

Q111 NIKE, Inc. Conference Call Script

September 23, 2010

Operator:

Good afternoon, everyone. Welcome to Nike's fiscal 2011 first quarter conference call. For those who need to reference today's press release you'll find it at www.Nikebiz.com. Leading today's call is Kelley Hall, Senior Director, Investor Relations. Before I turn the call over to Ms. Hall, 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 forms 8-K, 10-K, and 10-Q.

Some forward-looking statements concern future orders that are not necessarily indicative of changes in total revenues for subsequent periods due to mix of futures and at-once orders, exchange rate fluctuations, order cancellations, and discounts which may vary significantly from quarter-to-quarter. In addition, it is important to remember a significant portion of NIKE, Inc.'s business including equipment, NIKE Golf, Cole Haan, Converse, Hurley, and Umbro are not included in these futures numbers. Finally, participants may discuss non-GAAP financial measures. The presentation of comparable GAAP measures and quantitative reconciliations are found at Nike's Web site. This call might also include discussion of non-public financial and statistical information, which is also publicly available on that site www.nikebiz.com.

Now I would like to turn the call over to Kelley Hall, Senior Director, Investor Relations.

Kelley Hall:

Thank you operator.

Hello everyone and thank you for joining us today to discuss Nike's fiscal 2011 first 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, and at our website: nikebiz.com.

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Joining us on today's call will be NIKE, Inc. CEO Mark Parker, followed by Charlie Denson, President of the NIKE Brand, and finally you will hear from our Chief Financial Officer, Don Blair, who will give you an in depth review of our financial results.

Following their prepared remarks, we will take your questions. We would like to allow as many of you to ask questions as possible in our allotted time. So, we would appreciate you limiting your initial questions to two. In the event you have additional questions that are not covered by others, please feel free to re-queue and we will do our best to come back to you. Thanks for your cooperation on this.

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

Mark Parker:

Thanks, Kelley.

In June I talked about the momentum we saw in the back half of fiscal 2010. Q1 shows how we are expanding on that momentum.

Revenue, gross margin, and profit are all up. Global Futures are up 13%, our biggest increase in over a decade. And our portfolio of Affiliate brands – Converse, Hurley, Cole Haan, NIKE Golf and Umbro – continues to gain strong momentum. As a result, we delivered exceptional earnings per share of \$1.14 to our investors.

Our first quarter results are a great start to the year and demonstrate the tremendous growth potential of the NIKE, Inc. portfolio. Equally important is what's behind the numbers. I point to three reasons for our outstanding performance . . . flexibility, balance, and alignment.

Flexibility is about the power of our portfolio – our mix of brands and category offense:

- We're able to pull multiple levers across many dimensions of our business.
- For example, we can dial up the Running category to leverage successful new designs like LunarGlide and Dynamic Stability.

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- We can create momentum in Action Sports by combining three great brands across multiple sports in a single consumer experience.
- And in an environment where certain categories or geographies might be slower to recover, our diverse, global portfolio allows us to create new growth in other key markets.

This flexibility is strategic and powerful, and unique to NIKE, Inc.

Balance is all about leveraging innovation to create new opportunities:

- We fixate on superior performance product, and then use that innovation to drive the style side of the business . . . something you can see clearly in the success of our Apparel business.
- We invest in direct-to-consumer retail, and use that innovation to elevate our presence with our retail partners.
- We take everything we know about the physical world of sports, and we apply that knowledge to the potential of digital technology to create new experiences.
- And we do these things to create short- and long-term opportunities that generate top- and bottom-line growth.

Finally... alignment, which is all about optimizing our resources to maximize return:

- When we're fully aligned across design, production, marketing and distribution – the result is experiences that only NIKE can create – like our *Write the Future* World Cup campaign, the U.S. Open of Surfing, and the World Basketball Festival. And all three of those events happened in Q1.
- We see the *same* power of alignment throughout the company, in design, our supply chain, in retail, in HR and operations, and in marketing and sales.
- Alignment amplifies our resources to create unique and compelling successes for consumers and shareholders.

So, the balance, flexibility and alignment that contributed to Q1 continue to position us for growth globally and locally.

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But it's not just about NIKE. It's also about driving innovation and potential into the marketplace. We work with a diverse set of retailers...each with specific strengths and opportunities. And we're uniquely able to amplify those strengths in a way that creates a consistently authentic and provocative presence for our brands, categories and products.

When we combine that with our own retail executions, in store and online, we create an integrated, yet differentiated, marketplace that enables NIKE, Inc. to grow on multiple fronts. Even in a global market that still has some potential for turbulence, we're seeing evidence that our growth is accelerating, and our leadership position is helping to lift the entire industry.

That energy in the marketplace also illustrates an appetite for sports, innovative product and a desire for personal connection with our brands that has never been stronger... which is why I'm *more* optimistic now than I've ever been.

It all starts, and continues, with deep and meaningful connections with athletes and consumers:

- That's where the insights are.
- That's where the innovation begins.
- That's where our growth is.

And, ultimately, that's where we serve athletes, consumers and shareholders.

Being flexible, balanced and aligned will also help us move through the continuing economic uncertainty ahead. Potential headwinds include all the usual suspects: raw materials, energy, labor and transportation costs, and FX rates – all of which have the potential to create pressure on margins through the back half of our fiscal year.

To this point, I think we have proven our unique ability to manage through such circumstances:

- We have the scale and leverage...to optimize our input costs.
- We have the ability to dial up discrete parts of the portfolio...as opportunity arises.
- We have the capital...to surgically and aggressively invest in new growth.

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- We have the talent throughout the company...to execute with speed and precision.
- And, just as important, we're obsessed...we have the hunger to seek & develop the new ideas and inspiration that allow us to innovate... & ultimately surprise & delight the athletes & consumers we're here to serve.

That's why we're not guided by the vagaries of the macro-economy.

We're guided by our own potential. And that potential has never been greater.

Now here's Charlie to take you through the NIKE Brand.

Charlie Denson:

Thanks Mark.

Q1 was indeed a good quarter for the NIKE Brand. We posted some strong numbers, and we're in a good position to take advantage of the momentum we've worked hard to create. Let's go through some of the first-quarter highlights:

- Reported revenue was up 6% to \$4.5 billion.
- SG&A was up due to demand creation behind World Cup and the World Basketball Festival.
- Our global Futures are up 10% – or 13% on a constant-dollar basis – our highest in over a decade... this may not be the last time you hear that today!

We feel great about where we are and what we've accomplished. But I'm even more excited about where the NIKE Brand can go.

For the past year you've heard us talk about amplifying our innovation agenda and the power of sport through a category lens. In fact, nine months ago on our Q2 '10 call, we laid out specific plans to pick up share and expand our leadership position across the industry worldwide . . .

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Fresh Air in the Spring to drive Sportswear . . . industry-leading Football innovations around World Cup . . . Running strength driven by LunarGlide and Dynamic Stability . . . and the evolution of Pro Combat apparel. All of these category-specific efforts are paying off big time, just like we said they would.

If we take a bit deeper dive into some of the examples Mark opened with, you can see how we use that category lens to drive innovation across product, brand and retail:

- In June, we had our best World Cup ever . . . We broke new ground with a revolutionary traction technology, and, in high-performance apparel, with kits that were also our most sustainable ever. And whether you were 100 rows up in Soccer City Stadium or 10,000 miles away in your living room, there was no mistaking the iconic orange pop of the NIKE boots on the pitch. Our Write the Future Football content was viewed more than 52 million times online. And it was Andrés Iniesta in a NIKE boot who kicked the winning goal for Spain in the final. I'm proud of both our brand and commercial success at World Cup 2010. It was a championship performance..... and we're looking forward to winning again in Brazil in 2014.
- After World Cup it was on to the U.S. Open of Surfing . . . More than 600,000 people stormed Huntington Beach to watch Brett Simpson and Carissa Moore take the crowns. It was a massive celebration of surf, skate and BMX created by the leaders in Action Sports – NIKE 6.0, Hurley, and Converse.
- Then we put together the first World Basketball Festival . . . it was a four-day, city-wide celebration to honor the global game, and a tremendous showcase for NIKE Basketball, Jordan and Converse. I was especially inspired by Kevin Durant, who's play and leadership earned him the MVP of the World Championships, and established himself as an emerging force in the game going forward.
- As much as we highlight connecting with consumers at big events with millions of people – we're equally focused on the individual athlete. Just a couple of weeks ago we launched our new NIKE+ GPS app. It helps train, inspire and connect runners to the rest of the world anytime, anywhere. It's a very exciting example of how we can combine two high-performance businesses – Digital Sport and Running – to create a new experience for consumers, and a new growth market for the brand.

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- While I'm on Running, real quick on the LunarGlide shoe. We sold more LunarGlide shoes in Q1 than we did any other performance shoe in any quarter in our history. It's also proving to be a powerful cross-over shoe between technical performance and style. Again, an opportunity we started talking about a few years ago, and a perfect example of how performance product can drive both sides of the business.

So, World Cup, U.S. Open of Surfing, World Basketball Festival – all featuring new products and stories, new communities, compelling experiences with our brands and inside our stores, and all in the last 90 days.

So, what's coming in the next 90 days?

- We will launch the new LeBron 8 shoe in October – a totally fresh expression of one of our most successful franchises. And we're putting the finishing touches on the highly anticipated Kobe 6, set to launch on Christmas Day.
- In College Football, 10 elite college teams are playing in new Pro Combat uniforms.
- And, we'll be running marathons in Berlin, Chicago, Beijing, New York and San Francisco, where you'll see countless athletes running in Lunar cushioning, Dynamic Stability, Flywire technology, and the Tempo Running Short.
- And that's just a glimpse of the product and brand experiences on the way.

That leaves the final piece of the category offense – optimizing the expansion of the marketplace...We lead with NIKE retail in store and online, and we drive innovation into the marketplace to help our retail partners present our brands and products.

Two new NIKE stores in Santa Monica and Roosevelt Field are great examples of where we see the retail evolution headed – a balance of innovative product, strong brand, and category passion . . . from the best performance product you can find anywhere, to lifestyle footwear and apparel you can wear anytime.

Our partner retail concepts have that same balance. Foot Locker's House of Hoops, Finish Line's Running Lab and Dick's Field House have quickly become meaningful and measureable

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formats that expand the overall market. And partners like JD Sports in the U.K., Belle in China, and Centauro in Brazil continue to deliver robust potential in key markets around the world.

With one look at our Futures, you can see that demand is high. This is a great position to be in, but it does come with its own challenges – specifically with select technical footwear and performance apparel products. We're working closely with our manufacturing partners to accelerate production and meet demand on these highly sought-after products.

All things being equal, we prefer a pull market, and we're seeing that enthusiasm play out across categories and geographies:

- In North America the category offense is building strong momentum in product, brand experiences and premium distribution, with particular strength in our Performance categories and in Apparel. Futures for Holiday and Spring are up strong double-digits in nearly every category, including Women's Training – which is steadily gaining share with its apparel business. And we expect Women's Training to see additional success and revenue when we introduce a major technology and performance story around NIKE Free Footwear in the Spring.
- In Western Europe, we're pleased to see an accelerating return to growth as the region begins to show signs of stabilizing. We saw dramatic growth in Running, Football, and Action Sports. In the U.K. specifically, we saw solid Futures growth in Basketball, Football, and Men's and Women's Training.
- Central and Eastern Europe featured especially impressive comebacks in Russia and Turkey, and strong Futures in all categories. Still a lot of choppiness in that geography, but nice to welcome them back to the positive side of the growth equation.
- In China, we extended market share gains driven by strong retail partner performance, and strong double-digit Futures in nearly every category. The big story there continues to be Basketball, which shows no signs of slowing down. Kobe is a living legend in China, and his signature product continues to absolutely kill it at retail. China continues to be a market that offers a solid balance of short- and long-term growth potential.
- Japan continues to work through one of the toughest economies in decades. That said, our technical Running product and Women's apparel is performing relatively well in that

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market. We'll continue to do in Japan what we've done with each of our businesses during the recession – run lean, invest wisely, optimize, drive profitability and maintain brand strength.

- And finally, Emerging Markets, where every category and major territory saw positive growth and continued strong Futures. Revenue in our Brazil business alone is up 70%, which speaks to the power of the NIKE brand. And it speaks just as loudly to the potential of our Emerging Markets region, which has consistently posted double-digit growth in revenue, futures and EBIT.

So, it was balance, alignment, and flexibility that delivered our strong quarter. Our footwear business is solid around the world. Our Apparel business is energized and just beginning to reveal some of its true potential. And overall, we've never executed better on both a global and local level.

Going forward, we have a clear vision and a wealth of opportunity. And while we face some uncertainty on the macro side, there is no doubting our performance and our ability to execute our game plan and deliver results.

Now here's Don to take you through a bit more on the numbers.

Don Blair:

Thank you, Charlie.

I agree there's a lot to like about our first quarter results.

- Revenues were up 10% in constant currency, reflecting growth in each of our NIKE Brand sport categories, every geography but Japan and each of our Affiliate businesses. And our NIKE Brand Direct to Consumer businesses are on fire as our retail stores delivered record revenues for the quarter and Digital sales rose 22%.

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- Futures scheduled for delivery over the next five months grew 13% in constant dollars and 10% as reported, reflecting accelerating growth in the second half of the futures window.
- Gross margin was surprisingly strong, as higher input costs are hitting us a bit later than we expected and strong consumer demand for our products - in wholesale accounts and in our own retail stores - kept inventories lean, minimizing discounts and close-outs. In Q1, these positive factors more than outweighed FX headwinds, as well as higher sourcing and air freight costs as we continued to work with our factories to build capacity and meet consumer demand.
- As planned, we made significant first quarter investments in demand creation and retail infrastructure. But our costs remained well controlled and stock option expenses declined, leaving overall SG&A lower than our expectations.
- The result was \$1.14 in Earnings per Share, up 10% versus last year.

As pleased as we are by our first quarter results, we're even more excited about the long-term outlook for our business. The broad-based growth we reported for Q1 and the rapid acceleration of futures are strong indicators that our integrated category offense is gaining powerful traction in the marketplace.

In recent quarters we've said that while we're cautious about the macro outlook, we have great confidence in NIKE. And we do still see some challenges ahead.

- Input costs are headed higher as labor, oil and cotton become more expensive.
- We expect the rapid acceleration of our business will continue to increase sourcing and air freight costs in the near-term as we work to build capacity and meet surging demand.
- And we're facing tougher prior year revenue comparisons in the second half of the fiscal year.

Nevertheless, our first quarter results and Futures give us even greater confidence in the effectiveness of our strategies and the strength of our brands, our business and our team.

Now let's take a look at first quarter results by segment:

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Revenue for North America increased 8% on both a reported and constant currency basis as Direct to Consumer sales increased 15% and Wholesale revenue increased 7%. Comp store sales in NIKE-owned retail stores increased 13% for the quarter, while online sales increased 22%; both were driven by higher traffic, conversion and average transaction. Constant currency futures for North America are up 14%, reflecting double-digit growth in Running, Men's and Women's Training, Football and Action Sports.

In the first quarter Apparel led the way in North America, as currency neutral revenues increased 16%, reflecting 18% growth in full price sales and a decline in closeouts. Futures for Apparel increased over 20% as all seven key categories trended higher. This performance is the result of the hard work we've done to improve our product as well as the power of the integrated category offense, which particularly benefits our Apparel business.

In the first quarter, currency neutral Footwear Revenue in North America increased 5%, driven by a 7% increase in full price sales, partially offset by a significant drop in off-price revenues. Our Running business continues to perform extremely well driven by demand for products such as Lunar and NIKE Free. Basketball, Football and Men's Training also delivered strong growth for the quarter. Footwear futures grew at a double-digit rate, reflecting tremendous strength in our performance categories.

First quarter EBIT for North America improved 9%, driven by revenue growth and SG&A leverage.

In Western Europe, Q1 Revenue decreased 4% versus the prior year, but grew 6% on a currency neutral basis. Every territory reported higher revenue for the quarter and Running, Football and Action Sports led the way from a category perspective. On a currency neutral basis, Footwear grew 10% driven by continued World Cup momentum, while Apparel grew 3% reflecting 5% growth in full price sales and significantly lower off-price revenues. Currency neutral Futures grew 6%, with growth across nearly every category and territory.

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Q1 EBIT for Western Europe declined 3% as we invested in World Cup marketing and currency headwinds put pressure on gross margins and real dollar profits.

Central & Eastern Europe returned to growth in Q1, as Revenue grew 3% on a reported basis and 9% on a currency neutral basis. The constant currency growth was driven primarily by strong recoveries in Russia and Turkey, which both grew more than 40% on the strength of the Football, Sportswear and Running categories. The business in CEE continues to accelerate, as constant currency Futures grew 14%.

Q1 EBIT for CEE declined 18%, also reflecting the impact of currency headwinds on margins, and World Cup marketing investments.

In Greater China, first quarter Revenue grew 11%, including one point of benefit from currency changes. Growth was fueled by expanding points of distribution and renewed brand momentum resulting from strong product offerings and exciting Brand events, including grass-root tours by Kobe Bryant and Kevin Durant. Footwear and Apparel each reported higher revenue for the quarter driven by double-digit increases in Running, Basketball, Sportswear and Action Sports. Constant currency Futures grew 23%, with double-digit growth in nearly every category.

Q1 EBIT for Greater China increased 10%, as revenue growth and higher gross margins more than offset increased investments in demand creation.

In Japan, first quarter Revenue declined 12% on a reported basis and 18% in constant dollars, reflecting off-price sales over 50% below last year's levels. EBIT declined 23% as lower revenues and higher SG&A were partially offset by stronger gross margins.

While macro conditions in Japan remain weak, we're very confident we're taking the steps that will generate growth over time. We're also focused on closely managing our product flow, cost structure and balance sheet. As a result gross margin is up, inventory is down 30% and we continue to deliver healthy profitability and cash flow relative to the market.

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In Q1 our Emerging Markets geography continued to deliver impressive results. Revenue increased 30%, reflecting 24% growth on a constant dollar basis. Excluding currency effects, most territories and categories grew double-digits with Brazil and Football leading the way. Across the Emerging Markets geography, Football revenues continued to grow at a healthy double-digit rate as a result of strong product, marketing and retail execution around the World Cup. Revenues in Brazil, the largest market in the geography, grew nearly 70% in Q1, driven by Football and Sportswear. This strong performance is the direct result of investments we're making to strengthen our position in this vital market as we look ahead to the 2014 World Cup and the 2016 Olympics.

EBIT for the Emerging Markets increased 17%, as revenue growth was partially offset by increased demand creation.

First quarter Revenue for our Other Businesses increased 15% on a reported basis and 16% on a currency neutral basis reflecting double-digit growth at Converse, Hurley and Umbro, and high single-digit growth at Cole Haan and Nike Golf. EBIT for the Other Businesses grew 25%, reflecting revenue growth and strong gross margin expansion for most of the companies.

Our Q1 results and five-month Futures clearly indicate our business is rapidly building momentum with consumers and retailers, driven by our integrated category offense. While we do see some rough water ahead in the near-term, we believe these strategies will drive sustainable, profitable growth over the long-term.

On a currency neutral basis, we expect FY11 Revenue growth at the top end of our high single-digit target range. Consistent with the difference in Futures, we expect reported Revenue growth to be lower due to weaker foreign currencies versus last year. For Q2 we expect Revenue growth slightly below reported Futures growth, reflecting the timing of orders within the Futures window.

In Q1, Gross Margin exceeded our expectations as a result of the delayed impact of higher input costs as well as the positive effect of strong demand and tight inventories. Over the balance of the year, we still expect increasing pressure from FX headwinds, rising input costs and higher

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freight costs. As a result, we now expect full year FY11 Gross Margin about 50 basis points below FY10, with relatively flat margin in Q2 and more challenging comparisons in the second half, as macro pressures increase and we begin to anniversary higher margins from the prior year.

At this point, we're expecting FY11 Demand Creation to grow at a mid single-digit rate. We're planning Q2 Demand Creation to grow at a low single-digit rate, with spending below prior year in the second half as we compare against the heavy investments in World Cup marketing in Q4 last year. That said, we're very encouraged by the success of our strategies across the brand portfolio and are considering opportunities to invest incrementally to drive profitable growth.

For the year, we expect Operating Overhead to grow at a mid single-digit rate, reflecting increased investment in our Direct-to-Consumer businesses balanced by increased efficiency in our core operating functions. We expect Q2 Operating Overhead to grow at a low double-digit rate as a result of the timing of stock option expense this year and comparisons to relatively low expenses in last year's second quarter.

We anticipate that Other Income for each of the last three quarters of the fiscal year will be broadly consistent with Q4 of last year, as the stronger dollar creates gains on our foreign currency hedges.

Finally, we now expect our Effective Tax Rate for FY11 to be about 26% as a greater proportion of our profitability is earned in the U.S., where we face a higher tax rate than abroad.

We're very pleased with our first quarter results, and even more excited about what they tell us about our future. We're now ready to take your questions.