

Nike Inc.

Nike Builds on Strength

Nike's FY3Q19 built on the strength of its premium channel offerings, with plan attainment strong in all regions, while entry-level and mid-priced footwear was regarded as much improved, especially for the second half of 2019.

- North America: NKE FY3Q19 shoe purchases up 2%–6% yy (vs. up 1%–5% in FY2Q19), despite cold weather; sales met or exceeded plan for 9 of 12 sources (vs. 6 of 10 in FY2Q19); NKE continues to cancel wholesale orders, citing issues with finding enough capacity at factories
- China: NKE FY3Q19 shoe purchases up 10%–14% yy (as in FY2Q19); shoe sales exceeded plan for 9 of 11 buyers (vs. 8 of 10 in FY2Q19); Nike, Converse and Jordan in strong demand as NKE caps order growth
- Western Europe: NKE's FY3Q19 shoe purchases up 7%–11% yy (as in FY2Q19); shoe sales exceeded plan for 4 of 11 sources (vs. 6 of 12 in FY2Q19); NKE continued to take share from ADS GR

KEY DATA

Nike FY3Q19 Plan Attainment

(number of mentions)

	SHOES			APPAREL		
	NORTH AMERICA	EUROPE	CHINA	NORTH AMERICA	EUROPE	CHINA
Exceeded	5	4	9	7	-	6
Met	4	7	2	2	8	4
Fell below	3	-	-	-	-	1
OTR Comparative Index	17	36	82	78	0	50
FY2Q19 Index	-20	50	80	63	67	40

Note: The OTR Comparative Index is a quantitative representation of qualitative responses. The Index is calculated by subtracting the "worse" from the "better" responses, dividing by the total responses and multiplying by 100. An Index below zero indicates a negative trend; above zero indicates a positive trend.

"Nike has put a lot of emphasis on mid-tier, and as you get to holiday, \$90-and-under running offerings look much, much better."

North American sporting goods buyer

BY LOIS SAKANY

SOURCES & BACKGROUND

36 athletic shoe and apparel buyers representing more than 8,211 doors

NORTH AMERICA 12 buyers representing 1,759 doors; **CHINA** 11 distributors representing 1,183 doors; **WESTERN EUROPE** 13 buyers representing 3,394 doors (6 in Germany, 4 in France and 3 in the United Kingdom)

REPEAT SOURCES 30 (8 in North America, 10 in China and 12 in Western Europe) from OTR Global's December report

INTERVIEWS First half of March

AVERAGES Straight

NOTE OTR Global's research does not include Nike's direct-to-consumer sales, which is a point of growth emphasis for the company.

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NIKE PURCHASES AND SALES

North America very strong, but clipped by cold

Footwear: Nike Inc.'s North American shoe purchases during FY3Q19 increased an average 2%–6% yy, compared with up 1%–5% in OTR Global's FY2Q19 findings in December. Sales exceeded plan for five of 12 sources, compared with two of 10 in the FY2Q19 report. Demand was strongest among mall, urban and boutique sources, who credited fresh product offerings and effective marketing campaigns. Although colder and more inclement weather yy pinched FY2Q19 sales in the mid-tier and sporting goods channel, sources said Nike's offerings for the mid-tier have improved, which helped offset some of the weather impact. Sources for the mid-tier channel also said the percentage of improved offerings should continue to increase as the year goes on, namely for back-to-school and, especially, holiday. "Nike has put a lot of emphasis on mid-tier, and, as you get to holiday, \$90-and-under running offerings look much, much better," said a source.

In addition to mid-tier, sources said Nike had placed a much bigger emphasis for 2019 on creating product for and marketing to the female customer. In addition to its splashy women's presentation in mid-March in Paris, where it revealed new uniforms for 14 national soccer teams, the brand has increased limited-edition collaborative launches with female influencers and designers, an effort that has translated into growth in sales to women. The focus on women was received well by a mid-tier source, who said, "It's a strategy that fits with our consumer. We focus on her. That's who we attract."

As in the FY3Q19 report, sources from an array of retailers said Nike has continued to cancel orders, telling sources that its manufacturers have not been able to keep up with demand. "I just had \$50,000 worth of product cancelled," said a source. Although sources believe Nike is truthful about not having factory capacity to deliver, they also uniformly believe Nike's main priority is fulfilling its own orders as part of its stated goal of expanding direct sales. An online retailer said, "Our main competitor is Nike direct and then **Dick's [Sporting Goods Inc.]**. We see data, and Nike is taking actions that are cutting into our sales. The problem with Dick's is it's constantly promotional, and, coupled with **Amazon[.com Inc.]**, our customers see what they do and expect something whether a percentage off or free shipping." Another retailer said, "There are supply issues and it is capacity, but I think it's because Nike is selling so much on its own. It doesn't know how to project properly."

Jordan: Sales of Jordan at least met plan during FY3Q19 for all seven sources who carry the brand, compared with three of five meeting plan and two below in FY2Q19. Although demand for the Retro shoes varied by the item, overall demand for Retro 1 models was perceived as very strong and much improved compared with last year. "Resurgence of [Jordan] Retro 1 is helping the sneaker market. Asia loves the 1s, and you can see that dynamic because now the smaller sizes are selling out faster," said an urban source.

Apparel: Purchases of Nike apparel were up yy during FY3Q19 for eight of nine sources, compared with three of six in FY2Q19. Apparel sales exceeded plan for seven of nine sources during the quarter, compared with five of eight in FY2Q19. Mall, urban and boutique sources especially praised Nike for combined retro-themed offerings with effective marketing and influencer campaigns, and the brand's Just Do It campaign, fronted by Colin Kaepernick, was regarded as especially effective. "Nike apparel is on fire. The new Windrunner product is seeing a 25% sell-through. It plays into the '90s," said an urban source.

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China: High demand for all Nike brands

Nike's shoe and apparel purchases increased an average 10%–14% and 8%–12% yy, respectively, during FY3Q19 in China, similar to the FY2Q19 report. Nike's athletic lifestyle and basketball offerings drove sales, while demand for running shoes showed some pullback. Nike footwear sales exceeded plan for nine of 11 sources and apparel sales exceeded for six, compared with the FY2Q19 report when eight of 10 said footwear sales exceeded plan and four said apparel sales exceeded. "Nike sales increased 20% and same-store sales increased near 10%," said a source. Another source said, "Nike's shoe sales exceed expectations. Demand for Nike's Air Force 1, running shoes and especially women's training shoes increased very fast."

Converse sales in China soared during FY3Q19, driven by the brand's Chuck 70 silhouettes. Sources carrying the brand said sales registered triple-digit growth, with an expectation demand would remain high throughout the year. "Converse is on fire this year. Total sales increased 200%. Its Chuck 70 collections sold out in most stores and the resell price of some silhouettes reached \$250 on resale sites — more than double its original selling price," said a source.

Jordan FY3Q19 footwear and apparel sales exceeded plan for six of 11 sources, compared with three of 10 in FY2Q19. Sources credited improved offerings combined with lower prices yy. "This year there will be more Air Jordan 4 and 6 launches in China. Jordan is still hot. The brand has loyal fans, and they still love it," said a source.

Western Europe: Lifestyle dominates

Footwear: Nike's Western European FY3Q19 footwear purchases increased an average 7%–11% yy, as in FY2Q19. Four of 11 sources exceeded sales plan, compared with six of 12 in FY2Q19. Sources said Nike continued to outperform the category in all segments, with the strongest growth in lifestyle silhouettes, driven by the strength of its collections and innovations, as well as an ongoing shift in demand away from its main rival, **Adidas AG**. "We accelerated our Nike buy over most segments, and consumers continue to shift away from Adidas, helping Nike especially in lifestyle and also soccer," said a German source. Key growth drivers were again Air Max, Air Max 270 and Air Force lines; in lifestyle, several sources also were positive about new launches in mid- and lower-priced brackets, such as M2K Tekno or Zoom models, both of which are priced around €90. Nike performance shoes experienced less explosive growth than other Nike lines, reflecting lower growth of the category. Sources partly attributed the difference to weather challenges, as well as to greater consumer interest in lifestyle products.

French sources said sales during December were affected by the yellow-vest social protests, but sources still at least met plan as trends improved during January and February. "Like the category, Nike sales could have been stronger without the yellow-vest protests, but it certainly gained share in all segments, including women's. We had shortages in some segments because sales were so good," said a French source.

Apparel: Nike's FY3Q19 athletic apparel purchases were up yy for seven of nine sources and flat for two, similar to OTR Global's December report. Sales were driven mostly by performance apparel (fitness and running) for German sources, and by performance and lifestyle for U.K. sources. Two U.K. sources again said deliveries had been interrupted due to ongoing fulfillment issues, though deliveries improved as the quarter progressed. For French sources, Nike apparel lifestyle sales were boosted by stronger Jordan popularity in the wake of the brand's sponsorship of the Paris Saint-Germain soccer team.

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NIKE ORDERS

North America

Nike's North American footwear orders for the next six months increased an average 2%–6% yy, as in December. Apparel orders were up yy for seven of nine sources, compared with three of five buyers in December. Although several sources expressed concern about Nike's plan to grow its own share through direct sales, the brand had not broadly capped orders and, in at least two cases, opened the retailer up to a better tier of allocation than it had in the past.

Although Nike's wholesale pricing was flat, sources pointed out that the brand's effective marketing campaigns have translated to a greater percentage of higher-priced and full-priced sales. At the same time, Nike's decision to decrease its volume-related discount on its fall fleece programs was viewed as a move that would reduce fall promotion levels, a trend that would benefit Nike and retailers.

China

Nike's shoe orders for the next six months in China have increased 11%–15% yy on average, and apparel orders have increased 9%–13% yy, similar to OTR Global's December findings. The sources with the largest number of doors reported more robust increases, with the top two distributors planning 20% yy increases. Sources said orders would have been higher, but Nike capped orders for some. "Nike's momentum is very strong now. Our orders increased 20%. We want to order more, but Nike capped our orders and also reduced some of our already-placed orders by 10%–15%. We don't know whether because Nike wants to control expansion, create demand or it has supply issues, but whatever the reason we would like to order more," said a source.

Nike's order growth was driven by attractive new products, especially for women, combined with effective marketing campaigns enabling the brand to take further share from Adidas. Two sources said apparel growth was led by the addition of yoga apparel for women, while one said orders had benefited from Nike opening up Jordan allocation in his region. "We're growing Jordan shoes from 20% of our stores to 50% of our stores this year. Nike launched more Jordan footwear offered in a wider price range. The average price now is approximately 900 yuan and even lower. Most stores in tier-2 areas have Jordan shoes now."

Five of 11 sources said Nike wholesale prices in 2019 are up while six said they are flat compared with the December report, when almost all sources said Nike wholesale prices were up yy.

Western Europe

Nike's footwear orders in Western Europe for the next six months yy have increased an average 9%–13% yy, similar to December. Sources said orders have been driven by innovative new styles as well as expected further share gains from Adidas. Shoe order growth was strongest in lifestyle, still driven by Air Max and Air Force 1 as well as new launches. Meanwhile, orders for running and soccer shoes were ahead of slower categories for most sources, with running orders affected by more saturation and soccer orders affected by more difficult yy comparisons because of last year's World Cup.

Western European apparel orders for the next six months were up 4%–8% yy, compared with up 1%–5% in the December report. Growth was driven by stronger performance by apparel in

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particular, but also more inroads in lifestyle for some sources. No source reported any major price increases for deliveries set for the next six months.

CATEGORY PURCHASES AND ORDERS

North America: Overall athletic shoe orders for the next six months have increased yy for nine of 11 sources, compared with up for six and flat for four in December. Sales during December–February met plan for nine of 11 sources, compared with seven of nine in the December report. In both reports, sources said colder and snowier weather yy had cut into demand of athletic footwear while also benefiting sales of fleece and outerwear.

China: Overall athletic shoes and apparel orders for the next six months in China have increased 10%–14% yy, the same as in OTR Global’s December findings. Athletic lifestyle offerings dominated trends, easily outpacing performance products. Overall athletic shoes sales exceeded plan for seven of 11, stronger than the December report. Demand was driven by better-than-anticipated sales prior to Chinese New Year and a continued push by the government to embrace a more active lifestyle.

Converse led sales trends, followed by **Puma SE**, Nike and Adidas. Two distributors expressed concern about consumers spending less, reflected in lower same-store sales at full-price stores and an increase at outlet stores.

Western Europe: Overall athletic shoe orders have increased 3%–7% for the next six months yy, similar to the December report. Demand for lifestyle-themed athletic shoes and apparel trends were strong in all three countries, though the outlook for performance running was only upbeat among German sources. Some German sources expressed concern about a less-bright economic outlook, but their concerns did not affect order planning. Meanwhile, all U.K. sources pointed to Brexit as a negative factor affecting both sales and orders with consumers holding back because of the ever-growing uncertainty in connection with Brexit’s potential impact on employment and inflation.

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North America

ON OUTLOOK

"I see Nike [mid-tier] improvement coming for back to school. We're excited about holiday and equally excited about spring 2020."

"There's still an appetite for some retro brands. We have some [Hanesbrand Inc.] Champion landing in a month. We'll have less Adidas. Converse is looking good in 2019."

ON FY1Q19

"The snow and cold has impeded Nike and all athletic footwear sales. We're still selling boots right now. Plus, we're up against high-single-digit comps from last year."

"It's hard for me to complain about Nike-direct competition when our [Nike] sales are up 15%."

ON THE CATEGORY

"Business has been tough so far this year. We've had store closures. It started off well and then it just stopped. On warm days we do well and on cold ones we do poorly."

"The spring sports business has been off to a very slow start, and part of that is temperature and snow. That being said, in the last two to three days, the cleat business has begun to flatten out or increase."

"My concern is the economy has been humming along but our president has initiated a lot of triggers to stimulate that weren't needed, and my concern is if there's a downturn, there isn't much he can do. You can't give another tax break. Interest rates are historically low."

China

ON FY1Q19

"Nike has a new strategy of opening stores based on the customer profile by location that's really working. It's opened basketball, football or boutique-themed stores based on projection, and same-store sales in those stores are up 13% versus same-store sales of up low-to-mid-single digit in other locations."

"Nike purchases were up because Nike is focusing on growing the female customer. The Just Do It series launched recently and created a lot of buzz. Spring Festival shopping also boosted sales."

"Apparel sales are above expectations. Nike's basic styles sold well as well as some of its more fashionable offerings."

ON FY3Q19

"Sales were pretty good for almost all brands. Converse is the strongest breakout brand this quarter. Sales have doubled versus last year. Several of its collaborative collections sold out."

"Athletics shoe sales are still very strong this year. Converse, Puma, Li-Ning and Adidas are all up, and Nike is robust. But we're aware consumers' spending frequency is decreasing, therefore we are cautiously positive."

Western Europe

ON OUTLOOK

"Nike's collection is super strong and will remain strong in 2019; Converse and Jordan are small but also growing nicely." *France*

"Nike apparel is also strong with the Paris Saint-Germain soccer team club sales, including a strong partnership with Jordan as well as French soccer team shirts and a major lead in training pants." *France*

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“For 2019, both 1H and 2H, Nike has placed a lot of emphasis on creativity and its products can be worn all day, not just for running. Nike apparel is doing well in an overall flat category.” *France*

“Our Nike orders remain strong. It seems it can do no wrong at the moment.” *Germany*

“Orders for Nike are very strong, and we’re really pleased with the newness that’s coming though.” *United Kingdom*

ON FY3Q19

“All Air Force and Air Max silhouette are selling very well, plus M2K and Zoom as well.” *France*

“Nike in soccer is still gaining share in footwear with Mercurial Speed and Phantom, which was just introduced and is off to a good start.” *France*

“Nike is getting much more accepted in lifestyle and offers a lot of good choices at an array of price points.” *Germany*

“We had strong early sales of running shoes in February. Let’s see if that will translate to a drop-off in March from early sales or continued demand.” *Germany*

“Nike’s had an incredible quarter. Sales of Air Max and Air Force are flying. Jordan is doing much better and the new Zoom styles are appealing to those that want a lower entry price point.” *United Kingdom*

“Nike’s doing well enough under the circumstances, but it isn’t as easy for retailers that aren’t allowed to carry Air Max shoes. Stefan Janoski is driving most of our skate sales and it’s OK, but it’s not anywhere near driven by the high demand that lifestyle product we don’t have access to.” *United Kingdom*

ON THE CATEGORY

“December and January could have been stronger, but the yellow-vest protests hurt us. February was super strong so overall we met plan.” *France,*

“Soccer has been difficult overall. In apparel we’re facing the World Cup comps so we’re anticipating a difficult year, but training pants are selling well.” *France*

“Consumers overall seem to be getting a bit more cautious, but in the past the athletic category often managed to avoid major downturns.” *Germany*

“It’s been tough for all brands. The uncertainty of Brexit is without doubt causing a slowdown in spending, particularly on non-essentials.” *United Kingdom*

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1. Have Nike footwear and apparel orders for the next six months (through August 2019) increased, remained the same or decreased yy?

FOOTWEAR	CHINA	NORTH AMERICA	FRANCE	GERMANY	U.K.	WESTERN EUROPE
Up 21%–25%:	-	-	1	-	1	2
Up 16%–20%:	3	-	1	-	-	1
Up 11%–15%:	3	2	-	-	-	-
Up 6%–10%:	4	-	-	3	-	3
Up 1%–5%:	1	2	1	1	-	2
Up:	-	-	1	-	-	1
Flat:	-	6	-	-	2	2
Down:	-	1	-	-	-	-
No response:	-	1	-	-	-	-
Not applicable:	-	-	-	2	-	2
Average:	Up 11%–15%	Up 2%–6%	Not averaged	Up 6%–10%	Not averaged	Up 9%–13%
December average:	Up 11%–15%	Up 2%–6%	Up 13%–17%	Up 6%–10%	Not averaged	Up 8%–12%
APPAREL						
Up 26%–30%:	-	1	-	-	-	-
Up 16%–20%:	2	-	-	-	1	1
Up 11%–15%:	2	-	-	-	-	-
Up 6%–10%:	6	1	-	-	-	-
Up 1%–5%:	1	1	1	2	1	4
Up:	-	4	1	1	-	2
Flat:	-	-	-	-	1	1
Down:	-	1	-	-	-	-
Down 11%–15%:	-	1	-	-	-	-
Not applicable:	-	3	2	3	-	5
Average:	Up 9%–13%	Not averaged	Not averaged	Not averaged	Not averaged	Up 4%–8%
December average:	Up 8%–12%	Not averaged	Not averaged	Not averaged	Not averaged	Up 1%–5%

2. Did Nike FY3Q19 footwear and apparel purchases increase, remain the same or decrease yy?

FOOTWEAR	CHINA	NORTH AMERICA	FRANCE	GERMANY	U.K.	WESTERN EUROPE
Up 16%–20%:	4	-	2	-	1	3
Up 11%–15%:	1	1	-	-	-	-
Up 6%–10%:	4	1	1	2	-	3
Up 1%–5%:	2	3	1	2	1	4
Up:	-	1	-	-	-	-
Flat:	-	4	-	-	1	1
Down:	-	1	-	-	-	-
No response:	-	1	-	1	-	1
Not applicable:	-	-	-	1	-	1
Average:	Up 10%–14%	Up 2%–6%	Up 11%–15%	Up 5%–9%	Not averaged	Up 7%–11%
FY2Q19 average:	Up 10%–14%	Up 1%–5%	Up 12%–16%	Up 5%–9%	Not averaged	Up 7%–11%

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APPAREL	CHINA	NORTH AMERICA	FRANCE	GERMANY	U.K.	WESTERN EUROPE
Up 26%–30%:	-	1	-	-	-	-
Up 16%–20%:	1	-	-	-	-	-
Up 11%–15%:	2	-	-	-	-	-
Up 6%–10%:	5	1	-	-	-	-
Up 1%–5%:	2	2	1	2	1	4
Up:	1	4	1	-	1	2
Flat:	-	-	-	1	1	2
Down:	-	1	-	-	-	-
Not applicable:	-	3	2	3	-	5
Average:	Up 8%–12%	Not averaged	Not averaged	Not averaged	Not averaged	Up 1%–5%
FY2Q19 average:	Up 9%–13%	Not averaged	Not averaged	Up 1%–5%	Not averaged	Up 4%–8%

3. Did Nike FY3Q19 footwear and apparel sales exceed, meet or fall below expectations?

FOOTWEAR

Exceeded:	9	5	1	2	1	4
Met:	2	4	3	2	2	7
Fell below:	-	3	-	-	-	-
Not applicable:	-	-	-	2	-	2
OTR Comparative Index:	82	17	-	-	-	36
FY2Q19 Index:	80	-20	-	-	-	50

APPAREL

Exceeded:	6	7	-	-	-	-
Met:	4	2	2	3	3	8
Fell below:	1	-	-	-	-	-
Not applicable:	-	3	2	3	-	5
OTR Comparative Index:	50	78	-	-	-	0
FY2Q19 Index:	40	63	-	-	-	67

4. Did Jordan FY3Q19 footwear and apparel sales exceed, meet or fall below expectations?

Exceeded:	6	1	1	-	-	1
Met:	3	6	-	-	1	1
Fell below:	2	-	-	-	-	-
No response:	-	-	-	1	-	1
Not applicable:	-	5	3	5	2	10

5. Are Nike wholesale prices on footwear and apparel up, flat or down for spring and summer 2019 deliveries yy?

FOOTWEAR

Up:	5	-	2	-	-	2
Flat:	6	11	2	4	3	9
Down:	-	-	-	-	-	-
Not applicable:	-	1	-	2	-	2

APPAREL

Up:	5	-	-	-	-	-
Flat:	6	8	2	3	3	8
Down:	-	-	-	-	-	-
Not applicable:	-	4	1	2	-	3

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6. Have overall athletic shoe orders for the next six months (through August 2019) increased, remained the same or decreased yy?

	CHINA	NORTH AMERICA	FRANCE	GERMANY	U.K.	WESTERN EUROPE
Up 11%–15%:	6	-	1	-	-	1
Up 6%–10%:	4	1	1	1	-	2
Up 1%–5%:	1	5	-	3	-	3
Up:	-	3	1	-	1	2
Flat:	-	1	1	-	1	2
Down:	-	1	-	-	1	1
No response:	-	1	-	-	-	-
Not applicable:	-	-	-	2	-	2
Average:	Up 10%–14%	Up 2%–6%	Not averaged	Up 2%–6%	Not averaged	Up 3%–7%
December average:	Up 10%–14%	Not averaged	Up 4%–8%	Up 3%–7%	Not averaged	Up 2%–6%

7. Did overall December–February athletic shoe sales exceed, meet or fall below sales expectations?

Exceeded:	7	-	-	-	1	1
Met:	4	9	3	4	-	7
Fell below:	-	2	1	-	2	3
No response:	-	1	-	-	-	-
Not applicable:	-	-	-	2	-	2
OTR Comparative Index:	64	-18	-	-	-	-18
December Index:	50	-22	-	-	-	8

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