies must also focus on strong execution.

That's what we did in Q2, delivering our second $13 billion quarter, this one on top of last year's extraordinary 27% growth. And we drove more than 20% growth in earnings per share this quarter. Simply put, this is the result of relentless execution by our team in an uneven macro backdrop.

Looking at holiday, we outpaced the industry, driving growth of close to 10%. Nike Digital had its strongest Black Friday week ever, and a record number of consumers shopped in our stores over the long Thanksgiving weekend.

In Greater China, brick-and-mortar grew double digits during the National Day Holiday. And Nike once again outperformed the industry during Double 11 as the No.1 sport brand on Tmall.

These holiday results when combined with Q2's earnings growth and continued healthy inventory showcase how we're executing against our priorities, even in the face of a highly promotional environment and increasing macro volatilities.

Last quarter, I talked about how we're getting back on our front foot accelerating the flow of our innovation and executing with excellence across our winning formula of innovative product plus distinctive storytelling plus differentiated marketplace experiences.

Let me give you a few examples of where we've demonstrated progress:

Within our Running business, we're driving deeper connections with the running community.

We recently launched our most innovative Trail shoe yet, the Ultrafly, at the world's pinnacle Trail race. We hosted over 1,000 runners for a unique Nike experience, which drove energy and positive feedback from both elite runners and the broader trail running community.

And we partnered with top RSG doors for a series of community activations centered on Ultrafly and other key products like Peg Trail and Wildhorse.

All this led to growth of over 20% in our Trail running portfolio for the quarter.

In Global Football, we're fueling growth through strategic, "only-Nike" athlete storytelling.

We have a three-silo construct in Men's Football, having paired Erling Haaland with the Phantom boot, Jamal Musiala with the Tiempo and Kylian Mbappe and Marcus Rashford leading the Mercurial.

With the game's greatest showcasing our product superiority – and our seamless execution to pull this innovation through the marketplace – all three franchises are up strong double digits even lapping last year's strong performance with the Men's World Cup.

And in Lifestyle, we're driving a Women's-led geo-by-geo marketing acceleration behind V2K a standout shoe in our fast-growing retro Running line.

It's being fueled by a tongue-in-cheek campaign that's resonated with this consumer and a creator partnership strategy that's delivered head-to-toe style inspiration into her preferred media channels.

All this catalyzed the V2K to very strong sell-through in the quarter, with exciting potential for this style still to come.

All three of these examples offer an early indication of the growth we aspire to. We have real opportunity to drive progress across many dimensions of our businesses, and that's our priority moving forward.

At Nike, we like to say we're on the offense, always. When we see something that needs solving, we don't wait around. We solve it.

And so, as we look to the future, we know where we must focus. Three areas will always drive our distinction and competitive separation: product innovation, storytelling that connects and marketplace execution.

When Nike is at its best, we create impact on a scale that can't be matched: grounded in sport centered in youth culture inviting consumers around the world into our brands.

The second half of FY24 represents the start of a multiyear product innovation cycle that will introduce new franchises, concepts, and platforms – elevating our full portfolio.

While there will be some key moments in the second half, this new innovation cycle will take some time to fully ramp up, given our size and scale.

We know we have an outsized opportunity to drive long-term profitable growth. And we have areas of significant growth potential like Women’s, Jordan Brand and Running each of which requires focused investment to reach full potential.

We also must get deeper traction on our key speed initiatives. Today we know we must be faster: increasing the pace of innovation increasing the pace of market-to-consumer and increasing our agility and responsiveness.

To drive this, we will embrace a significant savings plan to create investment capacity to fuel profitable growth at speed and scale. Areas of potential savings include simplifying our product assortment, increasing automation and use of technology, streamlining our organization and leveraging our scale to drive greater efficiency.

Let me just acknowledge that this work will be led with respect and thoughtfulness as we move to improve the ways in which we work and build a leaner and stronger company for the future.

Matt will provide more detail on this later on the call.

Now, we have made some progress as we look to accelerate growth in our businesses. Let me walk through two key areas where we’re investing for further growth: our Women’s business and Jordan Brand.

Both Women’s and Jordan are opportunities that are grounded in performance and drive culture and lifestyle with the latter providing even greater scale and growth opportunities.

First let's discuss Women's, which just Nike Brand, excluding Jordan and Converse is already a roughly $9 billion business. It's a business that's grown high single digits on average over the past three years.

And while we're encouraged by this progress, we now have line of sight into what we believe to be the best plan we've ever had to accelerate growth in Women's. Our plan makes us even more confident in serving her through sport and style.

Today, about 40% of our members are women consumers. They make up a bigger proportion of new members and their demand per member is growing faster. We see great opportunity to better serve this consumer by responding to her needs across the spectrum of performance and lifestyle.

First let me touch on performance, where we're focused on innovating for her to create new opportunities we did not previously serve. We've now built a collection of bras and leggings across different price points. This includes our statement leggings: Zenvy, Go and Universa, which are all above $100, a price point we were not previously in.

These leggings serve her with a whole new approach to fit and comfort thanks to new material innovation. We're also holistically elevating our retail presentation and storytelling to help her find the right product for her exact needs.

More and more women are joining our brand by purchasing these leggings. All told, statement leggings fueled our fitness apparel growth in Women's for the quarter.

In footwear, we're seeing strong sell-through for Motiva a shoe with a comfortable and distinctive design that shows how we've dimensionalized performance into walking. And Free Metcon is performing very well serving her need for versatility by expanding a fitness shoe into comfortable everyday wear.

At the same time, looking at Women's lifestyle, we have established our leadership position in Women's sportswear through a focus on style and comfort with iconic franchises like Air Force 1, Dunk, Court and Fleece, all of which drive continued momentum with new energy and design.

We're also fueling the rapidly growing retro Running trend with our portfolio of styles like Vomero 5, V2K and P-6000. In fact, even with us sequentially increasing the supply, demand for this entire line is so strong that there remains tremendous opportunity to grow further. We're excited to scale these styles over the next few seasons.

Today, we're taking the right steps to serve our women consumer with energy and sharpness. We are fully aligned and accelerating our offense to raise our game, with an eye to the immense opportunity we see going forward.

Finally, let's discuss Jordan Brand, which is on a clear path to become the No. 2 footwear brand in North America, the biggest brand not named Nike. We're fueling the strong momentum in Jordan by growing a "Monday to Friday" business with a more diverse product portfolio on top of our very successful "launch" business.

Over the past few years, we've driven strong growth in the Jordan business by bringing more dimensions into the brand. We're proving that Jordan can be more than retro more than footwear more than Men's and more than North America – an approach to growth we'll continue to bring to life over the coming years.

This is just the beginning for Jordan Brand, as we see even greater growth potential through our plan for deeper investment, which for Jordan will come in areas like merchandising, marketing and marketplace.

Today, Jordan Brand performance product is outpacing overall growth, with Jordan re-igniting its on-court presence in basketball with its strongest signature portfolio ever, as Tatum, Luka and Zion push the brand to new heights, both on and off the court. Jordan is also expanding beyond basketball into – for example – golf, Global football and American football.

And Jordan Women's and Kids continues to lead the brand's overall growth. Women's and Kids business share within Jordan have increased seven points over the past three years. And Jordan Apparel is now a roughly $1 billion business, averaging almost 20% growth over the past three years.

We're building new dimensions in the iconic AJ1 franchise across High, Mid and Low … as well as through Women's-led dimensions such as the Elevate and the Brooklyn Boot.

I also want to spotlight Jordan's strategic approach and success with its Remix footwear line, which has already surpassed the $1 billion annual revenue mark with high double-digit growth. Led by styles like the Max Aura and Stadium 90, Remix has increased Jordan's accessibility through more affordable price points and an expanded distribution with key partners.

And last but not least, Jordan's share from international markets continues to increase, as we bring the brand to global cities in an authentic way. This has shown up as we pilot the "Jordan destination" tab in the Nike commerce app in EMEA with strong early results. And Jordan World of Flight doors in Milan, Tokyo and Seoul have emerged as the company's most productive retail concepts.

The sky is the limit for Jordan – as we continue to invest and explore what's possible for one of the world's leading brands.

In the end, we are moving with confidence against the opportunities we see. Looking ahead to the next calendar year, we remain single-minded in our focus to compete and win – and I wouldn't trade our position with anyone.

With that, I'll turn the call over to Matt.

[MATT FRIEND]

Thanks John, and hello to everyone on the call.

Nike's second-quarter financial performance reflected our proactive marketplace management and disciplined execution, with tremendous delivery by our teams in a dynamic environment.

Revenue was up slightly versus the prior year, growing 1% on a reported basis, as we compare to 17% reported and 27% currency-neutral revenue growth one year ago.

Gross margins expanded despite a highly promotional marketplace. And combined with disciplined SG&A management, earnings per share and free cash flow accelerated.

As I said last quarter, we believe we are turning the corner in driving more profitable and sustainable growth.

At the same time, there were a number of puts and takes in the quarter. So, before I walk through our financial results, let me share some perspective on our performance in light of current macro and consumer trends, as well as additional insight into our business direction.

As you recall, we moved proactively in the prior year to liquidate excess inventory and reduce wholesale sell-in for the first half of Fiscal '24. And while this dampened our reported revenue growth through Q2, total retail sales in the quarter grew across the marketplace, on top of double-digit growth in the prior year.

ASPs were up across both footwear and apparel, and AURs grew across channels. Average order values among Nike members increased versus the prior year. Our higher-priced products, in particular, have been resilient, with our $100-plus footwear models driving strong growth in units sold across the marketplace. And overall, we have maintained lower markdown rates than many of our competitors.

In the most impactful consumer shopping moments, Nike's brand strength created even greater separation. We delivered market-leading results in Greater China on Double 11. And over the Black Friday and Cyber Week period, Nike Direct grew approximately 10% across North America, EMEA, and APLA.

In Q2, Nike Direct once again led our growth, and wholesale shipments exceeded our expectations.

Having said that, we are seeing indications of more cautious consumer behavior around the world, in an uneven macro environment.

Total retail sales across the marketplace fell short of our expectations, with softer demand outside of the key consumer moments. While Nike Store traffic continued to grow, we saw softness in digital traffic, and higher levels of promotional activity across the marketplace.

As a result, we are adjusting our channel growth plans for the remainder of the year.

Looking to our product portfolio, our top franchises continue to drive strong full-price sales, but we intentionally manage the lifecycle of these models across the marketplace for long-term value. Given the promotional environment and the cautious consumer behavior that we are seeing, we are stepping up our plans to reduce marketplace supply of our key franchises.

Our goal is to focus Nike's brand heat and energy on what is new as we accelerate our product innovation cycle. We have seen encouraging signs from recent consumer activations around some of Nike's latest innovations and newness, and we intend to accelerate our pace through the Paris Olympics, and beyond.

While this will initially take some time, we are confident in our pipeline – and the product journeys, stories, and consumer energy to come.

As you heard from John, our priority is to drive sustainable and profitable long-term growth while building a faster, more efficient Nike.

Since Fiscal ‘19, our investments in accelerating Nike’s Consumer Direct vision have created new operating capabilities… added tens of millions of new members to our member base and delivered a return of more than $12 billion of incremental revenue.

However, we have also added complexity and inefficiency.

In this competitive environment, we need to accelerate our pace of innovation, elevate our marketplace experiences, maximize the impact of our storytelling, and increase our speed and responsiveness – all in service of the consumer.

To do this, we are creating investment capacity to fuel Nike’s next phase of innovation, growth, and profitability.

We are identifying opportunities across the company to deliver up to $2 billion in cumulative cost savings over the next three years – both up and down our P&L, and across our value chain.

Some examples include: simplifying our product assortment, improving supply chain efficiency, leveraging our scale to lower the marginal cost of operations, increasing automation and speed from data and technology, streamlining our organizational structure, reducing management layers, and enhancing our procurement capabilities.

As we look to drive greater efficiency and productivity, we will re-allocate and invest the majority of these savings to deliver the greatest consumer impact on our largest growth opportunities. Ultimately, we believe that building a faster, more efficient Nike will accelerate future growth and innovation, and deliver long-term profitability – creating value for years to come. We will continue sharing updates over the coming quarters.

Now, let me turn to our NIKE, Inc. second-quarter results.

In Q2, NIKE, Inc. revenue was up 1% on a reported basis and down 1% on a currency-neutral basis, following our strong topline growth one year ago.

Nike Direct grew 4%, with Nike Stores up 9% and Nike Digital up 1%, while Wholesale declined 3%.

Gross margins expanded 170 basis points to 44.6% on a reported basis, driven by strategic pricing actions, lower ocean freight rates, improved supply chain efficiency, and modest markdown improvements; partially offset by higher product input costs. This included impact from approximately 60 basis points of unfavorable changes in net foreign currency exchange rates.

SG&A grew 1% on a reported basis, favorable to our expectations, through disciplined expense management and some shifts in timing of spending.

Our effective tax rate for the quarter was 17.9%, compared to 19.3% for the same period last year.

Diluted earnings per share was 1 dollar and 3 cents, up 21% year-over-year.

Nike inventory dollars are down 14 percent versus the prior year, and down high-single-digits versus the prior quarter. In total, Nike inventory dollars are down over $1.5 billion dollars from the peak at the end of Q1 in the prior year, with days in inventory continuing to improve. Total footwear and apparel inventory units across the marketplace are down double-digits versus the prior year.

Now, let me turn to our operating segments.

In North America, Q2 revenue declined 3%, with Wholesale down 9% versus the prior year. Nike Direct grew 3%, with Nike Stores up 4% and Nike Digital up 2%. EBIT grew 2% on a reported basis.

This follows extraordinary growth in Q2 of Fiscal ‘23, with North America revenue up 31%, Nike Direct up 23%, Nike Digital up 31%, and Wholesale up 37%.

This quarter, we saw mid-single-digit retail sales growth with key partners, including Dick’s Sporting Goods, JD/Finish Line, and Hibbett.

Jordan and Women’s led our momentum in the marketplace. Within Jordan, Remix footwear grew double-digits; and the AJ11 “Gratitude” release delivered the Brand’s largest shock drop ever. Within Women’s, Dunk, Free Metcon, and our $100-plus statement leggings delivered strong growth.

In addition, Structure 25 and Vomero 17 – our latest updates for everyday runners – drove positive response from consumers and running specialty partners.

In EMEA, Q2 revenue declined 3%, with Wholesale down 8%. Nike Direct was up 7%, as Nike Stores grew 8% and Nike Digital grew 7%. EBIT declined 6% on a reported basis.

As a reminder, this compares to tremendous growth in Q2 of Fiscal ’23, with EMEA revenue up 33%, Nike Direct up 44%, Nike Digital up 62%, and Wholesale up 28%.

Against the backdrop of increased macro headwinds, we saw strong consumer response to newness and premium innovation. Our winterized running products drove positive sell-through, along with strong growth from Invincible, VaporFly, and Ultrafly.

Mercurial, Phantom, and Tiempo grew double-digits. And our retro running styles – including V2K, P-6000, and Shox – continue to energize the marketplace.

In Greater China, Q2 revenue grew 8%, and Wholesale grew 19%. Nike Direct declined 4%, with Nike Stores growing 16% and Nike Digital declining 22%. EBIT grew 1% on a reported basis, with multiple points of impact from foreign exchange.

On the whole, we are seeing a highly promotional marketplace with increased macro headwinds, especially on digital.

That said, Q2 was another strong quarter in brick-and-mortar, with continued improvement in full-price sales, and sales in Nike owned and partner doors growing mid-teens. We also continue to see strong momentum with key strategic partners, including Top Sports and Pou Sheng. And Nike continues to strengthen its lead as Chinese consumers' number-one cool and favorite brand.

Turning to our product portfolio, performance outpaced lifestyle this quarter, with innovation and hyperlocal storytelling resonating with consumers. We saw strong momentum in basketball, fitness, retro running footwear, and winterized apparel. Locally-inspired Express Lane collections – including our street dance-inspired Dunk, and hyperlocal Pegasus releases – were top choices for consumers. And overall, our inventory remains healthy, with units down and improved markdown rates versus the prior year.

Looking ahead, we continue to closely monitor the operating environment. However, we remain confident in Nike's brand strength, our deep consumer connections, and our foundation for long-term growth in China.

In APLA, Q2 revenue grew 10% and Wholesale grew 7%. Nike Direct grew 15%, as Nike Stores grew 17% and Nike Digital grew 14%. EBIT grew 7% on a reported basis.

Southeast Asia & India, Korea, and Mexico grew double-digits, leading a record quarter for the geography. Our Flipkart and Myntra platforms drove strong growth in India… Korea led record Member Day sales in the geography… and Mexico accelerated its digital momentum over the Buen Fin shopping holiday.

We saw strong momentum across our portfolio, led by Jordan and Kids. Jordan Brand delivered strong growth in Remix footwear, AJ1 essentials, and signature basketball. In Kids, lifestyle and global football grew double-digits, with positive momentum from All-Kids Fleece, Court Borough, and Mercurial. All told, our team executed with tremendous focus and agility to deliver our Q2 results, while managing through volatility.

Last quarter, as I provided guidance, I highlighted a number of risks in our operating environment, including the effects of a stronger U.S. dollar on foreign currency translation, consumer demand over the holiday season, and our second-half wholesale order books. Looking forward, the impact of these risks is becoming clearer, and as a result, we are adjusting our full-year financial outlook.

Looking to the balance of the year:

We expect Q3 reported revenue to be slightly negative, as we again compare to double-digit growth in the prior year, and Q4 reported revenue to be up low-single-digits, with full-year reported revenue now growing approximately 1%.

This new outlook reflects increased macro headwinds, particularly in Greater China and EMEA; adjusted digital growth plans, based on recent digital traffic softness and higher marketplace promotions; lifecycle management of key product franchises; and a stronger U.S. dollar that has negatively impacted second-half reported revenue versus 90 days ago.

I will also remind you that we had approximately 400 basis points of headwinds from supply disruptions and accelerated liquidation in the prior year. We expect increased gross margin expansion in our second half, with Q3 margins expanding 160-180 basis points, and Q4 margins expanding 225-250 basis points. We continue to expect full-year gross margins to expand 140-160 basis points. This reflects benefits from strategic price increases, improved ocean freight rates, and supply chain efficiency; partially offset by higher product input costs and approximately 60 points of impact from foreign exchange headwinds.

We expect full-year SG&A growth to improve to low single-digits, excluding restructuring charges, as we continue to tightly manage expenses and improve productivity and efficiency. Specifically, we expect SG&A dollars in both Q3 and Q4 to be modestly above our first-half run rate, excluding the charge.

We anticipate a restructuring charge of $400 to $450 million in our second half, primarily related to severance costs, which will be recognized largely in Q3.

We expect full-year SG&A, including the charge, to grow mid-single-digits.

We now expect other income and expense, including net interest income, to be $275 million to $325 million for the full year.

We continue to expect our full-year effective tax rate to be in the high-teens range.

Taken all together, strong gross margin execution and disciplined cost controls are enabling us to offset softer second-half revenue and drive earnings growth. Excluding restructuring charges, we expect to deliver on our prior full-year earnings outlook.

While we expect the operating environment to remain dynamic, we have been here before, and we know that moments like this are when Nike operates and executes at its best. We will stay on the offense, manage risk, optimize opportunity, and leverage our strengths to create even further competitive separation.

As we move forward, our focus is building a faster, more efficient Nike – and embracing the opportunities in front of us to accelerate sustainable and more profitable growth.

So with that, let's open up the call for questions.

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