

## **PREPARED REMARKS / UNOFFICIAL TRANSCRIPT – Q4FY22 NIKE Inc.,**

***June 27, 2022***

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### **[Operator]**

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2022 fourth quarter conference call. For those who want to reference today's press release you'll find it at [investors.nike.com](https://investors.nike.com). Leading today's call is Paul Trussell, VP of Investor Relations and Strategic Finance. Before I turn the call over to Mr. Trussell, 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, [investors.nike.com](https://investors.nike.com).

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 2022 fourth 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](https://investors.nike.com).

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

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 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.

This quarter Nike celebrated our 50<sup>th</sup> anniversary. On May 1, 1972, Nike became its own company, a new standalone brand with its own mission and vision. As Phil Knight put it recently, back then all we had was a dream, a ton of ambition, a trunk full of shoes and a big Swoosh on all of them.

Over the 50 years since, Nike has been a growth company. For five decades now, we have innovated for athletes, redefining sport for generation after generation.

Today, we are the biggest champion in the world for athletes and for sport. We have inspired a global community, and remain driven by the power of sport to create a better world.

This spring, we've been celebrating our 50<sup>th</sup> anniversary across the globe. And these moments have been particularly special, as many of us have now returned to our workplaces. It's been great to see the collaboration and creativity, as we strengthen our culture of innovation, team, and community. I have personally loved feeling the energy of our teammates bring back together again.

In fact, I got to feel that energy, not just on our campus here in Oregon, but also across Europe when a group of us visited our team there a few weeks back. After years a couple of virtual meetings, it was great to finally spend time with our European teammates in-person.

Another highlight from the visit was touring our European Logistics Center in Laakdal, Belgium, getting to see first-hand how efficiency and sustainability help us serve our consumers while minimizing our environmental impact. And I loved getting a chance to spend some time with some of the players of England's women's national football team, the Lionesses, who were inspiring as they prepare for the Women's Euro Champs in England this summer.

Seeing our European teammates in-person again reminds me of how deeply grateful I am for all of our roughly 79,000 global teammates. As we conclude this fiscal year, our NIKE, Inc. team has navigated so much together – working with commitment and resilience to serve our consumers and our communities.

And our teams have proven their ability to be unrelenting in executing against the macro complexities, while also building our future. In particular, I want to acknowledge our Greater China team, who have managed the business through a challenging period for them and their families. I've said it before and I'll say it again: this team is the greatest collection of talent in the world, and I sincerely thank them.

This fiscal year, and certainly this past quarter, macroeconomic challenges have created a dynamic environment. And yet, looking at our full fiscal year 22 results, it's

clear that our strategy is working, and that Nike's unique competitive advantages continue to drive the business.

Today we are better positioned to drive sustainable, long-term growth than we were before the pandemic. Over the past two years we have transformed our business, building a muscle that won't just help us navigate future adversity, but one that gives us the ability and the agility to continue to drive our growth. We now have a proven operational playbook, with many levers at our disposal.

FY22 posed operational headwinds throughout the year. But we continue to invest. As other companies have pulled back, our investments have made us stronger. We're excited by what we see as we look at our growth opportunities and the strong consumer demand we continue to enjoy.

As we look ahead to FY23, we remain very confident in our long-term strategy and our growth outlook. Our structural tailwinds include the expanded definition of sport; the societal movement toward comfort and health & wellness; and the fundamental shift in consumer behavior toward Digital, continue to create energy for us.

These advantages, along with our size and scale, the strength of our portfolio of brands, and having the right strategy, give us the confidence to move even faster against the opportunities we see ahead.

Nike's growth has been, and will continue to be, the result of three areas I'll walk through today.

First, our brand deeply connects with consumers, fueled by authenticity in sport and compelling storytelling.

Second, our culture of innovation drives a continuous pipeline of new product.

And third, we continue to have a competitive advantage in Digital, as one of the few brands that can connect with and directly serve consumers at scale.

Let's start with the strength of the Nike Brand. You've heard me say that these are times when strong brands can get stronger, and that has never been more clear than it is today.

Our passion for sport continues to drive our deep connections with consumers. While visiting our team in Europe, I was able to attend the "Nike vs Nike" FA Cup Final, which Liverpool won in a thrilling penalty shootout over Chelsea at Wembley Stadium. In April, Scottie Scheffler won the Masters, and earlier this month Rafael Nadal won his 14<sup>th</sup> French Open. And it's been a great month for basketball, as the WNBA season kicked off and an incredible NBA season concluded. The power of our full portfolio of brands was felt with Nike Basketball highly visible as the official supplier and partner for both leagues, and Converse and Jordan showing up proud in the NBA Finals with Draymond Green and Jayson Tatum, respectively.

It was also a quarter defined by a series of "Only Nike" moments, none bigger than the April unveiling of the Serena Williams Building here on our campus. This 1-million-square-foot building is the new home for our design and product creation teams. More than 200,000 square feet is dedicated to lab space, which allows our innovation and product creation teams to test new ideas in developing, presenting, and merchandising product. Along with the LeBron James Innovation Center that opened last fall, these facilities represent the single greatest investment in sports science, research, innovation, and design in the world.

Also in the quarter, we were thrilled to launch the Nike Athlete Think Tank, which brought a group of female athletes together on our campus to share their experience and insight. The 13 athletes, including Serena, Sabrina, and Shalane, also selected community organizations that Nike will help fund through grants. Soon, we plan to grow the Think Tank, creating even more long-term impact at the grassroots level fueled by our goal of empowering the next generation of women in sport.

This quarter, we also connected with our consumer through a powerful brand campaign, tied to our 50<sup>th</sup> anniversary. The film, directed by and starring Spike Lee, celebrates Nike's past ... and the promise of our future. The film was complemented by programming across our app ecosystem, Nike.com, social media and more to incredibly strong consumer response. In fact, our 50<sup>th</sup> anniversary campaign led to the highest Nike commerce app traffic in our history, even higher than some of the major commercial moments of the past, which once again shows how brand heat can translate to member engagement. We saw particular energy with Gen Z, as our campaign song went viral on TikTok, reaching number one on the list of top trending TikTok songs.

Another "Only Nike" moment in Q4 was the launch of "No Off-Season," our podcast focused on mental health and starring athletes including Karl-Anthony Towns and Laurie Hernandez. We created this podcast to help redefine sport for a new generation as another new and creative way we drive relationships with consumers with an energy and scale as only Nike can.

And finally, we began the next chapter of our relationship with Kobe Bryant and his family this quarter, as we launched a new Kobe shoe that pays honor to Gigi Bryant, with all profits donated to the Mamba and Mambacita Sports Foundation. This was a launch with deep global resonance, from LA to Shanghai, with much more to come as we continue to build our Kobe business within our portfolio of signature franchises.

My second point today is our relentless pipeline of innovative product, which continues to drive separation between us and our competition. No other brand has our ability to resource, solve and scale in response to a consumer opportunity. In Q4, we again introduced new performance innovations to the market, including new footwear technology from both Nike Women's and the Jordan Brand.

In Women's, we launched the Nike Spark Flyknit, a new lifestyle shoe that introduces Nike Running's latest innovation: the Spark cushioning system. Spark offers a new

sense of comfort and energy return through its dual-density foam midsole. The Spark Flyknit is one of the first projects from our Nike Sports Research Lab focused on injecting performance technology into lifestyle products – in this case, responding to consumer insight requesting a women’s shoe for those who are on their feet all day. Moving forward, we will be scaling our use of performance innovation into lifestyle footwear, with a special focus on the opportunity we see in the Women’s business.

And in Jordan, this quarter Luka Dončić debuted his hotly anticipated Luka 1 signature shoe during the NBA playoffs. The Luka 1 introduces a brand-new performance foam called Formula 23, which provides a lightweight, responsive ride befitting one of the game’s best players. Formula 23 is one of the most sustainable performance foams ever made by NIKE, Inc. and Jordan now plans to scale it across its product line, including into its next Air Jordan shoe.

And speaking of sustainability, we continue to scale our industry-leading solutions in this space. In April, we launched new sustainable iterations of two footwear icons: the Pegasus Turbo Next Nature running shoe and the Mercurial Vapor Next Nature football boot, both of which are made with at least 50% recycled content by weight. Next Nature continues the work we started with Space Hippiie, with plans to scale even further across our franchises.

And we’re also innovating how we reduce waste, beyond individual products and franchises. This led to the Nike Re-Creation Program, in which vintage and obsolete products are collected and used to create new locally designed and manufactured products. The program, which combines design, retail, and distribution launched in LA, with plans to expand to London and Paris in FY23, building a local ecosystem in all three cities. We know circularity is the future of sustainability, with these local ecosystems creating the exciting beginnings of a fully circular infrastructure at Nike.

And looking ahead, we’re excited to soon introduce a new platform that we believe has the potential to change the apparel industry, a new material that brings together scale,

innovation, sustainability, and design like only Nike can. This material isn't a knit or a woven, and it significantly reduces environmental impact through fewer carbon emissions and by not using water or dyes. We believe this platform could do for apparel what Flyknit did for footwear. Its first products will be unveiled this September, and we can't wait for you all to see it.

Now for my third and final point today: Nike's increasing Digital advantage. With an owned digital business that grew 18% in fiscal 22, we continue to set the pace in our industry by creating a premium, consistent and seamless experience that drives one-to-one consumer experiences at scale.

This quarter, our app ecosystem grew into an even greater share of our total Digital demand, helping our Digital share of the business reach 24% in Q4. This is a shift being led by the consumer, as they pursue the most personalized shopping experience Nike provides. We do not take lightly the choice made by consumers to put us in the most prized real estate that exists today: the home screen of their phone. No other brand occupies that space globally like Nike – it remains one of our biggest competitive advantages.

Moving to physical retail, we continue to bring to life our vision of giving consumers personalized digital experiences regardless of channel. We know consumers expect us to know who they are online or offline and across the full array of monobrand stores, Nike Digital, and our wholesale partners.

Within our Nike-owned stores, higher levels of connectivity across physical and digital are simply driving a better consumer experience. Online-to-offline services, such as "buy online pick up in store" and "ship from store," are driving growth, with 100% of our North America stores now offering at least one element of O2O.

In addition to our owned physical retail, we continue to innovate and co-design partner experiences and business models to better know and serve consumers. We started this



journey through connected inventory to provide better allocation, extend product choice for consumers and reduce frictions such as products being out of stock.

Increasingly, we're moving beyond inventory to a broader approach of knowing and serving our consumers as Nike members, particularly when shopping through our retail partners. As you know, this is a journey we announced in Q2 through our partnership with Dick's Sporting Goods to connect member accounts and then we continued in Q3 with NSP partners in Greater China.

And with clear success so far in knowing our shared members better, our strategy expanded in Q4 to serving our shared members one-to-one through connected data. Consumers are responding to the meaningful benefits we're now testing, and we'll continue to extend the best of Nike to our members across the marketplace with additional partners and expanded services in FY23.

At the same time, our growing participation in new digital platforms continues to expand access points to Nike across the digital ecosystem.

After last quarter's first official Nike NFT collaboration with RTFKT, we took another step on our journey to serve our community with innovative virtual products in Q4. Our first co-branded "virtual sneaker," the RTFKT by Nike Dunk Genesis Cryptokicks continues our connection with an audience that will help shape the future of sport and culture.

In the end, as we look to a new fiscal year, Nike will do what we've done for 50 years now: and that's stay on the offense. We have a proven playbook, and our unique strengths and competitive advantages give us even more confidence about our future. Our focus is on the long-term, and we're not slowing down.

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

**[Matt Friend]**

Thanks John, and hello to everyone on the call.

NIKE's 50<sup>th</sup> year has been a year of transformation. Through dynamic conditions, our team has remained focused on what we can control – continuing to lead with speed, agility, and responsiveness. Most importantly, we've stayed focused on accelerating our strengths, and building NIKE for the future.

In this environment, what guides us is a relentless focus on creating value for our consumer. And what fuels our confidence is the way our consumer is responding.

Fiscal '22 was our largest revenue year ever, even with supply constraints challenging our ability to serve consumer demand. We are optimistic as we enter Fiscal '23, with our source base fully operational, production surpassing pre-pandemic levels, and inventory flowing again into our largest geographies.

As we set the foundation for another year of strong growth, I'd like to provide some broader context around our strategic transformation.

Two years ago, we introduced a bold new phase of our strategy: our Consumer Direct Acceleration. In the early months of the pandemic, we set our sights beyond simply navigating through short-term volatility. Instead, we outlined a clear vision to pursue even further competitive separation – by expanding our digital advantage, re-shaping the marketplace of the future, and creating deeper, more direct consumer relationships.

Today, NIKE's continued momentum shows that our strategy is working. As we look forward, let me briefly highlight three of NIKE's foundational elements for long-term value creation: our global portfolio, our consumer-led digital transformation, and our expanding direct-to-consumer operational capabilities.

First, one of NIKE's greatest strengths is our unrivaled global portfolio. Together, Nike, Jordan, and Converse represent three of the world's most connected consumer brands,

dimensionalized across sport and lifestyle, footwear and apparel, up and down price points, throughout geographies, at the center of cultural relevance.

Today, Nike is the #1 cool and #1 favorite brand in all twelve of our key cities around the world, leading as the champion for athletes and sport. With a sharpened consumer construct across Men's, Women's, and Kids', we're deepening our sport focus... expanding our product pipeline... and accelerating our long-term growth potential. The next chapter of our partnership with Kobe Bryant and the Bryant family is just one example of how we continue to bring new energy and dimension to our portfolio.

Jordan Brand's momentum has also been unstoppable, with some of the most exciting young athletes in sport, and some of the most iconic products in the world. Since Fiscal '20, Jordan Women's has tripled, international geographies have grown over 60%, and apparel has grown over 50%. Now with approximately \$5 billion in revenue, Fiscal '22 was Jordan's biggest year ever, with epic growth potential ahead.

Converse also delivered incredible milestones in Fiscal '22. Product and storytelling through the lens of youth and creativity are resonating deeply, with growing strength among women consumers. As Converse scales its digital offense and invests in new product creation, the impact is clear – with global revenue approaching \$2.3 billion, total digital penetration reaching 27% globally, and EBIT more than doubling since Fiscal '20.

Across all three of our brands, we're driving a more direct, digital, and differentiated future. I wouldn't trade our position with anyone.

Next, our consumer-led digital transformation is driving long-term growth and value.

A more digitally connected NIKE is a more valuable NIKE. Today, our owned digital business – representing over \$10 billion in revenue – is more than double in size versus pre-pandemic levels. After increasing market share and gaining 3 percentage points from prior year, NIKE Digital now represents 24% of total Brand revenue.

More importantly, we are accelerating the pace and scale of NIKE's direct consumer connections. With growing digital traffic and NIKE App downloads, our apps now represent almost 50% of total digital demand. In turn, increased digital engagement is translating into more repeat buyers, a higher buying frequency, and increased average order value – ultimately driving higher lifetime value through membership.

As retail consolidation continues, and consumers converge around fewer digital platforms, a distinct NIKE consumer experience is driving more direct connections – positioning us well for long-term growth.

Lastly, we are transforming our operating model with new capabilities in order to move at the speed of the consumer.

This year, we will begin to see value from our biggest investment in NIKE's digital transformation: our new ERP. As we shift to an increasingly direct-to-consumer future, a new ERP will be foundational for increasing speed and agility across our supply chain. This will give us real-time visibility to inventory across our network, plus dynamic transactional capabilities to optimize consumer demand and inventory productivity. We will go live with our new ERP in Greater China in July, and continue building and testing in North America for deployment in Fiscal '24.

We will also see a new consumer marketing offense in action in Fiscal '23. Through new capabilities activated in partnership with Adobe, we will unlock additional productivity in demand creation and member retention across our NIKE ecosystem. We have started testing audience segmentation in North America with real-time data and personalized journeys on the NIKE App, with plans for further expansion in the coming months.

In Greater China, we are also accelerating our digital capabilities, building on our 40-year history in the market with an ecosystem from China, for China. In Fiscal '23, we will deliver a new suite of commerce and sport activity apps – deepening our connections

with Chinese consumers through an enhanced user experience, including locally-relevant features across our digital apps, services, and our owned and partnered retail stores.

Finally, we continue to scale our Express Lane, which combines hyperlocal consumer insights with improved responsiveness and speed to market. In Fiscal '22, Express Lane drove approximately 25% of total NIKE brand revenue with higher profitability. We expect to build Express Lane into a larger portion of our business in Fiscal '23 and beyond.

Now, let me turn to our NIKE, Inc. fourth quarter financial results and operating segment performance.

In Q4, NIKE, Inc. revenue declined 1% and grew 3% on a currency-neutral basis. This was led by 11% growth in NIKE Direct, offset by a 3% decline in wholesale. NIKE Digital grew 18%, fueled by strong demand across our app ecosystem.

Fourth quarter reported gross margins declined 80 basis points versus the prior year. This was primarily due to specific actions taken to manage supply and demand in Greater China following COVID-related disruption, as well as elevated freight and logistics costs. Headwinds were partially offset by benefits from strategic pricing actions, favorable foreign currency exchange rates, improved NIKE Direct margins, and a higher full-price mix.

SG&A grew 8% in Q4, primarily due to strategic technology investments, increased NIKE Direct variable costs, wage-related expenses, and increased demand creation expenses.

Our effective tax rate for the quarter was -4.7%. This was due to a shift in our earnings mix and a non-cash, one-time benefit related to the onshoring of our non-U.S. intangible property.

Fourth quarter diluted earnings per share was \$0.90. This includes a \$0.10 non-recurring, non-cash charge related to both the deconsolidation of our Russia operations, as well as the transition of our Argentina, Chile, and Uruguay businesses to a strategic distributor model.

Finally, inventories were \$8.4 billion, up 23 percent compared to the prior year period. This was driven by elevated in-transit inventories due to extended lead times from ongoing supply chain disruptions, partially offset by strong consumer demand.

Now, let's move to our operating segments.

In North America, Q4 revenue declined 5% and EBIT declined 18%, in line with expectations, as we lapsed supply shifts in the previous year. Elevated ocean freight and logistics costs continue to dampen near-term profitability in this geography.

NIKE-owned inventory grew 30% versus the prior year, with extended lead times causing in-transit inventory to be 65% of total inventory at the end of the quarter. Wholesale revenue declined 12% due to inventory supply constraints. Strong marketplace demand drove closeout units down double-digits versus the prior year.

NIKE Direct grew 5% versus the prior year, delivering its highest quarterly revenue ever. Marketplace channel growth was led by 11% growth in NIKE Digital, with another quarter of historically low markdown rates and lower available inventory supply. NIKE Digital total penetration reached 27% for the quarter, led by strong NIKE App growth.

Even with lean available inventory, our power franchises continued to resonate deeply. Pegasus led the way for performance footwear, Jordan launch delivered a record-breaking quarter, and Classics such as Dunk and Blazer drove strong full-price growth. Meanwhile, we continue to test and learn across our newest retail concepts, such as our Nike Live doors, which are increasing member buying among women.

In EMEA, Q4 Revenue grew 20% on a currency-neutral basis. EBIT grew 63% on a reported basis, with broad-based growth across channels, consumer dimensions, and product engines. NIKE Direct grew 25% on a currency-neutral basis, powered by healthy retail traffic as we anniversary COVID-related closures from the prior year. NIKE Digital grew 21%, driven by positive launch sell-through, improved full-price selling mix, and lower markdown rates.

Sport continues to power our EMEA marketplace, highlighted by growth in running and fitness, performance franchises such as Metcon and Mercurial, and apparel launches such as the Alate Bra in Women's.

Looking ahead, EMEA will kick off the most unprecedented 12 months of global football in NIKE's history, starting with Women's Euro Champs this summer, Men's World Cup in the fall, and Women's World Cup next summer. NIKE is meeting the moment with a complete offense, including new kit launches, new training and lifestyle assortments, and new Mercurial, Tiempo, and Phantom footwear innovations across Men's, Women's, and Kids.

Next, I'll provide some deeper color around our results in Greater China.

In Q4, revenue declined 20% on a currency-neutral basis, and EBIT declined 55% on a reported basis. This follows the region's most widespread COVID disruptions since 2020, impacting over 100 cities and over 60% of our business.

As conditions shifted, our experienced local team acted quickly and decisively. We leveraged a diverse logistics network and strong local partnerships, returning to 100% capacity at our Central Logistics Center within three weeks. Our marketplace team also adjusted inventory to meet digital demand. As a result, NIKE Digital landed Q4 with low single-digit growth.

Despite a dynamic operating environment, NIKE extended its leadership position as Chinese consumers' #1 cool and #1 favorite brand. We saw this translate into positive business impact on Nike TMall Super Brand Day, which drove 90% member demand penetration and nearly 1 billion impressions. NIKE also created clear separation on 6/18 as the undisputed #1 store and #1 brand on TMall's sport channel, outperforming the market. In addition, as lockdowns lifted in specific trade zones in late April, May and early June, we saw improved store traffic and overall consumer demand.

Key footwear franchises continue to win in the marketplace, led by GT Cut as the number-one style in performance basketball; and Pegasus 39, which drove strong results in Men's and Women's running. Express Lane also drove incredible sell-through with locally-inspired launches, such as the Air Force 1 Low Bow and the head-to-toe Street Dance pack in footwear and apparel.

As I mentioned earlier, we took specific actions in Q4 to recalibrate forward-looking supply and demand, prioritizing the return to a healthy pull market by the end of the second quarter. While there may be near-term risk of further COVID disruption, longer term, we continue to be encouraged by another quarter of brand momentum in the marketplace.

As we turn to APLA, Q4 Revenue grew 24% on a currency-neutral basis and EBIT grew 31% on a reported basis, reflecting our largest quarter ever in the geography. We saw double-digit currency-neutral growth across Korea, Mexico, Southeast Asia and India, and Japan.

NIKE Direct grew 43% on a currency-neutral basis, led by 59% growth from NIKE Digital. Membership fueled double-digit growth across all territories, as our SNKRS App drove its best-ever quarter in Japan, Korea, and Mexico.

We also saw our biggest quarter yet for Women's, led by performance running, Classics, and lifestyle apparel. Kids led the way within NIKE Digital, up nearly 100%



from last year. We're expanding sport for a new generation – driving strong results with proven franchises such as the Court Borough, plus newer innovations such as Dynamo Go.

Now, I'll turn to our financial outlook for Fiscal '23.

We enter the year confident in our brand strength; consumer connection; product pipeline; and normalizing inventory supply into a healthy pull market in North America, EMEA, and APLA. We continue to see momentum against our largest growth drivers and our most iconic product franchises.

At the same time, we are closely monitoring consumer behavior and the implications of high inflation on near-term economic growth and consumer demand. We are also taking a cautious approach to Greater China, given uncertainty around additional COVID disruption. As such, we have factored various risk scenarios into our guidance for Fiscal '23.

We expect Revenue for the full year to grow low double-digits on a currency-neutral basis, partially offset by foreign exchange headwinds of approximately 400 basis points. In the first quarter, we expect real-dollar Revenue growth to be flat to slightly up versus the prior year, due to COVID disruption in Greater China, and more than 500 basis points impact from foreign exchange translation.

We expect gross margins to be in the range of flat to declining by 50 basis points versus the prior year, with a wider-than-usual range reflecting our consideration of a number of scenarios. We expect to benefit from mid-single-digit pricing actions and continued gains from our shift to a more direct business, offset by another 100 basis points headwind from elevated ocean freight costs, increased product costs, discrete supply chain investments, and normalization of historically low markdown rates.

We expect foreign exchange to be a 30-basis-point headwind on gross margin due to strength in the U.S. dollar, largely offset by favorable hedge rates versus current spot rates.

We expect gross margin pressure to exceed 100 basis points in the first quarter of Fiscal '23 – both as we recalibrate supply and demand in Greater China... and as we anticipate higher promotional activity to sell seasonal inventory which has arrived late due to a combination of factory closures and longer transit times.

We expect SG&A to increase high single-digits to low double-digits, as we continue to invest in our people, our brands, new stores, and transformational capabilities.

And lastly, we expect the Fiscal '23 effective tax rate to be in the mid-teens range.

As we move forward, we will stay focused on what we can control, and continue managing the business for the long-term.

This includes leveraging our scale and financial strength... optimizing supply and demand... and most importantly, creating value for our consumer – from the products we design, to the stories we tell, to the experiences that we deliver.

Our Consumer Direct Acceleration is working. Our long-term vision has never been more clear. And if there is anything that 50 years of growth have proven, it's that with the right team, and the right strategy, the future is ours to create.

On that note, I'd like to close with a heartfelt thank you to the team that makes it all possible: the people behind the art, science, and magic of NIKE.

Our team is, and always will be, NIKE's greatest competitive advantage. And as proud as we are of all that NIKE has achieved over the past 50 years, what excites us most is what comes next.

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

**[Operator]**

Our first question comes from Bob Drbul with Guggenheim. Your line is open.

**[Bob Drbul]**

Hi. Good afternoon. I was wondering if you could maybe just comment some more around China. I think when you look at what's happened over the last few months and even more recently with the re-opening, just exactly how you're balancing the compares that you're facing versus the concerns that you have over the next few quarters.

**[John Donahoe]**

Yeah, Bob. Let me start simply by saying we're continuing to do what we always done. As you know, Nike's been in China for 40 years. We've always taken a long-term view and to be clear, we believe that China remains a growth market with significant potential to unlock and we've got very strong equity with Chinese consumers, our team I think Matt mentioned it, I mentioned it. Our team has just done a phenomenal job over the last 10 weeks but also over the last several years, and the fundamentals haven't really changed, so delivering innovation and inspiration and locally relevant ways is what the Chinese consumer cares about.

I was talking with Angela a couple weeks ago. She said they just done some additional research and the market, Gen Z loves innovation and inspiration and that's what we're delivering. Our cool, Nike's brand is the number one cool brand. It's increased its strength in Beijing, over the past year, driven by Chinese New Year and Beijing Olympics.

Nike Digital ended the quarter with growth so our direct connection with consumers, and as Matt mentioned, we're going to digital, local digital apps in the coming six months and then our product, the localized product through our Express Lane continues to drive great energy. I think Matt mentioned the Pegasus, the Dunk, the GT cut, basketball

shoe, huge heat for that, Air Force low, so we continue to think that has huge potential and we're going to continue to invest in that, and then ensure that we are building China for China with our tech stack, with our hyper local technology center, and ability to link and serve that Chinese consumer, and so we're taking a medium to long-term view and we're as confident today as we ever have been, and coming out of this, lockdown we're seeing increased energy from the Chinese consumer.

**[Matt Friend]**

Yeah, and I just would add, Bob, that we entered the fourth quarter positioned for a strong quarter, on building brand momentum in the marketplace, and our fourth quarter results were impacted by COVID-related disruption and lockdowns impacting over 100 cities and about 60% of our business.

As we looked at the dynamics in that particular marketplace and the risk of ongoing disruption in the first half of fiscal 2023, we decided to prioritize the health of that marketplace and as we've learned from experience over the years, having a healthy pull marketplace in a monobrand marketplace like Greater China is critical to brand health and long-term growth and so we made the decisions to recalibrate supply and demand in the fourth quarter, and that included reducing our inventory buys at the factories for forward seasons, we took some reserves on our existing inventory and we also planned for some investment in promotional activity with our partners, because we expect that as the marketplace re-opens it's going to be more promotional and so those were the charges that and the impacts that we had in the fourth quarter, in order to prioritize that inventory health and pull market by the end of Q2.

As John said, and some of the examples I gave, we continue to see brand strength growing and consumer connection and we're seeing it in our brand strength results and also in the way the consumers engaging with our brand. We invested in the brand this quarter again for the third straight quarter, and we're seeing impact of that on our business and as lockdowns lifted in specific trade zones, in late April, May and early June, we saw improvement in traffic and strong overall consumer demand, so we're

trying to take the decisions the right decisions for the marketplace to position us for growth over the long-term and despite the short-term disruptions, we're increasingly confident in our local market strategy and our ability to fuel long-term growth in the China marketplace.

**[Bob Drbul]**

Great. Thank you very much.

**[Operator]**

Our next question is from Michael Binetti with Credit Suisse. Your line is open.

**[Micheal Binetti]**

Hey, guys. Thanks for taking our questions here. Just a few on the model quick and a bigger picture question, I guess. If we can get a sense of SG&A in the first quarter I think we got it for the year, a little bit of help there, and then I guess it looks like you're guiding to or at the high-end of the revenue algorithm for the year despite the caution that you mentioned to us on China in the first part of the year. Maybe just a thought on what parts of the portfolio over grow those long-term rates you gave us last year-in the year just so we can think about that alongside you, and then I guess just a little bit more on your thinking on structural margins in China over the long- term. Obviously, you took some actions in the quarter. We see the output here in the margins but how should we think about those as you move into things like a new ERP system and into a better pull market? Thanks.

**[Matt Friend]**

Sure. I'll go ahead and take that question. Why don't I start by just saying that as we mentioned last quarter, we thought that the variables that were coming together were positioning us for another year of strong growth in fiscal year 2023, and it really reflects, Michael, the power of Nike's portfolio.

Inventory supply is normalizing against a healthy pull market across North America, EMEA, and APLA, and we've seen three consecutive quarters now where consumer demand has significantly exceeded available inventory supply, and so when we look at our brand strength and momentum, our product pipeline against some of the biggest growth opportunities that we have, we think we're well-positioned for growth in fiscal year 2023.

Having said that, we did take a cautious approach to Greater China, and we're doing that because as we look at what disrupted our performance in the fourth quarter, and focusing on what we can control, we felt strongly that prioritizing a healthy pull marketplace is the right action for us to take, given the ongoing risk that we see in that marketplace, but longer-term, we continue to believe that the growth potential that we see in that marketplace is significant, so underlying drivers of growth we feel quite confident we continue to closely monitor consumer behavior and we're not seeing signs of pullback at this point in time and so we continue to execute the strategy and the plan we have which is working.

As it relates to SG&A, you know what I would say is just that we're planning for high-single-digit to low double-digit SG&A growth for the full year and that's really us continuing on this multiyear investment plan that we have to create the capabilities that we need to be able to serve consumers directly and personally at scale and that is an operational transformation that is underway, and we're already starting to see proof points of benefit against it. We're working really hard to prioritize our resources, to fuel the things that are going to enable long-term growth and shift resources away from places that are legacy ways of operating but we continue to feel confident that the things that we're investing in are going to be driving, are driving business benefit and we're starting to see some of that come to life at the end of this fiscal year and heading into fiscal 2023.

As far as your last question about structural margins in Greater China, there isn't anything that we see at this point in time that would lead us to not, lead us away from

the profitability that we've seen. Obviously, this quarter, we took some actions in order to manage our inventory and to be able to carry forward our plans in fiscal 2023 and beyond.

In the first quarter we're just anticipating that the marketplace is going to be promotional, and so we've made some adjustments to our plans around markdown rates and partnership with our wholesale partners to ensure that we clear some of the inventory that isn't owned by Nike, but that's in the marketplace, but beyond that, our focus is on getting to a healthy pull market by the end of the second quarter and I think as we look longer-term the fundamental drivers that are driving our profitability in the Consumer Direct Acceleration strategy more direct and more digital is going to fuel profitability expansion in Greater China too, and our ERP is frankly the backbone that's going to enable us to take advantage of those opportunities at a more significant way.

**[Operator]**

Our next question is from Aneesha Sherman with Bernstein.

**[Aneesha Serman]**

Hi. Thanks for taking my question. So in the past you've talked about a sizable gross margin benefit from the shift towards the direct business, and it's been hard to see that this year with a lot of other moving parts, but if you were to strip out the supply chain and the FX and other moving parts, are you seeing an underlying mix benefit from that move and should we, are you still confident that as some of these transitory costs rollout off that you're still on track to get to that high 40s gross margin target in a few years?

And then another quick question on gross margin is you talked about markdowns normalizing, so given the commentary around premiumization of the assortment, higher percent direct and digital, I would have expected you to have a lot more control over markdowns and pricing this year than say a couple of years ago so is that a fair assumption we should expect markdown breadth and depth to settle at a kind of

permanently lower rate given the tighter control over the channel that you have now?  
Thank you.

**[Matt Friend]**

Sure. Well, let me start on the gross margin by talking about what we saw in the fourth quarter, and I think it will help bring some light maybe to the broader question. Our gross margins were down 80 basis points in the fourth quarter, and that is really reflective of two elements. From an operational perspective, if you look at the growth that we saw in Nike Direct and the expanding margins that we saw both in Nike Direct and Nike Digital and a higher full price selling mix overall, our gross margins would have expanded over 100 basis points in the fourth quarter.

The decision that we took in Greater China, the specific actions that we took in Greater China, had a 200 basis point impact on Nike Inc.'s Q4 margins, so when we look at the underlying health of our business and the margin expansion that we see attributed to the shifting business mix from wholesale to more direct and more digital, we are seeing it, and the financial benefits that come from it in our gross margins.

Since fiscal year 2020 our gross margins are up over 260 basis points and that includes in fiscal year 2022 100 basis point headwind from elevated ocean freight costs. We're paying about five times the rate that we paid pre-pandemic to put product in a container on a boat and move it from Asia to the U.S., so up 260 basis points with 100 basis points of a headwind.

As we look ahead to fiscal 2023 and our guidance were flat to decline 50 bps we're planning for mid-single-digit price increases. We're planning for additional expansion from our growing Nike Direct business and our digital business, which we believe will continue to lead our channel growth, but that's being offset by another 100 basis points of ocean freight, so if you take 2022 and 2023 together it's about a 200 basis point impact on a two-year basis from paying those higher-rates to move product from Asia to our other geographies, and that has a significant impact on where we are today relative to where we would be.



We still believe in the high-40s gross margin goal. We believe those costs are transitory in nature, but we expect it's going to take a few years to revert so we're planning for that accordingly.

On the last part of what you said about markdowns here is what I'd say. We've planned for a normalization of full-price realization and markdown rates in fiscal 2023. For the last year, we've seen full-price realization in three of our geographies to be over 70%, whereas our long-term goal was to be at 65% full-price realization.

As we think about the markdown rates that associated with that, we also saw both in our channel partners and in our own business historically low markdown rate because of the lower available supply. We think that that will start to normalize over this year and given some of the uncertainties and the risk scenario planning that we've done around our guidance for 2023, that's what's helping to drive this wider range that we're providing in our gross margin guidance for 2023.

As far as the longer-term goes as I mentioned, we continue to believe in that high-40s number and we're going to be, it's going to be fueled by this ongoing consumer-led shift to direct-to-digital.

**[Operator]**

The next question is from Gabby Carbone with Deutsche Bank. Your line is open.

**[Gabby Carbone]**

Hi. Good afternoon. Thanks for taking our question. Moving to fiscal 2023, wanted to dig into the overall product flows of what you're seeing around lead time if you're seeing recent improvements there and then was just wondering if you can elaborate on-demand and how you feel about the product pipeline moving ahead. You mentioned in your prepared remarks that you're expanding it.

**[Matt Friend]**

John, you want me to go first? Look, we continue to see transit times be elevated relative to pre-pandemic levels. It's about two weeks longer than where we were. This is specifically in North America, we're about two weeks longer in the low-80s days in the fourth quarter relative to where we were in the fourth quarter of last year, and that's obviously having a big impact on our in-transit inventory and the flow of goods into the marketplace.

Right at the end of the quarter we did start to see a little bit of improvement vis-a-vis the boat backlog at the West Coast ports, but at this point in time given all the variables that we see there, we're not planning for a significant improvement in-transit times in fiscal 2023, so we're managing our inventory accordingly. We're making decisions about our assortment, product lifecycles, we're taking some of our styles to season less so that we can manage it on more of a rolling basis, and we'll continue to leverage the experience that we've had over the last few years, navigating through this environment from a supply chain complexity and congestion perspective.

**[John Donahoe]**

And, Gabby, on product innovation pipeline, it's funny you ask that. We've had about two weeks ago, our first in-person VP meeting in two years, and because we hadn't been together in person, and no one had seen physical product, we had six different rooms and built on the new Serena Williams Building that had our full innovation pipeline for the next three years. Nike, Men's, Women's, Kids, performance, lifestyle, by every sport, Jordan room, Converse room, and I'll tell you, everyone walked out excited by the breadth and depth of the innovation pipeline.

It was almost overwhelming to be honest, when you see it all-in-one place, and so you saw some recent examples of the spark Flyknit which is what's really interesting about that is more and more renovations are done for her, but can be leveraged by all. The ZoomX which is one of our most responsive foams yet that's for our entire Running line I mentioned Formula 23, next nature, and the sustainability innovations.

And so going forward, we're very excited. I changed a little bit about the apparel innovation coming, we think that's going to be a platform opportunity for us, more to come on that in the fall. The pipeline Matt mentioned this next coming year of global football with Euro champ Women's this summer, World Cup and the men's in the fall, Women's World Cup next year, the remarkable innovation both performance and lifestyle around global football, a sharper focus on running, the Jordan stuff both footwear and apparel, performance and lifestyle, but Converse room was like a hit because I think most people don't really get to see the full breadth and depth of Converse innovation, so we feel very excited about the innovation pipeline.

I will also tell you that our teams now they're back together in person, feel like the pace and level of innovation is just going to, and design, is going to just accelerate, so a lot of optimism on the innovation front.

**[Operator]**

Our final question today is from Lorraine Hutchinson with Bank of America. Your line is open.

**[Lorraine Hutchinson]**

Thank you. Good afternoon. Just hoping to get your thoughts on channel mix in the coming years as you think about wholesale versus direct, if there are any big call outs that you would make, obviously you're making the investment in technology. Would you expect that to return wholesale to a faster growth rate or do you think the direct business will continue to lead?

**[John Donahoe]**

Lorraine, we're going to be guided by the consumer. You heard me say before, the key to winning in this future is giving the consumers what they want, when they want it, how they want it, and consumers don't think about different channels. They just want a seamless and premium and consistent experience, so everything we're doing is to offer that to them and to make us indifferent, frankly, about where they transacted, so they'll

start their shopping on one of our mobile apps or online. Do their product investigation, or their looking.

They may go ahead and just buy one of our mobile apps or go into one of our stores because they want to try it on or if one of our partner stores is closer to them, a Dick's, they'll go there and try it on or if they are in a Dick's and they see what they want and they don't have it in-stock, we can fulfill it through our connected inventory, and so the whole goal is to give the consumers what they want when they want it how they want it and we believe we're building what will be a source of competitive advantage, that's grounded in having a direct connection with the consumer, a membership program is going to be strong whether it's through Nike Direct, owned and digital, and physical, or through our partners, and we achieve that, we then can give the consumer true choice, and the actual channel mix will land in its most natural place and will evolve in its most natural place.

**[Matt Friend]**

Yeah, I just would add that our wholesale revenue this year was depressed because we had to cut 130 million units of supply because our factories in Vietnam were closed for 12 weeks, and so if you look specifically to 2023, Nike Direct will lead our growth and Nike Digital will be our fastest-growing channel but we do expect to see wholesale growth look different, in other words turned and grow, based on available inventory supply flowing back into our geographies, and so we do expect to see wholesale growth in fiscal 2023.

I think as John said long-term, this is a consumer-led digital transformation, but I still think that our longer-term vision of Nike Direct representing approximately 60% of our business in digital, owned digital representing 40 is a trajectory that we are still on. We're seeing growth in our digital business that's exceeding what's happening in the marketplace. We're watching our own digital traffic and accelerating level of Nike app downloads that's driving more consumer engagement against our digital platform and that is driving growth and shift relative to the broader marketplace, and while we're up

about 9 points of business mix, versus FY 2020, we continue to believe that digital is going to be as John has said again and again and again, a fuel for growth for us over the next three to five years.

**[Operator]**

That concludes our question-and-answer session. I'll turn it over to Mr. Trussell for any closing remarks.

**[Paul Trussell]**

Yes, just want to say thank you to everyone for participating in our fourth quarter call. We appreciate you joining, and we look forward to speaking with you next quarter. Take care.

**[John Donahoe]**

Thank you, everyone.

**[Matt Friend]**

Thanks.

**[Operator]**

Ladies and gentlemen, this concludes today's conference call. Thank you very much for participating. You may now disconnect.