

Nike Inc.

COMPANIES: NKE
ADS GR, BABA, GPS, 2020 HK, 2331 HK, 7936 JP



Top-Tier Product Demand Improves

U.S. Nike FY2Q18 sales benefited from stronger shoe and apparel demand among higher-tier retailers, and the brand is beginning to move away from its elevated promotional cadence to more restrictive MAP pricing.

- OTR Global's read: NKE improves to positive (mixed in September)
- United States: NKE FY2Q18 shoe sales exceeded plan for 4 of 12 buyers (vs. 1 of 12 in FY1Q18), aided by better shoes for higher-tier stores; purchases flat-up slightly yy (similar to FY1Q18)
- China: NKE FY2Q18 shoe sales exceeded plan for 3 of 10 distributors (vs. none in FY1Q18); purchases up 4%-8% yy (vs. up 5%-9% in FY1Q18), top 3 distributors report double-digit increases as NKE gains momentum in top-tier cities
- Western Europe: NKE's FY2Q18 shoe purchases up 4%-8% yy (vs. up 5%-9% in FY1Q18), plan attainment similar
- Area to Watch: NKE moving to more conservative approach on pricing, with plans to return more products to MAP (minimum advertised price) in 2018

KEY DATA

Nike Plan Attainment During FY2Q18

(number of mentions)

	SHOES				APPAREL			
	U.S.	EUROPE	CHINA	RUSSIA	U.S.	EUROPE	CHINA	RUSSIA
Exceeded	4	3	3	-	4	4	1	-
Met	6	11	2	3	2	7	4	3
Fell below	2	1	5	-	1	-	5	-
OTR Comparative Index	17	13	-20	-	-	36	-	-
FY1Q17 Index	-17	14	-73	-	25	10	-36	-

"Adidas still has momentum, but it poked a bear and it's going to have to work hard to keep its place because Nike next year is on a warpath."

U.S. sport specialty buyer

BY LOIS SAKANY

SOURCES & BACKGROUND

46 athletic shoe and apparel buyers and distributors representing more than 11,000 doors

UNITED STATES 13 buyers representing more than 4,300 doors; **CHINA** 10 distributors representing more than 1,960 doors; **WESTERN EUROPE** 18 buyers representing more than 3,870 doors (7 in Germany, 6 in France and 5 in the United Kingdom); **RUSSIA** 5 buyers representing more than 930 doors

REPEAT SOURCES 38 in the United States (10), China (10), Western Europe (13) and Russia (5) from OTR Global's September report

INTERVIEWS First two weeks of September

AVERAGES Straight

NOTE OTR Global's research does not include Nike's direct-to-consumer sales, a faster-growing part of its business and a point of emphasis for the company.

See last page for Important Disclosures and Analyst Certification

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Nike Sales Plan Attainment Improves

U.S. Footwear: Nike Inc.'s U.S. shoe purchases were flat–up slightly yy on average during FY2Q18 (September–November), compared with flat–up 3% in OTR Global's September report findings on FY1Q18. Sales during the quarter exceeded plan for four buyers, met for six and fell below for two, compared with just one exceeding, eight meeting and three below plan in FY1Q18.

Nike positives were led by the sport specialty and urban channel, where offerings and marketing efforts improved, driving better sales of VaporMax, Air Max 97 and Air Force 1 shoes. "In shoes, we're doing better because we have access to some Nike product we didn't have before," one buyer said. Several buyers mentioned Nike's collaboration with Off-White designer Virgil Abloh as an effort that's enabled the brand to recapture the attention of top-tier customers. Though the shoes were only available through Nike and tier-zero boutique accounts globally, the effort drove a huge amount of chatter on social media.

As in the September report, Nike was viewed far less positively in the family and department store channel, where product was viewed as dull in comparison to **Adidas AG** offerings.

Feedback on Jordan remains mixed, though sources reported excellent demand for a Jordan Retro 11 shoe priced at \$225 that launched on Nov. 11. Sources anticipated continued patchiness with Jordan for the next few months as Nike pulls back the brand's distribution across the board.

U.S. Apparel: Nike FY2Q18 apparel purchases increased yy for four of six buyers and were flat or down for one each. Four of seven buyers said sales exceeded plan while two met, compared with two exceeding and six meeting plan in FY1Q18. Buyers said the category got off to a good start during September, which was cooler yy in most parts of the United States, and solid demand continued even during October, which was mostly warmer. One reported strong apparel sales on Black Friday. "Our Black Friday fleece event was very good. There are still some shipping issues, but our Nike business was very strong," the buyer said.

In sport specialty and urban, Nike has also benefited from a youthful embrace of retro-themed, branded cotton and nylon sweat suits, but it is less competitive in the mid-tier department store channel, where there are a plethora of lower-priced competitors offering the same look sans branding but at a much more attractive price. "In apparel, one drag on branded sales is the proliferation of aesthetically similar merchandise at stores like **[Gap Inc.]**'s Old Navy that don't offer the same features but look the same. In footwear, this is not [having] an impact," a department store buyer said.

China Footwear: Nike FY2Q18 shoe purchases in China increased an average 4%–8% yy, compared with up 5%–9% in FY1Q18. Purchases among the three largest sources for this report ranged from up 15% to 22% as Nike continued to focus its efforts in China among its most powerful partners. Meanwhile, smaller regional sources complained of shipping delays and in some cases cancellations.

Nike shoe sales exceeded plan for three sources, met for two and fell below for five, an improvement from FY1Q18, when none exceeded and eight fell below. Demand for Jordan product also improved, with seven of 10 meeting plan and three below, compared with four of ten meeting and six falling below in FY1Q18.

Sources said Nike gained back share from Adidas during the quarter, aided by fall offerings and aggressive promotions before and after Singles' Day on Nov. 11, which drove strong traffic in tier 1–2 cities. At the same time, sources with tier 3–6 stores said sales were crimped by Nike's

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factory stores and even more affected by its expanded **Alibaba Group Holding Ltd.**'s Tmall store. "Nike's Tmall flagship store has a lot more SKUs than our stores, plus it offered big discounts during Singles' Day, so many of our consumers shopped online instead of in our stores, even though we had comparable discounts.

China Apparel: Nike FY2Q18 apparel purchases in China increased an average 2%–6% yy, compared with up 4%–9% in FY1Q18. The decline in purchases was driven partly by supply chain issues related to the production of down feathers. "We purchased apparel up 15%, but only received 5% of booking because of jacket cancellations," a source said. "The government shut down a lot of small poultry farms and factories, causing feather prices to skyrocket over the past 10 months. Nike had locked in the price in advance, so manufacturers canceled to control losses. Nike apparel sales at least met plan for five of 10 sources, similar to FY1Q18. Two sources noted better offerings yy drove improved Nike sales.

Nike inventory levels were in line for six of 10 sources and too high for three, kept clean by promotions as well as online sales among larger distributors. (In the September report, Nike inventory levels were in line for three sources and too high for six.)

Western Europe Footwear: Nike FY2Q18 athletic shoe purchases increased an average 4%–8% yy in Western Europe, compared with up 5%–9% yy during FY1Q18. Nike's shoe sales met plan for 11 of 15 buyers and exceeded for three, similar to OTR Global's September report. One U.K. buyer said sales fell below plan, blaming higher prices introduced by the retailer — not Nike — to offset increased currency cost as a result of the devaluation of the British pound.

Sales trends were positive in all three countries, but particularly positive for buyers commenting on lifestyle in France and the United Kingdom. Buyers reported strong gains for Nike in that segment, especially from Adidas, as the retro trend (which had benefited Adidas) fell out of fashion. German buyers also reported an improvement for Nike in lifestyle, but to a lesser extent. As in the September report, buyers reporting strong lifestyle trends attributed this to good sales of Air Max and Air Force 1 silhouettes in particular.

Most buyers did not comment on Jordan, but one French and U.K. source each reported sales below plan — and declining strongly — blaming a lack of innovation.

In performance shoes, sources again reported weaker yy growth in the soccer segment, still partly because of tough comparisons with last year, when sales had benefited from stronger marketing even after the European Football Championship was over. Nike performance running performed very well for U.K. buyers but was more mixed for French and German sources, where it continued to lose out in the top-tier segments to more technical brands, in particular **Asics Corp.** (7936 JP).

Western Europe Apparel: Nike FY2Q18 athletic apparel purchases increased an average 6%–10% yy in Western Europe, compared with up 7%–11% in September. Tech Fleece drove sales for most buyers in Germany and the United Kingdom, though tough comparisons and saturation hindered growth for some. French buyers reported strong growth from sales of Paris Saint-Germain soccer team replica shirts.

Russia: Nike FY2Q18 purchases of shoes and apparel in Russia were up for all applicable buyers. Sales of both met expectations for all buyers, as in September. Buyers attributed growth to good trends in lifestyle, driven by Air Max silhouettes but also growing internet sales, higher prices and growth in the fitness segment.

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Nike Prices Rise in China

United States: All responding U.S. buyers said pricing on Nike shoes and apparel for the next six months is flat yy. However, buyers said Nike has begun to move some product away from its 25%-off promotional pricing and back to more restrictive MAP pricing with plans to restrict promotions on even more products starting the last week of December.

China: Nike shoe and apparel wholesale prices for products delivered during the next six months increased yy for eight of 10 distributors, compared with four of 10 in September. All new collections were priced higher, sources said.

Western Europe: Nike shoe and apparel pricing for the next six months was flat yy for all buyers, in line with the September report. All U.K. sources said they plan to increase prices during FY3Q18 to offset the effects of the weak pound, but none reported any price increases from Nike itself.

Russia: Prices on Nike's footwear set for holiday and spring 2018 deliveries were up slightly for all three responding buyers. Sources noted this was normal inflationary and currency adjustment.

Nike Orders Improve Slightly

United States: Nike U.S. footwear orders for the next six months were flat-up slightly yy on average, as in OTR Global's September report, while orders for apparel were flat-up 4% yy on average, compared with flat in September.

As in the September report, top-tier accounts had a more positive view of Nike. While spring and back-to-school offerings weren't significantly better, buyers said the brand continues to move in a more positive direction. At the same time, they conceded that Adidas remains a potent competitor. "Adidas still has momentum, but it poked a bear and it's going to have to work hard to keep its place because Nike next year is on a warpath," said a sport specialty buyer. In the mid-tier channel, buyers were much less positive about Nike, viewing it as having a lot more work to do before it could begin to compete at full price again.

China: Nike's shoe and apparel orders in China for the next six months increased an average 5%–9% and 4%–8% yy, respectively, compared with up 4%–8% for both categories in September. Order bookings from OTR Global's three largest distributor sources ranged from up 15% to 25%, reflecting Nike's plan to concentrate growth among its biggest partners in China. Bookings among larger sources were driven by strong same-store growth in tier 1–3 cities plus Nike's decision to reopen expansion in tier 4–6 cities.

As Nike shifts more of its business to larger distributors, smaller distributors said their orders have been capped. "Even though sales are good, we can't order more because Nike has restricted the amount of product we can order and also won't allow us to open new doors. Instead, it's giving full support on new product and doors to the largest national distributor in this region."

Western Europe: Nike's Western European footwear orders for the next six months increased an average 6%–10% yy, compared with up 5%–9% in September, while apparel orders increased an average 14%–18% yy, a significant improvement from up 8%–12% in September. Shoe orders were driven by continuing strong lifestyle trends, underpinned by the strength in Air Max and the ongoing shift in consumer preferences away from retro styles to more modern styles. Sources continued to report an acceleration in Nike orders for soccer, driven by the upcoming World Cup in Russia coupled with easier comparisons. Order growth for brick-and-mortar sources continued to be hurt by strong online competition, which sources said was stronger than ever after Nike entered Zalando SE's Partner Program earlier in 2017.

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Apparel orders were driven again by Nike's Tech Fleece as well as the World Cup, with Nike expected to benefit strongly from sales of replica T-shirts by French and U.K. sources, as Nike sponsors all the most popular teams in those countries.

Russia: Nike's Russian athletic orders were up yy for all responding buyers, reflecting positive sales trends and higher prices, driven by strong expectations for Nike lifestyle product, especially Air Max and Air Force 1, as well as continuing growth in online sales. Meanwhile, the World Cup to be held in Russia next year is also beginning to have a positive impact on orders.

Category Purchases and Orders

United States: Overall athletic shoe orders for the next six months were up yy for all 12 responding buyers, an improvement from the September report, when four buyers said orders were up and three said they were flat.

Overall sales during September–November exceeded plan for three of 11 buyers, met for seven and fell below for one, compared with four meeting and three below in September. Buyers viewed overall demand for athletic footwear as strong, driven by demand for lifestyle offerings, a trend that has hurt brands that focus on performance.

China: Overall athletic shoe orders for the next six months in China increased an average 7%–11%, compared with up 6%–10% in the September report. Distributors anticipate continued strong demand in the category, driven partly by the still-growing embrace of fitness, a trend that's been boosted by government support.

Overall athletic shoe sales during September–November at least met plan for four of 10 distributors and fell below for six, a slight improvement from the September findings. Nike and Adidas continued to dominate sales, and as Nike has begun to expand its presence in lower-tier cities during the past year, domestic brands like **Anta Sports Products Ltd.** (2020 HK) and **Li Ning Co. Ltd.** (2331 HK) have struggled to hold onto share.

Western Europe: Overall athletic shoe orders for the next six months are up an average 4%–8% yy in Western Europe, compared with up 3%–7% in September, driven by continuing strong lifestyle and fitness trends as well as an expected acceleration in soccer.

September–November sales plan attainment trends in France and Germany were similar to the September findings, with all buyers at least meeting plan, but deteriorated in the United Kingdom, where three of five buyers fell below plan.

Russia: Overall athletic shoe orders for the next six months were up and shoe sales met expectations for all applicable sources. Category sales trends were driven by sustained higher interest in and government promotion of healthier lifestyles as well as strong advertising by the leading brands and growth in online sales.

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United States

ON OUTLOOK

“Nike has some things to work out. We’re not overly excited with what it’s showing us. Nike’s business in the mall is great, but it’s underperformed in the mid-tier channel because it doesn’t put in the same resources. Our consumer wants fun, great stuff, too.”

“In mid-tier, Nike is bringing back things it took away. We can buy the Nike Cortez again, which was removed from the channel two years ago.”

“The NBA will be a plus for Nike for sure. For holiday, the apparel looks good.”

ON FY2Q18

“With the right material and color stories, Nike can work again. The brand is just not feeling energized at the moment, but when we’re promotional, people will buy Nike.”

“Our business has held up through December. People still want to go shop. The biggest shopping day is Saturday, which is the smallest day of the week on ecommerce. We do find the more premium the product, the more likely the customer will buy it online.”

“Nike is starting to get some cache back, but it’s not putting that better product everywhere.”

“We’ve had strong sales for the past few months. Black Friday was good and sales were up mid-single digits, and that was higher than the increases we’ve been seeing for the past three quarters.”

“Nike is returning more items to MAP, effective Dec. 20. Already a lot less items can be on sale. With the state of retail, it will be interesting to see what sticks.”

“Our stores are in moderate to low-income neighborhoods, and 90% of our purchases are done with cash or debit card. We’re currently working through the challenges of that online.”

China

ON OUTLOOK

“Overall the fitness trend is still very strong, the upper-middle-class is spending even more money on fitness apparel and shoes, which pushed the industry to keep going higher.”

“Nike has reopened door expansion in lower-tier cities, which will be a major driver for next year’s future orders.”

ON FY2Q18

“Shoe sales are very strong. Nike added two aggressive promotions right before and after Singles’ Day, which helped it regain share.”

“Inventory is very healthy, due to end-of-quarter clearance. We haven’t returned any products to Nike as demand for Nike products from our franchise accounts is very high.”

Western Europe

ON OUTLOOK

“Nike orders are up double digits next year. The category is dynamic; we are opening stores. Above all, we gained access to new shoes from Nike like the Air Max 2017.” *France (lifestyle buyer)*

“We thought we would decelerate our apparel orders but did not. Tech Fleece continued to sell well but also fitness remained strong, and we also think there is more potential for fashion items.” *Germany*

“Running has been doing well, so we’re positive for the next six months.” *United Kingdom*

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ON FY2Q18

“Nike is leading and gaining share in lifestyle shoes and doing OK within a strong apparel category. 2018 trends will be similar, so I think it looks good for them.” *France (lifestyle buyer)*

“Nike has been doing better with women and still is doing well with boys and men.” *France (lifestyle buyer)*

“Jordan has been very [doing very] poorly, but better SKUs will be relaunched next year and it shall do well.” *France (lifestyle buyer)*

“Soccer remained slow during back to school and the autumn. People are waiting to see what next year will bring.” *Germany*

“The running lifestyle trend weakened a bit, which impacts Nike’s growth. Although other lifestyle products are accelerating, it still does not generate the same kind of growth that we have seen a few years ago.” *Germany*

“In footwear, we’re looking at Nike Air Max and Air Force 1 silhouettes. Orders would be higher were it not for Jordan.” *United Kingdom*

“Pegasus is doing well in running; in fact all of their key lines are doing well.” *United Kingdom*

“Nike apparel is great, the shirt business is good, Windrunner is great, Tech fleece is holding up against massive comparisons. I think they’re just doing all the right things, bringing in new products.” *United Kingdom*

Russia

“Our orders are up, driven by higher demand on expensive items, the World Cup as well as better sales through our internet shop.”

“Nike shoe sales met expectations thanks to new Nike Air Force models that are very good both for sport and lifestyle.”

“Nike apparel has very good chances to improve its positions because it’s addressed the trend toward yoga and similar types of fitness.”

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3. Have Nike footwear and apparel orders for the next six months increased, remained the same or decreased yy?

FOOTWEAR	CHINA	U.S.	RUSSIA	FRANCE	GERMANY	U.K.	WESTERN EUROPE
Up 21%–25%:	3	-	-	-	-	-	-
Up 16%–20%:	-	-	-	2	-	-	2
Up 11%–15%:	1	-	2	1	-	1	2
Up 6%–10%:	-	-	1	2	3	1	6
Up 1%–5%:	-	8	-	1	1	2	4
Flat:	-	1	-	-	-	1	1
Down:	1	-	-	-	-	-	-
Down 1%–5%:	3	2	-	-	-	-	-
Down 6%–10%:	2	1	-	-	-	-	-
Not applicable:	-	1	2	-	3	-	3
Average:	Up 5%–9%	Flat–up slightly	Up 10%–14%	Up 10%–14%	Up 4%–8%	Up 4%–8%	Up 6%–10%
September average:	Up 4%–8%	Flat–up slightly	Up 6%–10%	Up 7%–11%	Up 4%–8%	Up 6%–10%	Up 5%–9%

APPAREL

Up 31%–40%:	-	-	-	2	-	-	2
Up 16%–20%:	1	-	-	1	-	-	1
Up 11%–15%:	2	-	2	1	-	-	1
Up 6%–10%:	-	-	-	-	2	2	4
Up 1%–5%:	1	2	-	-	1	-	1
Up:	-	3	-	-	-	-	-
Flat:	-	2	-	-	-	1	1
Down:	1	-	-	-	-	-	-
Down 1%–5%:	2	-	-	-	-	-	-
Down 6%–10%:	3	-	-	-	-	-	-
No response:	-	-	2	-	2	-	2
Not applicable:	-	6	1	2	2	2	6
Average:	Up 4%–8%	Flat–up 4%	Up 10%–14%	Up 27%–31%	Up 6%–10%	Up 5%–9%	Up 14%–18%
September average:	Up 4%–8%	Flat	Up 8%–12%	Not averaged	Up 6%–10%	Up 9%–13%	Up 8%–12%

4. Have overall athletic shoe orders for the next six months increased, remained the same or decreased yy?

Up 26%–30%:	1	-	-	-	-	-	-
Up 16%–20%:	3	-	-	-	-	-	-
Up 11%–15%:	1	-	2	2	-	-	2
Up 6%–10%:	-	1	1	3	-	-	3
Up 1%–5%:	-	4	-	1	4	1	6
Up:	-	7	-	-	-	2	2
Flat:	-	-	-	-	-	1	1
Down:	1	-	-	-	-	1	1
Down 1%–5%:	3	-	-	-	-	-	-
Down 6%–10%:	1	-	-	-	-	-	-
No response:	-	1	-	-	-	-	-
Not applicable:	-	-	2	-	3	-	3
Average:	Up 7%–11%	Up 2%–6%	Up 10%–14%	Up 7%–11%	Up 2%–6%	Not averaged	Up 4%–8%
September average:	Up 6%–10%	Not averaged	Up 7%–11%	Up 4%–8%	Up 2%–6%	Not averaged	Up 3%–7%

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5. Did overall athletic shoe sales during September–November exceed, meet or fall below your expectations?

	CHINA	U.S.	RUSSIA	FRANCE	GERMANY	U.K.	WESTERN EUROPE
Exceeded:	2	3	-	1	-	-	1
Met:	2	7	3	5	4	2	11
Fell below:	6	1	-	-	-	3	3
No response:	-	1	-	-	-	-	-
Not applicable:	-	1	2	-	3	-	3
OTR Comparative Index:	-40	18	-	-	-	-	-13
June–August Index:	-64	-43	-	-	-	-	0

6. Did Nike wholesale prices on footwear and apparel set for holiday and spring 2018 deliveries increase, remain the same or decrease yy?

FOOTWEAR

Increased:	8	-	3	-	-	-	-
Remained the same:	1	12	-	6	4	5	15
Decreased:	1	-	-	-	-	-	-
No response:	-	-	-	-	1	-	1
Not applicable:	-	1	2	-	2	-	2

APPAREL

Increased:	8	-	3	-	-	-	-
Remained the same:	1	7	-	4	3	3	10
Decreased:	1	-	-	-	-	-	-
No response:	-	-	-	-	1	-	1
Not applicable:	-	6	2	2	3	2	7

7. Are Nike footwear inventory levels too high, normal or too low?

FOOTWEAR

Too high:	3	2	-	-	-	1	1
Normal:	4	8	3	5	3	4	12
Too low:	3	2	-	-	1	-	1
No response:	-	-	-	1	-	-	1
Not applicable:	-	1	2	-	3	-	3

APPAREL

Too high:	3	-	-	-	-	-	-
Normal:	6	7	3	4	4	3	11
Too low:	1	-	-	-	1	-	1
No response:	-	1	1	1	-	-	1
Not applicable:	-	5	1	1	2	2	5

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