

FY26 Q1 Earnings Release Conference Call Transcript

September 30, 2025

This transcript is provided by NIKE, Inc. only for reference purposes. Information presented was current only as of the date of the conference call and may have subsequently changed materially. NIKE, Inc. does not update or delete outdated information contained in this transcript and disclaims any obligation to do so.

[OPERATOR]

Good afternoon, everyone. Welcome to NIKE, Inc.'s First Quarter Fiscal 2026 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 today to discuss NIKE, Inc.'s First Quarter Fiscal 2026 results. Joining us on today's call will be NIKE, Inc. President and CEO, Elliott Hill; and EVP and 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 nonpublic 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-year basis and are currency neutral unless otherwise noted. We will start with prepared remarks and then open the call 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. Thank you for your cooperation on this.

And I'll now turn the call over to NIKE, Inc. President and CEO, Elliott Hill.

[ELLIOTT HILL]

Thank you, Paul. It's great to be here with everyone today. Before we begin, I want to start with a thank you. I want to thank my NIKE, Inc. teammates around the world. Because of their passion, commitment and determination, we made tangible progress from where we were 11 months ago, driven by our Win Now actions that focused our team on our culture, product, brand marketing, marketplace and our ground game. This quarter, our Win Now actions drove momentum in the areas we prioritized first, running, North America and wholesale partners. It showed that we're making the right choices. Consumers are responding. We're getting some wins under our belt.

What you can't see in the results is the effort that I've seen in our stores, distribution centers and offices around the world. Since my return, not a day has gone by that I haven't asked each of my teammates to commit themselves fully to building a better NIKE. That takes a lot of work. And this quarter, in particular, we asked even more from our teams as we realigned approximately 8,000 teammates to our Sport Offense, which I will explain shortly. It's a massive achievement for everyone involved. What I want this audience to know is that our teams also understand how much we still must do to meet our full potential.

Because the truth is, NIKE's journey back to greatness has only just begun. There is significant work ahead, especially in the areas of Sportswear, Greater China and NIKE Direct. And as I've said to the team, progress won't be perfectly linear, but the direction is. On our last call, I said it was time to turn the page, and I believe this quarter reflects the many ways we're doing just that.

As you've heard me say, it's imperative to bring our entire organization closer to the athletes we serve.

That's why the Sport Offense is going to be so critical to our success. This new formation and ways of working will align our 3 brands, NIKE, Jordan and Converse, into more nimble, focused teams by sport. We'll gain sharper insights to fuel innovation and storytelling and connect with the communities of each sport in more meaningful ways. Collectively, we'll have a better coordinated attack with each brand forming a distinct identity and delivering a clear attention to serve different consumers. In the marketplace, organizing by sport gives us a much clearer point of view. The House of Innovation in New York is a great example where we redesigned a retail experience by Sport.

I walked the floors in early September and we're now able to take a consumer into a world of Jordan, a world of NIKE running or a world of NIKE Global Football. It's an immersive sport experience and the refresh has already led to double-digit revenue increases. That clarity works in small format doors as well. We recently redesigned our South Congress store in Austin to focus only on running and training and sales have significantly increased. Ultimately, the Sport Offense will maximize NIKE, Inc.'s complete portfolio.

It is just designed to drive growth across all our dimensions. We believe the opportunity to serve so many athletes across sports with 3 distinct brands in retail channels at every price point is an advantage that no one else has in our industry.

Now let's take a deeper look into where we're driving progress. Our Running business gives us an early window into the kind of impact we expect out of the Sport Offense. Our Running team moved fastest into our new formation and was the first to get sharper on the insights of their athletes. It turns out, runners mostly want 3 things from the running shoes, big cushioning, stability or an everyday shoe that returns energy. In response, we've moved with a sense of urgency and completely redesigned the Vomero, the Structure and the Pegasus to solve for these 3 insights. Integrating our industry-leading innovation platforms like Nike Air, Flyknit, ZoomX and React X. Having a consistent structure of silos and price

points allows us to introduce at least one new major running footwear style each season.

Our running business continues to be a strong proof point of progress. We're getting back to delivering a relentless flow of innovation that serves real athlete needs and we're pulling it all the way through the marketplace in consumer-friendly ways. The early results have been positive, with Nike Running growing over 20% this quarter. Our opportunity is to quickly seize the benefits of a Sport Offense and apply them to more sports and sport culture, including global football, basketball, training and sportswear. I will remind you that each sport is in a different stage of development.

Our global football team is preparing for the energy of the 2026 World Cup and is ready to move forward. We will utilize the world's biggest sports stage to debut an exciting new apparel innovation platform that will later be leveraged across other sports and we will connect with a younger consumer by launching several football streetwear collections. As we're doing in running, football boots are also fueled by 3 silos at multiple price points addressing the needs of 3 different styles of play. This quarter, we launched the revamped Phantom 6 with great sell-through and we'll follow that up with a new Tiempo in Q3 and a new Mercurial in Q4.

And finally, we reset the football brand identity this quarter with our Scary Good campaign. From a football innovation and brand standpoint, we're ready to go. In the marketplace, we're moving quickly to improve our position to tell football innovation stories in more inspiring ways at point of sale. The longer-term vision is for the impact of the Sport Offense to be felt far beyond the traditional sports where we currently compete. We now have dedicated teams to bring our creativity to additional market opportunities. These are spaces for us to take design risk, to be innovative and to be irreverent, which is so important to our brand's DNA.

NIKE ACG, for example, has brought an athletic youthful approach to outdoor product for nearly 30 years. As more people stay active outdoors, we will invest in NIKE ACG to address the opportunity. This quarter, we launched an Elite ACG race team who have

helped us make high-performance outdoor products.

Together, we just revealed some exciting innovation, a breathable apparel innovation platform called Radical Air and a Trail-Tuned Super Shoe with the ACG Ultrafly. ACG professional racer, Caleb Olson were both innovations in his victory at the Western States 100 race, finishing with the second fastest time in the history of the race.

Our new partnership with SKIMS is another opportunity to bring something unexpected to a new consumer, NIKE's innovation expertise and SKIMS' dedication to inclusive apparel has the potential to create performance training product with a very different look. We debuted the product line last week with 58 silhouettes and early consumer response was very strong. The opportunity exists to create more dimension around the most established sports as well. Look at this year's US Open Tennis as an example. Over the course of the 3-week tournament, we celebrated the wins and on-court looks of Alcaraz and Sabalenka, we designed custom dresses for Naomi's incredible comeback and for Sharapova's induction into the Tennis Hall of Fame.

We excited sneaker fans with a retro launch of Agassi' Tech Challenge sneakers, and we brought it all together in New York's House of Innovation in an immersive tennis experience. In the past 10 months alone, as part of our Win Now actions, we've activated 12 sport takeover moments that connected the inspiring performances of our athletes and teams to commercial assortments in the marketplace. This quarter, that included the England Women's National Team winning the European Championship, Sinner's Wimbledon title, Scottie's Open Championship title and Chelsea winning the Club World Cup. Sport and the world's greatest moments will always be NIKE's runway. And only we can bring it all together across 3 brands, so many sports, performance and lifestyle. This is NIKE maximizing the full power of our portfolio.

While the sports performance teams are finding a higher gear, our sportswear teams have work to do to get sharper on the consumers we're serving, and we see it in our results. Our business continues to decline. Continuing to build a clear product construct in sportswear

as we're doing and our performance sports remains a priority. We do have pockets of strength, especially in our deep vault of look of running footwear, but we are still in the process of putting our largest classic franchises into a healthier position for the NIKE Jordan and Converse brands. Air Force 1 is stabilizing. Air Jordan one inventory levels are returning to health. The Dunk continues to be managed aggressively down in all geos, and the Chuck Taylor is in the early stages of a global market reset.

With Converse, we just put new leadership in place and we're going to take aggressive actions to better position the brand for profitable growth in the future. Of the priority Win Now actions, elevating the full marketplace is in the early innings. The positive is that North America, where we invested first took some big steps forward this quarter. The team continues to give more consumers access to the brand and more premium environments. We reset over 1,300 running spaces in the quarter from DICK'S to Nordstrom's to Heartbreak Hill. And we are also pleased with the launch of the NIKE Brand store on Amazon, where we are driving stronger engagement and sales than anticipated.

While our North America teams are setting the tone, we're still far from our ultimate goal of elevating an integrated for marketplace, digital and physical, wholesale and NIKE Direct in all geographies. Greater China, as I mentioned on the last call, is facing structural challenges in the marketplace. Our business was down 10% for the quarter. Seasonal sell-through continues to underperform our plans requiring larger investments to keep the marketplace clean. My leadership team and I were in China a few weeks ago. We traveled to 3 cities, spending time with our Greater China leadership team, consumers and our partners.

We are even more committed to the opportunity for growth in China. They are a nation that's passionate for the games of basketball and global football, and a nation that is embracing a healthy lifestyle through running and training.

When we lead with exciting innovations like the Vomero 18 or the Jordan Game Shoe, or have athletes like Ja and LeBron visit key markets, we drive traffic and demand. It is even

more clear that our path to winning in China is through sport. Our team is moving with urgency to develop consistent plans across all sports and refresh some of our retail environments into distinct sport experiences. With over 5,000 mono- brand stores in China, this will take investment, and it will take time. Globally, NIKE Digital is still working to find solid ground. We made the strategic decision to become less reliant on classic franchises and pull back on our promotions for the long-term health of our brands and marketplaces in all geographies.

Organic traffic has slowed. We are working to find the right assortment and marketing mix to consistently bring consumers back to our digital ecosystem. For our company our size, with 3 brands that serves consumers in nearly 190 countries, not all sports, channels or countries will recover on the same timelines. I spent a lot of time reflecting on the last several months. What keeps me grounded is every time I return from a major sporting event, meeting with athletes, or being in the marketplace. I'm even more convinced that the Win Now actions are absolutely the right focus for our teams.

With that said, we're also realistic that we are turning our business around in the face of a cautious consumer, tariff uncertainty and teams that are still settling into the Sport Offense. We know we have a lot left to prove. What gives me confidence is that through the Sport Offense, we're hyper focused on the athlete. The creative ideas keep coming, and we're covering a lot of ground in the marketplace. Like I said at the start, the NIKE team. This team, we have a lot of fight in us. I look forward to what we're about to do together.

Thank you, and I'll pass it to Matt.

[MATT FRIEND]

Thanks, Elliott, and hello to everyone on the call. 90 days ago, I said the fourth quarter of fiscal '25 would reflect the largest financial impact from our Win Now actions and that we expected the headwinds to revenue and gross margin to begin to moderate from there. At the end of our first quarter, we are encouraged by the progress that we have made as

reflected in our results, and yet we still have much work to do. Today, I will review our financial results. Then I will highlight the progress we have made with our Win Now actions across the geographies. Last, I will provide guidance for Q2 as well as some additional insights to bring shape to our near-term financial performance.

I'll begin with our financial results. This quarter, revenues were up 1% on a reported basis and down 1% on a currency-neutral basis. NIKE Direct was down 5% with NIKE Digital declining 12% and NIKE stores down 1%. Wholesale grew 5%. Gross margins declined 320 basis points to 42.2% on a reported basis. Due to higher wholesale discounts, higher discounts in our NIKE factory stores, increased product costs, including new tariffs and channel mix headwinds. SG&A was down 1% on a reported basis. This was driven by lower brand marketing expense, reflecting prior year investment around key sports moments, partially offset by higher sports marketing expense.

Operating overhead was flat compared to the prior year. Our effective tax rate was 21.1% compared to 19.6% for the same period last year, primarily due to decreased benefit from stock-based compensation. Earnings per share was \$0.49. Inventory decreased 2% versus the prior year as we have made steady progress on our plans for a healthy marketplace by the end of the first half of fiscal '26.

As I shared last quarter, and as you just heard from Elliott, our geographies are at different stages of progress against our Win Now actions and business recovery is trending on different timelines. Therefore, I will focus my geography remarks on the specific context and insights of our win now progress. In North America, Q1 revenue grew 4%. NIKE Direct declined 3%, with NIKE Digital down 10% and NIKE stores flat. Wholesale grew 11%, EBIT declined 7% on a reported basis.

North America is building momentum through sustained brand activity across sports, leveraging our leading portfolio of sports marketing assets. North America is furthest ahead in taking steps to elevate and transform the marketplace for future growth. Running, training and basketball each delivered double-digit growth. Sportswear grew in the quarter, but

there is still work to do with momentum in apparel and looks of running footwear, while managing a 30% decline in our classic footwear franchises.

As it relates to the North America marketplace, wholesale returned to growth in the quarter, partially due to shipment timing in the prior year as well as higher liquidation volume to value channels. Additionally, the strategic actions taken to expand distribution and reach new consumer segments contributed to growth and are showing initial promise. Headway was also made in repositioning NIKE Digital, reducing the number of days of site-wide promotion by more than 50 and lowering markdown rates as well as increasing share of demand at full price.

On inventory, North America drove continued progress through the first quarter. Units declined versus the prior year, while dollars were flat primarily due to the U.S. tariffs. Closeout mix is approaching normalized levels.

In EMEA, Q1 revenue grew 1%. NIKE Direct declined 6% with NIKE Digital down 13% and NIKE Stores up 1%. Wholesale grew 4%. EBIT declined 7% on a reported basis. EMEA has largely cleaned the marketplace even as promotional activity has increased across the industry. NIKE's momentum is building in sport and with our wholesale partners. EMEA is furthest ahead in repositioning NIKE Digital to a full-price business. However, traffic and demand remains soft. In Q1, our performance business continued to build momentum, driven by double-digit growth in running and low single-digit growth in Global Football and training footwear. Sportswear declined to low single digits as headwinds in our classic footwear franchises more than offset growth in apparel and new dimensions of footwear.

Over the last 90 days, we've seen promotional activity increase in key countries across EMEA. In order to stay aligned with our partners and manage marketplace inventory, we selectively leveraged additional discounts on NIKE Direct. With respect to inventory, EMEA closed the quarter with units down mid-single digits versus the prior year and a normalized level of closeout mix. In Greater China, Q1 revenue declined 10%. NIKE Direct declined 12%, with NIKE Digital down 27% and NIKE stores down 4%. Wholesale declined 9%.

EBIT declined 25% on a reported basis.

Greater China created energy with consumers in the quarter through new product innovation and NIKE athlete activations on the ground with Ja, Sabrina and LeBron. Aggressive marketplace actions have reduced owned and partnered inventory. However, store traffic and in-season sell-through continues to be a headwind. Running is a bright spot in China, growing high single digits in the quarter, with strong consumer response to new innovations, such as the Peg Premium and the Vomero 18. In the marketplace, traffic declined versus the prior year in both NIKE owned and partner stores, resulting in lower in-season sell-through rates. Digital remains a highly promotional marketplace in Greater China with consumer shopping moments extending longer on local platforms with deeper discounts.

Inventory was down 11% versus the prior year. However, closeout mix remains elevated. Our priority in Greater China is to improve seasonal sell-through trends by refreshing store concepts around sport, creating greater brand distinction at retail with more productive merchandising assortments and reducing the mix of aged inventory with our partners. In APLA, Q1 revenue grew 1%. NIKE Direct declined 6%, with NIKE Digital down 8% and NIKE Stores down 5%. Wholesale grew 6%, EBIT declined 13% on a reported basis. APLA continues to deliver mixed results across countries with pockets of elevated inventory requiring higher levels of promotional activity, and proactive management of supply in the marketplace.

In the quarter, Performance Dimensions delivered strong growth, led by double-digit growth in running and high single-digit growth in training. This momentum was offset by low single-digit declines in our Sportswear business.

In the marketplace, NIKE Digital delivered sequential improvement in markdown rates across all territories. Inventory across APLA grew high single digits this quarter, and so we are taking additional actions to rebalance inventory levels with retail sales trends in certain countries and tightened buys on NIKE Direct. Next, I will spend a moment to provide an

update on tariffs. Last quarter, I shared that the newly issued tariffs represented a meaningful cost headwind for NIKE. Since the new reciprocal tariffs are stacked on top of the mid-teens rate NIKE already paid on imports. And I also outlined the actions we are taking in response, balancing impact on the consumer, our partners, our Win Now actions as well as the long-term positioning of our brands in the marketplace.

Since our last earnings call, new reciprocal tariff rates have been increased for certain countries. And so with the new rates in effect today, we now estimate the gross incremental cost to NIKE on an annualized basis to be approximately \$1.5 billion, up from the \$1 billion we shared 90 days ago. Given the magnitude and timing of the most recent rate increases, we now expect the net headwind in fiscal '26 to increase from approximately 75 basis points to 120 basis points to gross margin.

We continue to evaluate and implement the actions I described last quarter to mitigate these new costs over time. We are monitoring developments closely, and I remain confident in our ability to leverage our strengths, our scale and the deep experience of our leadership team to navigate through this disruption.

Now, I will turn to our second quarter guidance. As Elliott said, we are operating in a dynamic environment, both for consumers and our global business. We remain focused on what we can control, principally to make forward progress on our Win Now actions and to activate our Sport Offense for the long-term health of our brands. Our outlook reflects our best assessment of these factors based on the data that we have available today. We expect Q2 revenues to be down low single digits, including one point of benefit from foreign exchange. We expect Q2 gross margins to be down approximately 300 to 375 basis points including a net headwind of 175 basis points from the new incremental tariffs.

We expect Q2 SG&A dollars to be up high single digits with an acceleration of demand creation investment and low single-digit increase in operating overhead. We expect other expense, net of interest income, to be an expense of \$10 million to \$20 million in the second quarter. We expect the tax rate for the second quarter and the full year to be in the low 20%

range due to anticipated changes in earnings mix.

Finally, with an additional 90 days of execution against our Win Now actions, I'll close with some insights that should bring shape to NIKE's financial performance for the balance of fiscal '26. We see momentum building with our wholesale partners. Our spring order book is up versus the prior year, with growth led by sport. And as a result, we expect wholesale revenue to return to modest growth for fiscal '26.

At the same time, we continue taking steps to reposition NIKE Digital as a full-price business. Organic traffic continues to decline double digits. With the business in the prior year, that was more concentrated on classic footwear franchises and sneaker launch as well as a higher mix of off-price sales, traffic comps will remain under pressure, and so we do not expect NIKE Direct to return to growth for fiscal '26. As it relates to our operating segments, we expect North America will continue to lead our global recovery.

While Greater China will require more time due to the unique marketplace dynamics Elliott and I have outlined. Converse is under new leadership and resetting its marketplace and brand. Therefore, we expect revenue and gross margin headwinds from Greater China and Converse to continue throughout fiscal '26.

We have made steady progress on our plans for a healthy marketplace by the end of the first half. And so we expect to begin to see a modest headwind on revenue across both wholesale and NIKE Direct as we lap aggressive clearance activity in the prior year. Foreign exchange has become a tailwind to reported revenue, but we expect minimal benefit to gross margin in fiscal '26 due to our hedge positions entering the year. We continue to expect SG&A to grow low single digits in fiscal '26. Our Win Now actions contain investment to reignite growth in the business, particularly in demand creation as well as rebuilding both our Sport and Commercial Offense.

Overall, there are several puts and takes across different dimensions of our portfolio. We are encouraged with how we have started the year, but progress won't be linear, and there

is still work to do to return to driving consistent, sustainable and profitable long-term growth.

With that, I'll pass the call back to Elliot.

[ELLIOTT HILL]

Thanks, Matt. I'm going to close it out with some perspective on a special sport moment from the quarter that I believe represents the power of a unified team with a singular mission. In late July, I was at the final of the UEFA Women's European Championships in Basel, Switzerland. Defending Champion England had already lived through an emotional roller coaster throughout the tournament. They lost their opener to France. They came back from a 2 goal deficit to beat Sweden and scored in the final minute of extra time to beat Italy in the semi final. And now, they face Spain in the final who beat them in the last World Cup final.

I was sitting with the FA, the governing body of football in England. For the third straight knockout match the Lionesses started slow. They were on their heels instead of attacking. They went into halftime down 1-0. We began to question if they had anything left in the tank.

But coming out of the half, something clicked. Coach Sarina Wiegman made the right substitutions and she had all tournament. Chloe Kelly, came off the bench and pace picked up instantly. Hannah Hampton made several key saves. Lauren Hemp was flying all over the pitch and everyone contributed. England's pressure led to the equalizer in regulation and after a draw and extra time, Chloe proved to be clutch one more time to score the winning penalty kick in the shootout. The crowd erupted, her country erupted and there they were, Champions of Europe, once again, delivering England's first major football trophy on foreign soil. The Nike London team took that insight and built a campaign around the importance of home that stretch from billboards T-shirts to the airplane that brought them back to their awaiting fans.

The national pride for the Lionesses was everywhere. Nike was right there with them. When I talk to my team about passion, commitment and determination, we don't have to look much further than England.

It's a group that embraces their roles and experience coaching staff who adapt in the moment, players who refused to give up. I mean I found out later that Lucy Bronze played the entire tournament with a fractured tibia, a fracture tibia. That's resilience. That is a team that knows what it takes to make a come back. We were all inspired here at Nike and you could be assured we're taking their lessons to heart. We're unified under the Sport Offense, and we're clear on what it will take to win and on the size of the prize ahead.

With that, I'll open it up to questions.

[OPERATOR]

Your first question comes from Michael Binetti with Evercore ISI.

[MICHAEL BINETTI]

Congrats on the quarter, nice to see the progress. Elliott, as you look at the spring order book and as Matt said it's positive, can you help us think about that within the context of the holiday book that you said was positive last quarter, maybe just qualitatively what's incremental on the build and composition of spring so we can track the progress out of the season?

And then last quarter, Matt, you said there was a commitment to returning to double-digit margins over time. Obviously, I'm sure you're looking at historical levels as a goal. It was a helpful backstop. How are you thinking about the medium-term margin levels you can target and maybe some of the phases of recovery any inputs we should look at as you start that journey.

[ELLIOTT HILL]

Michael, thanks for the question. Here's what I'd start with -- let me start first with product. I think what we're doing a great job is we're getting back to leading with a sharp focus on sport. We're making certain leverage the entire portfolio. And you can see that whether how we're approaching performance and sportswear. NIKE running, I think, gives us our best example of where we're having some success, and we did just announce that we grew over 20% in the quarter. So great success in running, and our teams are taking that offense and how we -- the learnings that we have in running and we're applying it to other parts of our business, and we're running that playbook against global football, training, basketball, et cetera.

We do have work still to do in sportswear, but I think the team is getting much sharper on the consumers that we're serving there. And so I'm really excited and encouraged by the work that we've done around the product. We've continued to work really hard from a brand marketing perspective. And then ultimately, clearly, we got to pay it off like you're asking in the marketplace. And I think the team is doing a really nice job of elevating and growing the entire marketplace. And so our goal is to serve consumers wherever and however they choose to shop across multiple channels, specialty sporting goods, athletic specialty, department store, family footwear and NIKE Direct. And I think, again, the teams are seeing the power of running the complete offense across the entire marketplace and North America, again, is our best example where we're seeing growth there.

Overall, our partners are gaining trust in us, and it shows our spring order book is up year-over-year. So excited with the progress that we're making from a product perspective, marketing and positioning perspective and then how we're paying it off in a more thoughtful and integrated marketplace.

[MATT FRIEND]

Michael, I would just add that the other dimension we provided last quarter is that North

America, EMEA and APLA order book is offsetting the headwinds that we have in Greater China, and we continue to see that trend carry through into the spring order book as well. As it relates to our margins, the way I think about it is that fiscal year '26 our margins and the pressure on our margins are really reflective of 3 dynamics. We've got short-term product and channel mix headwinds. We've got the transitory impact from our Win Now actions, and we've got the newly implemented tariffs and the impact that that's having on our business in fiscal year '26.

Given the progress that we're making, the steady progress on exiting the first half with a healthy marketplace, we do expect the benefit from less inventory clearance to start to take shape in our margins in the second half of this year. But I would say that our outlook for margins for '26 overall have moderated. And that's because of the new tariff rates and the impact that, that has on our business this fiscal '26 before all of the actions that we're taking are able to annualize as well as some of the headwinds that I referenced related to the timeline to return to profitable growth in Greater China and Converse.

As I look longer term, I think that we continue to believe that double-digit margins are something that are achievable. And we look no further than our history, different size of business, different mix of business, a different shape of business, different geography mix, different product mix. And I think we're getting clear on what the path to getting back to double-digit margins looks like. And it starts with reigniting organic growth. It requires us to see significant improvement in the full price mix of our business, which the Win Now actions that we're putting into place are setting us on stronger footing to do.

And then lastly, as we return to organic growth, we will drive operating leverage on our supply chain costs, on our retail overhead and on our general operating overhead. And while the new tariffs are creating near-term pressure on our margins, we have outlined the actions that we're taking there to address it over time. And while it's going to take us a little bit of time, we're confident that the Win Now actions are the right things to move us in this direction.

[OPERATOR]

The next question comes from Piral Dadhania with RBC.

[PIRAL DADHANIA]

Apologies if there's any background noise. I was just wondering if you could give any update as to how September has progressed because we're seeing indicators out there in the marketplace and potentially some evidence that there was a bit of pull forward in terms of consumer demand into the back-to-school period in August, which should have benefited your Q1. So just curious about how you're seeing the current marketplace in September trading, if possible?

[ELLIOTT HILL]

Yes. Thanks for the question. Yes, here's what I'd say. There's no question that the environment in which we're working in and operating in is dynamic. And my message to our team is to continue to control what we can control. I'm confident that our teams in product and brand marketing in the marketplace are -- we're closely monitoring our consumers around the world. We're watching for signals. We're staying close with our partners and we're looking at it even -- of course, our own door and diesel performance across geos and countries and cities.

And it is dynamic, and I just keep telling the team remain focused on inspiring through sport because when we do line up innovative product and emotional storytelling across the integrated marketplace, consumers respond. I mean there are some great examples this quarter even into September. When we did the loss around running Vomero and the Vomero Plus, we had good sell-throughs, the work we did around the U.S. Open and On The Ground and Emotional Storytelling. We had good sell-through Ja and LeBron in China, when we do that, the consumer shows up. So yes, it's a dynamic environment. We're keeping our teams focused on the Win Now actions and really that's our fastest

path back to growth.

[MATT FRIEND]

And to hit on the timing element, you mentioned pull forward. I guess what I'd say is that our performance in the first quarter didn't have anything to do with pull forwards. I referenced wholesale growth in North America. Wholesale was up 11%. And one of the factors in the quarter was the amount of the fall season that we shipped in Q1 versus what we shipped in Q1 of the prior year. And so that did create a timing benefit year-on-year. As we look ahead to Q2, we guided revenue down low single digits.

And I'd say that there are probably 2 drivers to that that are most significant. One is NIKE Digital is facing a more significant headwind in Q2. Because we started the Win Now actions following the holiday season last year, and we significantly cut back on the amount of promotional activity that we were doing in the channel.

As we're lapping that this year, there's going to be a bigger headwind in Q2 than we had in Q1. And then secondarily, we're only planning for one point of FX benefit in Q2, whereas we saw 2 points of FX benefit in Q1. So hopefully, that helps provide a little bit of dimension on some of the seasonality. The last thing I would say related to the seasonality or the comparisons is that the actions that we're taking on the Dunk that Elliott and I both referenced are more significant in Q2. And so that's also creating a quarter-over- quarter comparison, if you will, as you compare Q1 to Q2, there was a lot of Dunk business in Q2 of last year, and we're managing that franchise back, as Elliot mentioned, and feel great about our plans.

[OPERATOR]

The next question comes from Matthew Boss of JPMorgan.

[MATT BOSS]

Congrats on the progress. Elliot, maybe could you help elaborate on some of the early wins under your belt that you cited notably the return to growth in North America and the material acceleration in running. And with that, I guess, could you speak to the structural foundation that you've now built that you believe is the key to expanding the strategy to other parts of the portfolio?

[ELLIOTT HILL]

Yes. Matthew, Let me start, you really have to think about it at a high level in 2 parts. First part is the win now, those are the actions that we put in place, the focus that we gave our team within the first 60 days. And then the second part is what we've just activated in early September, which is what we're calling the Sport Offense. And I'm going to try to outline the 2, but you got to think about them both together. Let me start first with Win Now, you know the priorities there, but we put 5 priorities out there, putting the athlete at the center of everything we do.

It came down, it's about innovative coveted product. It's about telling emotional inspiring stories. It's about paying it off in an integrated marketplace and then activating our ground game.

And we're seeing signals that it's working. First and foremost, it's where we focus running, which we talked about in the prepared remarks, up 20%. Our wholesale partners. We have growth there, spring order book is up and then North America. So that's where we're seeing some great success. We feel good about the brand impact our team is doing around sport moments, brand launches, brand campaigns, some of our key product launches, et cetera.

So good success against the Win Now actions. With that said, we still have work to do in some parts of our business that we've touched on. And we've got plans in place against China. Our NIKE Direct digital commerce business and our Sportswear business. So that's

what the teams are working on from a Win Now perspective. When you think about the Sport office, and this is rather than us being organized by men's, women, kids. We flipped the entire organization in early September to be aligned on the product creation side and the brand marketing side by brand and by sport, and by country and account, wholesale and direct, digital and physical.

And the whole idea is that those small cross-functional teams gain the insights from the athletes to the consumers that they serve in each segment. And then that will help us drive a make us more competitive and more and have stronger consumer connectivity. And again, there's no question in my mind that putting sport and the athlete back at the center of everything that we do, puts us back on offense.

And again, while we have some great things underway, through our priority sports and the efforts to elevate the marketplace. We still have a lot of work to do, but what inspires me most is our teams. They're embracing the change, and we're ready for the challenge.

[OPERATOR]

The next question comes from Brooke Roach with Goldman Sachs.

[BROOKE ROACH]

Elliott, as you contemplate the traffic headwinds you're seeing today in NIKE Digital, how much of the pressure is attributable to the strategic reduction in promotion versus other factors? And as you look ahead, what are the most important milestones we should be watching for to return that business to profitable growth?

[ELLIOTT HILL]

Brooke, thanks for the question. I'm going to step up above just a little bit for a second on the NIKE Direct digital business. And what I'm challenging, and Matt and I and the entire

leadership team are challenging our team to do is to elevate and grow the entire marketplace, not just NIKE Direct digital commerce. Our we need to be and serve consumers wherever and however they choose to shop for our brands. And really, it starts with that what I just touched on, the innovative -- relentless flow of innovative products across all 3 brands in all sports. And in every channel of business in which we do business, especially sporting goods, athletic specialty, department stores, family footwear and NIKE Direct because being sharp on the consumers we're serving in each location, digital or physical, wholesale and direct, that drives consumer right assortments in the right depth and we are elevating the presentations at point of sale, and that drives profitable growth for NIKE and for our partners. And again, we're seeing some really good successes of that in North America, EMEA is coming and APLA. So again, I'm excited about the team and the way we are elevating the entire marketplace. And again, in terms of NIKE Direct digital commerce. Matt, do you want to hit on anything.

[MATT FRIEND]

Sure. I referenced and have been referencing for a couple of quarters now that we expected the organic traffic to be down double digits. And that's primarily because of the actions that we've taken to reposition the business in fiscal year '26. We highlighted this quarter that we've made progress across all of our geographies. We've reduced promo days, we've improved the markdown rates. We've reduced the classic share of business. We've reduced the launch share of business and we pulled back on paid media as it was largely driving bottom of funnel traffic to our platforms.

EMEA and North America started first, Brooke, and they're the furthest ahead. APLA is making progress, and Elliott and I both referenced that Greater China marketplace is structurally different. And so the dynamics there are different from a digital perspective. I think that the progress that we're making is real and I think one of the ways that you can measure that progress is looking at the momentum we're actually building with our wholesale partners because we needed to reposition digital alongside our partners and start competing with our partners in order to be able to start building momentum on

wholesale. And we're starting to see the early indicators and the early signals of that success alongside a strong product pipeline.

So it's going to take us more time as we both highlighted. We don't expect direct to return to growth in this fiscal year, but we do believe that Direct should be a healthy part of our business in the future, and it should be a more profitable part of our business in the future as we reposition it.

[OPERATOR]

The next question comes from Lorraine Hutchinson of Bank of America.

[LORRAINE HUTCHINSON]

I wanted to see if you could focus on China for a minute. Can you talk about the strategies that you're using to turn the digital business? And then also the cost and timeline of the store refresh.

[ELLIOTT HILL]

Yes. Lorraine, thanks for the question. Let me start maybe a little bit bigger picture on China really quickly. We believe in the long-term opportunity in China. And I said it in my prepared remarks, it starts with us leading with sport. We see that sport continues to grow. It's a tailwind in that country. And we think it will unlock further growth. We were just there, Matt and I and the leadership team and we left with an even stronger belief in the future of the market, and we're confident that the Win Now actions that were put in place will help us return the market over time back to growth. But as Matt said, this year, we've got some work to do.

You've already touched on it, that structural there are structural differences in the marketplace.

And that's why really China is on a different timeline. But here's how we think about winning

in that marketplace. When we lead with sport and starting with innovative product, running, training, basketball, especially outdoor basketball and football. And when we supplement that assortment with our Geo Express Lane, which is our local-for-local product, we are seeing good results there. When we tell better stories, not only utilizing our global assets, but our local athletes that also is paying dividends. And we're elevating the overall marketplace. As you pointed out, the digital marketplace is promotional, those big consumer moments, 11/11, et cetera, and we're working to find the right path forward for our digital business.

The physical marketplace is a mono brand. We're testing and resetting new consumer concepts. But we've got to be stronger operationally in those physical doors with the right assortments and the right depth, stronger presentation and service, and that's how we're going to get back to driving sell-through. And again, as I touched on when we do, do it right. It does resonate. We had some really good successes in running this quarter and then some basketball successes around Ja and LeBron.

So overall, we're definitely in a bit of a turnaround. But Matt and I have been actively involved in some of those turnarounds before. Our teams are focused, moving with urgency. They're taking the right actions to clean up the marketplace, elevating overall mono brand in digital, and we've got quarter-by-quarter plans in place to elevate the overall integrated marketplace.

[MATT FRIEND]

And then cost and timeline, Lorraine, I would just say that we've made some significant investments in the China marketplace over the last 3 quarters, in order to clean up inventory and set the business up for a foundation of success. When I look at our inventory being down, NIKE's inventory being down 11% versus the prior year. I think we're seeing the fruit of that, and we feel good about where marketplace inventory levels are as well. The challenge is what Elliott highlighted, which is that while we can invest to keep the marketplace clean and healthy.

It's an expensive operating model if sell-throughs don't improve to the level that we need to see on a season in and season out basis. And so all of the actions that Elliott referenced are really our focus on trying to improve sell-through to create brand distinction in that marketplace, which will result in or should result in greater profitability, but in the near term, we think it's going to take time. And so that's why we believe that China will continue to be a headwind on the topline and on margin for the balance of fiscal year '26.

Last quarter, we referenced a few pilots that we were working on and that our teams are working on. And we had a chance to see them when we were in China a few weeks ago. We're actually encouraged by the progress that the teams are making on these initial store pilots, but there's a little bit more work that needs to be done because while they're outperforming the broader fleet, we'd like to see them do a little better before we start to scale with our partners. And we've got great relationships with our partners in that marketplace. And so we're confident that once we get these pilots performing the way that we want to, both we and our partners are prepared to invest to turn the business in the direction that we want to head.

[OPERATOR]

The next question comes from John Kernan with TD Cowen.

[JOHN KERNAN]

Congrats on the momentum with the turnaround. Matt, inventory down 2% on the balance sheet, which I think would imply units down even further, how would you characterize inventory in the wholesale channel and the timing of when wholesale discounts, which I think have been a pretty sizable headwind on gross margin when will they begin to fade?

[MATT FRIEND]

John, I'd say that we feel really good about where we landed on inventory this quarter. Units were down in North America, EMEA and in Greater China. We had a -- we did see an increase in units in APLA, and that's the area where we're going to focus. But we're pleased with the progress that we've made and the actions that we put into place to exit Q2 and enter the second half in a healthy position. I think that we would expect -- or we do expect that we should start to see some gross margin benefit in the second half from lapping these aggressive actions.

We are expecting to see improvement within the wholesale channel. I think our partners inventory, we feel really good about. And what I keep saying is that the best indicator of that is the forward-looking order book because our partners and we have a plan together as we've been driving sell-through, as we've been investing to move through inventory and get ourselves to a healthy place. And that's ultimately so that we can create capacity in our partners open to buy for the newness and the innovation and the things that our teams are most excited about, particularly on the performance side of the business, but also some new things that we've got coming on the sportswear side like the Ava Rover and some of the other products that we've started to see some momentum with there.

So I think overall, we feel really good about the progress that we're making there. I'll remind you that there are some other headwinds to gross margin in the second half that are going to mute this, and I referenced those earlier on the call. But as it relates specifically to the way that we're managing the marketplace, we continue to be pleased with the progress we're making on the plan that we set.

[ELLIOTT HILL]

Okay. How about if I just close it out really quickly with just some comments. We are more confident than ever that our Win Now actions are the right path forward. In the first quarter, we saw progress in the areas that we prioritized first, Running, North America and Wholesale. We're in the early stages and our comeback will take time, and our progress

won't be linear, especially in the areas such as Sportswear, NIKE Direct, Greater China and Converse. We are going to accelerate the Win Now actions by activating our Sport Offense that I've spent some time speaking to.

As a reminder, we are organizing ourselves into smaller cross-functional teams by brand and by sport, by country and by channel, wholesale and direct, digital and physical. Our teams are energized, they're inspired and are ready to compete. We're getting back to leveraging NIKE, Inc.'s unmatched portfolio of brands, sports and countries to drive deeper consumer connections and profitable, sustainable growth. Thank you very much.

[OPERATOR]

This concludes today's conference call. Thank you for joining. You may now disconnect.

#