

REMARKS AS PREPARED FOR DELIVERY
Q1FY25 NIKE Inc. Conference Call
October 1, 2024

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[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s fiscal 2025 First 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 2025 First Quarter results.

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.

Joining us on today's call is one speaker NIKE, Inc. Executive Vice-President and Chief

Financial Officer Matt Friend.

We will start with prepared remarks, and then open up for questions. Today's call will be abbreviated as compared to past earnings calls. In order to allow as many of you to ask questions as possible in our allotted time, we would appreciate you limiting yourselves to one question.

I'll now turn the call over to Matt.

[MATT FRIEND]

Thanks Paul, and hello to everyone on the call.

Before we get into a review of the first quarter, let me acknowledge that we are reporting our results in a transitional moment, as John retires as President and CEO, and Elliott Hill joins us as our new President and CEO on October 14th.

First, we deeply appreciate John's contributions to Nike. He has served on our Board; led our company through a global pandemic and meaningful supply chain disruption; accelerated our digital transformation; and initiated new Nike community investments around the world. We thank him for all he has done to move Nike forward.

As we look ahead, we are excited to welcome Elliott back to Nike.

Elliott is a beloved Nike veteran who brings a powerful connection to our employees and culture, a deep love for our brands, and a passion for sport. Over his thirty-two years with the company, he built a proven track record of leading our global teams, brands and businesses, with significant experience in delivering growth by bringing product and storytelling with impact into an integrated marketplace.

Our Board believes that Elliott is the right leader to drive Nike's next stage of growth.

Having had the opportunity to work closely with Elliott for many years, he leads with a passion that inspires the best from the team. Our employees' response to this announcement has been tremendous. You can feel the energy and enthusiasm walking around campus, and we've heard nothing but excitement from our teammates around the world, including our alumni

network, as well as our partners. We all look forward to working with Elliott as he leads Nike's next chapter.

Given our CEO transition, and with three quarters left in the fiscal year, we are withdrawing full-year guidance.

We intend to provide quarterly guidance for the balance of the fiscal year.

This provides Elliott with the flexibility to re-connect with our employees and teams, evaluate the current strategies and business trends, and develop our plans to best position the business for Fiscal 26 and beyond.

To that end, we have also decided to postpone our investor day.

Now, let me turn the discussion towards our current business.

Nike's first-quarter results largely met our expectations set last quarter. We are moving aggressively to shift our product portfolio, create better balance in our business, and re-energize brand momentum through sport.

That said, a comeback at this scale takes time. And while there are some early wins, we have yet to turn the corner.

Today, I want to provide deeper insight into the trends we saw in our first quarter. Then, I will speak to the portfolio shifts that we are driving and the implications for our near-term performance. I will also touch on some of those early wins, including indicators to track our progress. And last, I will review our financial performance and Q2 outlook.

Let's start with a deeper look into the first quarter.

While Q1 revenue was largely in line with our plan 90 days ago, we delivered lower unit sales than we expected, partially offset by a higher ASP. Traffic declines across Nike Direct were more significant than we anticipated. We saw particular softness in traffic on Nike Digital, as well as in our partner stores in Greater China.

As a result, retail sales underperformed our plan, including with wholesale partners, slightly elevating marketplace inventories and requiring higher levels of promotional activity in Q1 to drive conversion.

This included the Back-to-school period, as our results underperformed the market. We saw store traffic improves in August and growth in factory stores in Q1, but the overall period fell short of our expectations.

However, Q1 showed that we took an important step forward as we shift our portfolio to create better balance in our business.

We have been intentionally reducing the proportion of our business driven by our classic footwear franchises: Air Force 1, Air Jordan 1, and Dunk. And as expected, Nike revenue in Q1 from these franchises decelerated, declining more than the total business, as we tightened marketplace supply. We expect this trend to continue tempering our reported revenue over the coming seasons.

Our timelines differ across each franchise, each geography and each channel. Overall, we have taken the most aggressive actions in Nike Direct, and especially Digital. In Q1, these franchises were down nearly fifty percent versus the prior year on Nike Digital, while we saw much better sales trends in wholesale. So, we are actively rebalancing product allocations to our highest-traffic channel, in order to maximize franchise health and full-price realization.

In the near term, this will have implications for certain dimensions of our business. Our Men's and Women's lifestyle business was planned down double-digits in Q1, and we expect these declines to continue through the year. The Jordan Brand was planned down double-digits this quarter, and we expect Jordan to be down at the same rate for Fiscal '25. And we expect Nike Digital to decline double-digits in Fiscal 25 versus the prior year.

Taken all together, these trends drove a mid-single-digit headwind on Q1 revenue.

As we look ahead, we are working to position new products in the path of the consumer, create scale for new ideas, and drive more balanced marketplace growth.

Partner feedback on our future product pipeline has been very positive. I had the chance to meet with many of them at our Partner Summit in Paris during the Summer Olympics, and directly hear their response to the products and stories that we have coming in our second half. We also gave them a sneak peek to what is coming in Fall 25, deepening confidence in our accelerated pace of innovation to build a more compelling future product pipeline.

Progress with partners will be accelerated with new brand momentum and creating new energy with consumers. But the multibrand environment is very competitive today, and it will take time to expand market share.

This was reflected in our spring '25 order books, which came in roughly flat versus the prior year, a little lighter than we had planned. Our teams are now hustling to close out the upcoming summer season, closely engaging our partners as we finalize bookings.

Now, let's turn to some of the early wins that we are seeing especially as our teams get back on the offense in sport with consumers.

This quarter, we saw growth in multiple sport dimensions an indicator that we are gaining traction. This was led by Men's fitness, Men's global football, and Men's and Women's running footwear.

In addition, two of our largest performance franchises Mercurial in global football and the GT Series in basketball delivered double-digit growth across all channels.

We are especially encouraged by the momentum building in our running offense. This has been one of our toughest fights over the past few years, and it is one of our biggest opportunities.

Our teams focused here first in driving our comeback. And more recently, Men's and Women's running footwear delivered positive growth in Q1, a meaningful improvement versus the prior quarter. The order book looking forward is strong, with Spring '25 footwear units set to grow double-digits versus the prior year. In North America, we were up double-digits this quarter

with running specialty partners and our holiday and spring order books will build on that strength.

We also just launched a new campaign one of our biggest running brand investments in years which will carry into fall and holiday. So far, consumer engagement has been strong. Meanwhile, our ground game activations are creating energy in running communities around the world.

In addition, our Pegasus 41 launch showed the impact that we create when we launch new ideas at scale, delivering mid-teens growth above last year's Pegasus model. And this is just the start, as we scale the franchise through multiple dimensions: Peg Trail, Peg Plus, and coming in spring, Peg Premium, which introduces visible, full-length Nike Air with more energy return than ever.

Most importantly, we are most optimistic regarding the full product pipeline in Running across footwear and apparel that we will bring over the coming seasons. A new, maximum cushioning system in an iconic line, blending comfort and style for our softest, smoothest ride yet. A premium model that combines high-stack ZoomX foam and Zoom Air for a new sensation that's had test runners raving. A refreshed lineup of performance running apparel, including new women's-led designs. The latest Nike Trail models, updated for even better traction and durability. And new franchises below-\$100 that scale innovation to more accessible price points.

Looking more broadly across our product portfolio, particularly in footwear, we see clear indications of progress in accelerating newness and innovation. Q1 revenue from new footwear products was up strong double-digits versus prior year. This includes multiple franchises that have scaled quickly, based on unit growth over the past twelve months. For example, in performance footwear, Sabrina has grown roughly 5x, Kobe has nearly quadrupled, and AlphaFly has almost tripled.

Meanwhile, in lifestyle, what we call our "look of running" business led by Vomero 5, V2K, and P-6000 has grown more than 4x over the past year.

While this is not yet large enough to offset the declines elsewhere in our portfolio, we are gaining ground. As we look to the spring season, contribution from newness and innovation will take a significant step forward, with growth in footwear units of mid-to-high single digits versus prior year. And over the coming seasons, we expect to see sequential gains in the percentage of newness and innovation as a mix of our total footwear business.

As we move forward, we are continuing to invest to grow while staying disciplined on cost. For our teams, this means tightly managing operating overhead and reallocating resources to maximize consumer impact and growth.

You saw that this summer with our Paris Olympics campaign, Winning isn't for everyone. We led with the voice of the athlete on sport's biggest stage, backed by one of our biggest brand investments in years, as Nike athletes dominated the medal count. Nike owned over 60% of total share of voice during the Games, resonating especially deeply with our athletes and Gen Z consumers.

Most importantly, this summer was just the start with the investment lined up behind a steady cadence of bigger, bolder brand storytelling to come.

In addition, we are investing with our partners to elevate and differentiate our brand in retail. For example, last year, we partnered with Dick's Sporting Goods to introduce an elevated Women's fitness concept, which is generating impressive year-over-year comparisons in pilot doors. We also teamed up with Foot Locker to introduce a new concept, Home Court, in their doors, with a shared vision to deliver a fresh new multibrand basketball experience.

By bringing the best of Nike, we create sport-inspired distinction for consumers and deliver attractive returns for both Nike and our partners. Together, we shape the kind of retail environments that drive competitive separation and segment the marketplace enabling us to serve consumers through strong assortment with full expression across each dimension of our portfolio.

All told, we expect that the return to strong growth will take time. But we believe that we have all the right building blocks especially with Elliott leading us forward.

Now, let me turn to our first-quarter financial results.

In Q1, NIKE, Inc. revenue declined 10% on a reported basis and 9% on a currency-neutral basis. Nike Direct was down 12%, with Nike Stores up 1% and Nike Digital down 20%. Wholesale was down 7%.

Gross margins expanded 120 basis points to 45.4% on a reported basis, primarily due to lower NIKE Brand product costs, lower warehousing and logistics costs, and benefits from strategic pricing actions in the prior year.

SG&A declined 2% on a reported basis, with accelerated investment in demand creation more than offset by a reduction in overhead expenses, primarily driven by wage-related savings.

Our effective tax rate was 19.6% compared to 12% for the same period last year.

Diluted earnings per share was \$0.70.

Next, let me turn to our operating segments. Given similar themes across many of our geographies, I will keep my comments here briefer than usual.

In North America, Q1 revenue was down 11%. Nike Direct declined 11%, with Nike Digital down 15% and Nike Stores down 1%. Wholesale declined 11%, reflecting unfavorable shipping timing. EBIT declined 15% on a reported basis, with gross margin expansion offset by higher investment in demand creation.

This quarter's highlights included brand activations around a full summer of hoops. We engaged players and fans with our New York vs. New York series our WNBA All-Star celebration, Jordan grassroots basketball in Chicago and L.A. and our Mamba League Invitational.

In EMEA, Q1 revenue was down 12%. Nike Direct declined 12%, with Nike Digital down 24% and Nike Stores up 3%. Wholesale declined 11%. EBIT declined 15% on a reported basis.

This summer in Paris, both Nike and Jordan were unmissable, with our Olympics campaign just about everywhere you could look billboards, big screens, on the side of buildings, and most importantly, across all of our retail touchpoints.

In addition, Jordan introduced its new campaign with a six-week “District 23” takeover in the city a global one-on-one basketball tournament and the brand’s first-ever Twitch livestream, which drove over 10 million views the biggest-ever activation for any brand on the platform.

In APLA, Q1 revenue was down 2%. Nike Direct declined 4%, with Nike Digital down 15% and Nike Stores up 9%. Wholesale declined 1%. EBIT declined 3% on a reported basis.

This quarter, we celebrated the opening of our new Nike and Jordan World of Flight door in Mexico City, our largest retail space in Latin America and first dual-brand shopping experience. Q1 traffic and sales far exceeded our plan, with consumers seeking out exclusive products, member-only experiences, and our latest Women’s and Jordan assortments.

For Greater China, let me go a little deeper into this quarter’s performance.

Q1 revenue was down 3%. Nike Direct declined 16%, with Nike Digital down 34% and Nike Stores down 4%. Wholesale grew 10%. EBIT declined 4% on a reported basis.

This summer, retail sales moderated across the industry, and Nike was not immune, as traffic decelerated in our channels with lower sell-thru rates. This has resulted in elevated inventory in the marketplace in an already promotional environment.

That said, Nike continues to be the #1 sports brand in China, and we continue to create brand distinction when we bring our best stories and products to local consumers. Over the summer, we drove incredible social buzz with storytelling around Nike athlete Zheng Qinwen, who took home gold as China’s first Olympic tennis champion. Jordan’s first athlete tour in China since the pandemic was also a big success, as Luka, Tatum, Paolo, and Zion connected with young fans in Shanghai and Beijing.

Top innovation and sport performance continues to resonate. This quarter's standouts included Pegasus 41, Alphafly, and Sabrina 2. In addition, consumer response to our latest Protro releases proved that Kobe remains one of the most beloved athletes in China.

While our outlook for the near term has moderated, we remain optimistic about the long-term opportunities for sport and for Nike in China.

Now, let me provide specific guidance for the second quarter. We expect Q2 revenues to be down in the 8-10% range. We expect Q2 gross margins to be down approximately 150 basis points, with higher promotions, channel mix headwinds, and supply chain deleverage more than offsetting lower product costs and decreasing benefit from strategic pricing actions. We expect SG&A to be roughly flat versus prior year, with increased demand creation investment largely offset by tighter operating overhead. We expect other income and expense, including net interest income, to be \$30 to \$40 million, reflecting lower interest rates. And we expect our effective tax rate to be in the high-teens range.

Although we will not be providing full-year guidance for the remainder of this fiscal year, we do want to provide additional color to help you understand our latest read of Nike's business trajectory, as we see it today prior to our leadership transition.

Looking forward, our revenue expectations have moderated since the start of the year, given traffic trends on Nike Digital, retail sales trends across the marketplace, and final order books for spring.

Franchise management actions will continue throughout the year, and we expect a similar impact and scale to what we experienced in Q1. However, we continue to see indications of slight second-half improvement in revenue trends versus our first half, as we plan to introduce and scale newness and innovation across the marketplace.

We now expect gross margins to decline versus prior year due to incremental headwinds, based on the previously mentioned factors.

We intend to remain disciplined on cost, especially operating overhead, while we invest to fuel brand momentum.

Before I wrap, I'd like to finish with this.

Throughout our history, Nike has always faced pressure. Nike was born through adversity. Every obstacle, every setback, was an opportunity to learn, to adjust, and to improve. This is a foundational mindset at Nike, inspired by athletes and competition. And today is no different. Adversity creates sharper focus, leading to innovation and new growth.

We will continue to address the challenges head-on, and we look forward to doing so with Elliott's leadership.

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

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