

Nike, Inc. (NKE) Q3 FY2026 earnings call transcript

Mar 31, 2026, 5:00 PM EDT

Earnings call

Nike reported flat revenue and a 3% currency-neutral decline in Q3 FY26, with gross margin down 130 basis points to 40.2% due to elevated tariffs and promotions. Management reaffirmed its turnaround strategy, projecting low single-digit revenue declines through year-end but expects margin inflection in Q2 FY27 as inventory actions and cost resets take effect.

Operator

0:00:00

Good afternoon, everyone, and welcome to Nike, Inc.'s third 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. I'd now like to turn the call over to Paul Trussell.

Paul Trussell

VP of Corporate Finance and Treasurer

0:00:20

Thank you, operator. Hello, everyone, and thank you for joining us today to discuss Nike, Inc.'s third 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 non-public financial and statistical information. Please refer to Nike's earnings press release or Nike's website, investors.nike.com, for comparable GAAP measures and quantitative reconciliations. All growth comparisons on the call today are presented on a year-over-year basis and are currency neutral unless otherwise noted.

Paul Trussell

VP of Corporate Finance and Treasurer

0:01:27

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. We'd appreciate you limiting your initial question to one. Thank you for your cooperation on this. I'll now turn the call over to Nike, Inc. President and CEO, Elliott Hill.

Elliott Hill

President and CEO

0:01:49

Thank you, Paul. Last quarter, we said we were in the middle innings of our comeback. Since then, we have continued to take meaningful actions to improve the health, quality, and foundation of our business. While we are not satisfied, I am confident that our progress in the areas we prioritize first through our win now actions point to where we are ultimately heading across our portfolio. Because of the scale and breadth of the Nike portfolio, that progress will not happen all at once. We have approached this comeback deliberately across brands, sports, geographies, and channels, with some parts of the portfolio moving faster than others. One of the most important actions we took this quarter was further removing unhealthy inventory of our classic footwear franchises from the marketplace. That created roughly a five-point headwind to our reported results.

Elliott Hill

President and CEO

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It was intentional, it was necessary, and while it weighed on the quarter, it is improving the health of the marketplace, the quality of our revenue, and the foundation for more sustainable growth ahead. As we were removing unhealthy inventory, we focused first on the areas that create the greatest impact. We focused on our sports offensive in running, our largest performance sport and in football, the beautiful global game. We focused on athlete-centered innovation, building platforms that can scale across multiple sports and price points over time. We focused on our wholesale business, the environment where the majority of our consumers shop and where we needed to prove we could compete and win back market share. We focused on paying it all off in North America, our largest geography that drives nearly half of our business.

Elliott Hill

President and CEO

0:04:00

These are the dimensions that are furthest along, and each is absolutely essential to turning around this company. At the same time, other parts of the portfolio, including Greater China, Converse, and Sportswear, are still earlier in their comebacks. We have new leadership in place, clearer strategies taking shape and structural changes underway designed to strengthen these businesses over the long term. We are moving with urgency. We're not simply fixing what needs to be fixed. We're building brand by brand, sport by sport, country by country, partner by partner. We're reshaping our marketplace, rewiring how we operate, and investing in the technology platforms that we expect will help us serve more consumers better and run our business more effectively.

Elliott Hill

President and CEO

0:05:00

These actions will continue to create near-term pressure, but we believe they are the right actions to strengthen Nike for the long term and create more durable value for shareholders. This is complex work, and parts of it are taking longer than I'd like. The direction is clear, the urgency is real, and the foundation is getting stronger. By the end of the calendar year, we expect to have finished our win now actions. Aged inventory across the marketplace will be healthy, allowing our sports teams to consistently flow athlete-led, innovative, and coveted products in all sports across our three brands, including Nike Sportswear and Jordan Streetwear.

Elliott Hill

President and CEO

0:05:53

Our marketing teams will be creating even more locally relevant, inspiring stories in key countries and cities around the world. Our account teams will be elevating those stories and our brands at point of sale with consumer right assortments and presentations, which will all result in more balanced, profitable and sustainable growth across the integrated marketplace, owned and partnered, digital or physical. Because we are now far enough into the work and clear enough on the path ahead, this fall, we will share a more detailed long-term view of the business at an Investor Day at the Philip H. Knight Campus in Beaverton. We look forward to sharing more about the future of Nike later in the calendar year. Turning to the quarter, I'll start with the dimensions that I consider to be progressing fastest in the comeback. Nike Running was the first team to move into the sport offense.

Elliott Hill

President and CEO

0:07:00

They created a clear product construct based on athlete insights, segmented and differentiated assortments across an integrated marketplace and elevated our presence in storytelling at retail. The consumer is feeling the impact of the full offense with Nike Running up over 20% for the quarter. Nike Running has created the roadmap for other sports to follow. Global football is the next sport to fully transform into the sport offense. For the World Cup 2026, it starts with our footwear construct that successfully launched the Tiempo in Q3, and we will unveil the new Mercurial in June. In apparel, we'll deliver Aero-FIT kits for our competing Nike federations, including a Jordan Away kit for Brazil. We're also utilizing the World Cup as an opportunity to catalyze the football marketplace for quarters to come.

Elliott Hill

President and CEO

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By the end of the tournament, we will have elevated our presentation in more than 5,000 football doors around the world with wholesale partners and Nike Direct. Because winning in football goes beyond winning the World Cup. We went through the Clásicos, the derbies, in Copa with colleges and youth clubs in every neighborhood season after season. In innovative product, we're back to leading big ideas for our industry. In just one quarter, we delivered both footwear and apparel platforms with deep insights that leverage years of scientific research from our labs, owned IP and advanced manufacturing. Our new Nike Mind platform with over 150 patents filed globally was the highlight of the quarter. Designed to help athletes clear away distractions pre- and post-competition, the Mind 001 sold out in all geographies.

Elliott Hill

President and CEO

0:09:18

We responded by doubling production of Nike Mind over the next two seasons to meet demand from more than 2,000,000 consumers who signed up for Notify Me on nike.com. Following Nike Mind, we introduced several early-stage innovation platforms this quarter. We used Nike Air for the first time ever as a self-inflated thermal layer in apparel, unveiled a new liquid Air Max platform that is low to the ground and moves naturally with the foot. We delivered Aero-FIT for football, our new elite apparel cooling platform that increases airflow by 200% over regular Dri-FIT. It will expand into multiple sports, including Nike Running in the fall. These platforms are scalable foundations for growth that we can extend them into multiple sports and price points over time.

Elliott Hill

President and CEO

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Recently, our leadership team reviewed our full innovation agenda for 2027 and 2028 by brand and by sport. That focus is showing up in sharper athlete insights and more complete head-to-toe solutions. We're excited to share a vision for the future of sport with you this fall. Yes, innovation sparks demand, but products alone don't deliver long-term growth. For years, we were running a Nike Direct first offense. Now we are rebalancing our offense through an integrated and elevated marketplace and running a key city offense. These moves require us to rewire our supply chain and upgrade our technology platforms. You saw the early signs of those actions this quarter, and it is a critical step in our return to double-digit EBIT margins. Many of our win now actions are being paid off first in North America.

Elliott Hill

President and CEO

0:11:34

One of our strongest executions this quarter was the NBA All-Star Weekend, which connected us to consumers and drove full price sell-throughs while deepening our wholesale partnerships in Los Angeles with Shoe Palace, DICK's and Foot Locker. The experience set the tone for how we will show up in L.A. for the World Cup, Super Bowl and the 2028 Olympics. Across all dimensions in North America, our wholesale momentum is accelerating. In sporty goods, DICK's and Academy are leaning in with us to tell more sport performance stories. We're building long-term plans with Foot Locker and JD and athletic specialty, and we're fully committed to our partners in running specialty, football specialty, and city specialty through our investments in product innovation and presentation. Ultimately, this is about creating a more profitable business model for both sides of the partnership.

Elliott Hill

President and CEO

0:12:35

In Nike Direct, we've elevated our own experiences, setting the standard for how our brands show up in the marketplace. We've intentionally cleaned the market in all channels. The teams are hyper-focused on consumer right assortments and presenting them in environments that tell our best innovation stories, all with the goal of accelerating sell-through. If running shows what our sport offense can do, North America shows the power of our complete portfolio in an elevated, integrated marketplace. From here, we expect that to translate into consistent growth in North America. I'll finish with the areas of our business that are earlier in the journey, starting with our growing portfolio of emerging brands. This quarter, we tapped into the energy of the Winter Olympics in Milan and Cortina to build excitement around ACG. It was a world-class execution that showcased the ACG logo on all team USA athletes.

Elliott Hill

President and CEO

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We executed creative brand marketing, including an experiential train from Milan to the Alps called the All Conditions Express, and we elevated our presentation in more than 600 retail doors around the world, including a standalone ACG door in Beijing. The Nike ACG team is committed to serving the outdoor athlete by creating the world's most innovative footwear, apparel, and accessories, building our presence authentically over time by supporting world-class racers and events, and building long-term partnerships with the retailers who authentically serve outdoor athletes. The outdoors is a tremendous opportunity for Nike as we bring excitement and a fresh perspective to the consumers and the industry. In Nike Sportswear and Jordan Streetwear, our teams are moving from playing defense to playing offense.

Elliott Hill

President and CEO

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Matt shared last quarter that by the end of this fiscal year, we will have intentionally reduced over \$4 billion of revenue from the peak levels of classic footwear franchises. A cleanup of that scale is significant and has taken several quarters to execute. From here, we're investing in a more sophisticated city offense, one that incubates new styles through different consumers and channels, account by account. As you know, there is both an art and a science to seeding, igniting, and scaling new sportswear styles. A great example this quarter is the strong sell-through we drove around the globe with a more thoughtful approach to the reintroduction of the Air Max 95. That city-led approach is especially important in EMEA, where we lack a fully integrated marketplace, and it has been one of our biggest hurdles.

Elliott Hill

President and CEO

0:16:01

The team is responding with a more complete street-up model, working more closely with wholesale partners to improve point-of-sale storytelling and seeding in the community. In EMEA, you'll see us show up more as a local Nike. Greater China, too, will benefit from a more local approach and closer connection with the consumer on the ground. We have become clearer on the structural challenges in China and the channel dynamics in the marketplace. We are taking action to clean the marketplace, tighten execution across digital and physical retail, and rebuild the brand locally through sport. It will take time, but we remain confident that serving 1.4 billion potential athletes in China is one of the most powerful opportunities in sport. In Converse, the team took some decisive steps this quarter to bring the brand back to a healthy business.

Elliott Hill

President and CEO

0:17:15

Converse is a beloved brand that serves a distinct consumer through their connection to creative culture, music, and youth. Converse will remain an important part of the Nike, Inc. family, and we are excited about its long-term prospects. Overall, the work is not finished, but the direction is clear. Our teams are moving with focus and urgency, and our foundation is getting even stronger. I'm gonna pass it over to Matt, and I'll come back on to close out the call.

Matt Friend

EVP and CFO

0:17:59

Thanks, Elliott, and hello to everyone on the call. As Elliott outlined, we are seeing real progress across the business. Our initial focus on sport was important because it sets a strategic repositioning of our brands. Momentum in running continues to be strong, and we expect football, training, and basketball to return to growth over the next few quarters. Yet sports dimensions currently represent less than half of our total portfolio. Sportswear continues to be a headwind to revenue growth as it declined low double digits in the quarter. In the marketplace, relationships with our wholesale partners are strong, and our ways of working look very different than they did 12 months ago. Order books are growing and we are taking back shelf space. However, sell-through trends are not yet where we want them to be. Despite making progress versus a year ago, digital is still too promotional.

Matt Friend

EVP and CFO

0:19:04

Markdowns across the marketplace remain elevated. Our teams are pulling levers to manage inventory and protect brand health, but this continues to be a headwind to gross margin profitability. While our comeback is taking longer than we would like, we are confident we are on the right path, and we have a clear set of plans in place to complete our win now actions by the end of the calendar year. Now let me turn to our third quarter results. For this quarter, revenues were flat on a reported basis and down 3% on a currency neutral basis. Nike Direct was down 7%, with Nike Digital declining 9% and Nike stores down 5%. Wholesale grew 1%.

Matt Friend

EVP and CFO

0:19:53

Gross margins declined 130 basis points to 40.2% on a reported basis, primarily due to 300 basis points associated with higher tariffs in North America. SG&A was up 2% on a reported basis versus the prior year due to employee severance charges we incurred in the quarter. We also had other income from legal settlements. Our

effective tax rate was 20%. Earnings per share was \$0.35. Inventory decreased 1% versus the prior year, with units down mid-single digits. Let me provide some additional context on the \$230 million charge we incurred this quarter due to employee-related severance costs, primarily in supply chain and technology. During the pandemic, we accelerated investments across supply chain and technology to support a larger digital and direct business.

Matt Friend

EVP and CFO

0:20:58

Those investments also resulted in a higher fixed cost base that weighed significantly on our EBIT margins as revenue came down. Given the strategic shifts we have made to serve a more balanced and integrated marketplace, we have begun to take meaningful steps to reset our cost base to improve Nike's long-term profitability. Our specific actions in the supply chain will lower costs, streamline operations, and reduce capacity in our distribution network. Over time, we will shift our supply chain network to become more of a variable cost versus the higher fixed cost structure we have today. In technology, we continue to optimize our workforce, rationalize programs, and leverage new advanced capabilities. We also right-sized operating costs at Converse this quarter, which was included in this charge as well.

Matt Friend

EVP and CFO

0:22:01

We continue to evaluate opportunities related to supply chain, which could result in additional financial impacts in future quarters, though we believe the actions taken this quarter will represent the largest financial impact. We expect benefits from these actions to begin in fiscal 2027 and continue to build through fiscal 2028. Now I will turn to performance in the geographies, including key highlights and actions we are taking to drive progress against our win now actions. In North America, Q3 revenue grew 3%. Nike Direct declined 5%, while Nike Digital was down 7%. Nike stores were down 1%. Wholesale grew 11%. EBIT declined 11% on a reported basis. North America is leading our comeback and is well positioned to sustain the momentum as we move forward. Running and global football grew double digits, with basketball up high single digits while sportswear declined double digits.

Matt Friend

EVP and CFO

0:23:10

Our digital business improved sequentially throughout the quarter, driven by strong launch and growth in key sports, as well as continued improvement in average retail discounts. Wholesale revenue growth was driven by new distribution and lapping marketplace management actions with existing partners in the prior year. While sell-through has been below plan, sell-through improved in February, and we drove positive growth in all channels in the geography for the first time in two years. Inventory dollars grew low single digits, while units were down high single digits with the spread primarily due to tariffs. Closeout units remain low and the mix is healthy.

Matt Friend

EVP and CFO

0:23:59

From a margin recovery perspective, North America gross margins declined 360 basis points versus the prior year, despite nearly 650 basis points of gross impact from new U.S. tariffs. Underlying profitability has now improved over three consecutive quarters, giving us confidence that we can recover the transitory headwinds to margin associated with our win now actions. Last, we are increasingly confident we are on track to return to balanced growth in North America across both Nike Direct and wholesale channels in the near term. In EMEA, Q3

revenue was down 7%. Nike Direct declined 13%, with Nike Digital down 6% and Nike stores down 20%. Wholesale was down 4%. EBIT increased 7% on a reported basis. EMEA presented both progress and challenges in the quarter, and the team continued to take action in a highly promotional marketplace.

Matt Friend

EVP and CFO

0:25:09

Our performance business continued to build momentum led by double-digit growth in running. Sportswear was down double digits and sell-through has not tracked with sell-in expectations. Promotions across the marketplace were up versus the prior year as partners managed inventory. We were also more aggressive with promotions on Nike Digital at the end of the season, which resulted in higher markdowns and a higher off-price mix. Inventory grew double digits versus the prior year, with units up mid-single digits. Given the softness in sportswear, traffic patterns and promotions across Europe, as well as recent disruption in the Middle East, we anticipate ending the fourth quarter with elevated inventory. In Greater China, Q3 revenue declined 10%. Nike Direct declined 5%, with Nike Digital down 21% and Nike stores up 1%. Wholesale declined 13%. EBIT increased 11% on a reported basis.

Matt Friend

EVP and CFO

0:26:22

This quarter, we made forward progress in Greater China. Running grew double digits in the quarter, and we also saw growth in tennis, golf, and ACG, and kids was flat. Sportswear declined double digits as expected. Wholesale sell-in was managed down, while seasonal sell-through rates sequentially improved. We expanded our Nike store pilot to 100 doors, including our House of Innovation door in Shanghai, obsessing store assortments, storytelling, and replenishment. This resulted in traffic and comp sales improving versus the prior year. We implemented shifts to manage our brand presence differently across all digital platforms, pulling key styles off discount, resulting in higher full price realization for these styles. Inventory was down mid-teens versus the prior year, with units down more than 20%, and partner inventory also declined double digits.

Matt Friend

EVP and CFO

0:27:29

With new leadership now in place, we expect to take additional actions to improve our position in the coming quarters. We will continue to reduce near term sell-in to align with full price demand, clean up the digital channel and reduce the amount of aged inventory in the marketplace. We expect these actions will continue throughout fiscal 2027 and remain a headwind to revenue growth, while profitability should bottom sooner as marketplace management makes progress. In APLA, Q3 revenue was down 2%. Nike Direct declined 8%, with Nike Digital down 12% and Nike stores down 3%. Wholesale was up 3%. EBIT declined 4% on a reported basis. In the quarter, we saw bright spots with running up double digits and growth in training and football while sportswear declined double digits.

Matt Friend

EVP and CFO

0:28:28

We had a strong launch of NikeSKIMS in Australia and Korea and launched new cricket footwear innovation at the T20 Cricket World Cup. Nike flagship stores in Tokyo and Seoul drove positive growth for the quarter. While inventory grew high single digits versus the prior year, units declined low single digits as the team made progress in certain countries. Closeout mix remains elevated and the team is focused on the actions to address excess

inventory over the coming quarter. We expect performance across territories in APLA to remain mixed in the near term. Now I will turn to our outlook. You heard Elliott say that while our comeback is taking longer than we would like, we have a clear set of plans in place and we expect to complete our Win Now actions by the end of the calendar year.

Matt Friend

EVP and CFO

0:29:29

Over these next nine months, there will continue to be puts and takes across the revenue and gross margin lines of our business. At the same time, we are even more confident in where we are headed. Therefore, we want to provide greater visibility to how we see the business trend from here through the end of this calendar year. We expect revenues to be down low single digits versus the prior year, with gains in North America offset by declines in Greater China, driven by intentional reduced sell-in and marketplace management actions over that period. While the tariff environment has been uncertain, assuming no significant changes. We expect the first quarter of fiscal 2027 to be the final quarter where higher tariffs continue to be a material year-over-year headwind to gross margin.

Matt Friend

EVP and CFO

0:30:26

We expect gross margin expansion to begin in the second quarter due to actions to mitigate tariffs and recovery of transitory impacts from win now. We expect earnings to be flattish with gross margins beginning to inflect and disciplined SG&A management, setting the foundation for earnings recovery from there. We also recognize that the environment around us has become increasingly dynamic, and we could experience unplanned volatility due to the disruption in the Middle East, rising oil prices, and other factors that could impact either input costs or consumer behavior. We are focused on what we can control, and these assumptions reflect the macro environment as it stands today. Now I'll share a specific outlook for the fourth quarter of fiscal 2026.

Matt Friend

EVP and CFO

0:31:25

We expect revenues in Q4 to be down 2%-4%, with modest growth in North America despite lapping a value liquidation in the prior year, largely offset by declines in Greater China and Converse. We expect Greater China to be down approximately 20% in the fourth quarter, reflecting reduced sell-in that we highlighted last quarter, as well as accelerated actions to clean up the marketplace. We anticipate a two-point benefit from foreign exchange. We expect sequential improvement in gross margin, with Q4 down approximately 25-75 basis points, including 250 basis points due to higher tariffs in North America. We expect Q4 SG&A dollars to be flat to down slightly. We expect other expense, net of interest income, to be an expense of \$15 million-\$25 million in the fourth quarter.

Matt Friend

EVP and CFO

0:32:29

We expect our full year tax rate to be in the low-20% range. Last, we will return to providing full year and long-term guidance at our Investor Day in the fall. With that, I'll pass it back to Elliott.

Elliott Hill

President and CEO

0:32:47

Thanks, Matt. Before we move to your questions, I want to leave you with an image that stayed with me from this quarter. I was in Barcelona meeting with athletes and leaders from FC Barcelona, a partner of ours since 1998, and I stood on the pitch at Camp Nou. If you've ever been there, you know it is more than a stadium. It is one of the most imposing stages in sport, a place built for pressure, belief, and unforgettable moments. Right now, Camp Nou tells another story too. Above the pitch, there is scaffolding. In the corners, there are cranes. Entire sections are unfinished. The stadium is being rebuilt tier by tier, piece by piece to accommodate over 100,000 supporters. The work is still underway. Capacity right now is limited, and it requires patience and perseverance.

Elliott Hill

President and CEO

0:33:58

Still, the supporters are in full voice. The players are still stepping onto the pitch, focused on competing and winning. All around them, the work is transforming what their home, their club, will become. What stayed with me was the reality of both things being true at once, competing today while building for tomorrow. FC Barcelona did not choose between performing in the present and preparing for the future. They are doing both at the same time. Standing there, looking up at the half-built stadium, it occurred to me this is Nike right now. We are taking deliberate actions that we believe will restore the health and quality of our business even when these actions create pressure in the near term. We are removing what is not working. We are rebuilding parts of the foundation that needed to be rebuilt.

Elliott Hill

President and CEO

0:35:12

At the same time, we are continuing to innovate, to compete, and to create for the future. That takes conviction, it takes patience, it takes belief, and it takes focus. Camp Nou is being rebuilt for the next—not being rebuilt for the next match. It is being rebuilt for the next era. That is exactly how I think about the work we are doing at Nike. I came back to help return this company to greatness and to build it the right way for the long term, to protect what has always made Nike special, and to modernize it for a new generation of athletes and consumers. While the work is not finished, the direction is clear, our focus is clear, and our comeback is within reach. This fall, we look forward to sharing a fuller view of that path ahead at our Investor Day.

Paul Trussell

VP of Corporate Finance and Treasurer

0:36:23

With that, let's open it up for questions.

Operator

0:36:27

We will now begin the question and answer session. To ask a question, press star then the number one on your telephone keypad. We kindly ask that you please limit your initial question to one. Our first question will come from the line of Lorraine Hutchinson with Bank of America. Please go ahead.

Lorraine Hutchinson

Managing Director

0:36:43

Thanks. Good afternoon. The performance in EMEA seems to have decoupled from some of the early successes you've seen in North America. How do you diagnose the problems, and what's the strategy to fix it?

Matt Friend

EVP and CFO

0:36:59

Well, Lorraine, as I highlighted, EMEA presented both progress and challenges in the quarter. I think that as we've implemented the win now actions across that geography, we are seeing growth in performance. We're seeing running up double digits, and we're really excited about the plans that we've got in place for the World Cup, as well as the way that we're setting up the marketplace for both upcoming product launches in both running and in training. This quarter, we highlighted that we didn't see sell-ins where we were hoping sell-in to be specifically on our Sportswear business. It's really connected to a theme that we've been talking about for several quarters.

Matt Friend

EVP and CFO

0:37:46

We've highlighted some of the macro pressures that we've been seeing in EMEA over the last few quarters, and specifically that marketplace has seen challenges in traffic and also a higher level of promotional activity. This quarter, as we saw sell-through trending below our expectations, we saw our partners start to be more promotional, and we also were more promotional to manage inventory across this large marketplace. This quarter, we also experienced traffic disruption from the Middle East, and we also are you know taking that into consideration as we're thinking about where this business stands, and also as we look forward. We've been aggressive, as I mentioned, with our teams pulling levers in order to keep this marketplace clean and healthy. Our closeout mix is at a really good level.

Matt Friend

EVP and CFO

0:38:43

While we expect to exit the fourth quarter with elevated inventory in EMEA, we're confident given the size of the issue and the way that our teams are responding that we will be able to continue to work through the win now actions in this geography as well by the end of the calendar year.

Elliott Hill

President and CEO

0:39:00

Lorraine, the only thing just to add to that, we do have a new leader in place. I have tremendous confidence in César García. He's a 25-year Nike veteran. He's deep in broad product and marketplace experience, and he's a tremendous leader. The team is really focused from a product perspective, and Matt touched on some of this, moving from being so sportswear reliant to also really focusing in on performance where we have growth in running, training, and football. I like what they're doing there. They are now getting back to driving a more elevated and integrated marketplace. They are focused on making certain we have the right assortments in those doors, elevating the presentation, and driving sell-through with our strategic partners. Overall, I'm really pleased with the actions that the team are taking.

Operator

0:39:57

Our next question will come from the line of Adrienne Yih with Barclays. Please go ahead.

Adrienne Yih

Managing Director and Consumer Discretionary Analyst

0:40:03

Thank you very much, and thanks for all of the color. Thanks for the forward guidance, actually. That's my question is going to be: So you're talking about the end of the calendar year, but your quarters kind of split the calendar year kind of in the middle. So I'm wondering if we should be thinking about revenue, you said down low single digit for that horizon, with North America up and improving, which would suggest that Greater China is meaningfully negative, probably climbing from that -20%. So just a little bit of help there with the shaping and Is it February quarter? The earnings being flattish would suggest, you know, 15% maybe haircut, you know, to where I mean, significantly more than where the street is.

Adrienne Yih

Managing Director and Consumer Discretionary Analyst

0:40:52

Again, is that flat for the fourth quarter on EPS through the February quarter? And then should we think about the May quarter of that year sort of having a big inflection? Sorry for all the kind of convoluted questioning, but thank you.

Elliott Hill

President and CEO

0:41:10

Yeah. Adrienne, I'm gonna jump in first. I see Matt wrote down all the questions, so I think he's ready. Here's what I wanna make certain that everyone hears on the call. We're even more convinced now that the Win Now actions were and remain the right strategic moves. We've made meaningful progress improving the health, quality, and the foundation of our business. We talked about that. Really the areas that we said we were gonna make the most progress, the ones that we knew made the most impact are some proof points that the actions are working. Just at a high level to go through the actions, we first said culture was number one. We have the teams galvanized around sport and growth. Product was the second one. We're driving the sport offense.

Elliott Hill

President and CEO

0:41:59

We just moved into the sport offense in September. Spring 2027 will be the first quarter where we will have product flowing into the marketplace from the sport offense. Running is a proof point this quarter. It's up double digits. Nike Football is also getting back to growth. We have innovation coming. We talked about Mind and Aero-FIT. The wholesale business is back to growth, and we're paying it off in North America. I'm really pleased with those proof points that the win now actions are indeed making an impact and I know that we are moving quickly against Greater China commerce and sportswear. We have new leaders in place. We're creating thoughtful long-term strategies and we're making structural changes. What I want to leave you with before I hand it over to Matt is that these are deliberate actions and we are not just fixing.

Elliott Hill

President and CEO

0:42:53

We're building brand by brand, sport by sport, country by country, partner by partner. I will acknowledge that parts of it are taking longer than I would like, but we believe in the direction. We're moving with urgency and the foundation is getting stronger. I'm really good. I feel great about that.

Matt Friend

EVP and CFO

0:43:14

Adrienne, on the specific guidance question, I guess what I would say is that we've been providing 90 days of guidance for the last five quarters since Elliott returned. We've been consistently asked for greater visibility as we had confidence in the trajectory of the business. Given while this comeback has taken longer than we'd like with North America's continued momentum and a clear plan in place through the remainder of the calendar year, our approach to providing guidance for the calendar year is really about pulling up at this moment and providing transparency to the financial trajectory of the business over the next nine months. I think of it as it includes this quarter and then it carries through over the next nine months.

Matt Friend

EVP and CFO

0:44:05

We're lining that up with the timeline that we've set to complete the Win Now actions by the end of the calendar year. Specifically, your question about some of the elements of shaping, without getting into the specifics of November versus December, what I'd say is that we expect revenue to be down low single digits over this period. We do expect the momentum to continue in North America. We're planning for modest growth in North America, even as we continue to lap the value liquidation that we've been doing this year. That's going to be offset by headwinds in Greater China.

Matt Friend

EVP and CFO

0:44:47

It's partly related to what we've been talking about, which is continuing to reduce the sell-in so that we would meet full price demand and also some of the actions that we're continuing to take in the marketplace in order to be able to clean it up. I think the important point is that we expect margins to inflect in Q2. That is a big moment, I think, for us as we've been navigating through the costs associated with the win now actions and dealing with the newly implemented tariffs. I think our confidence in margins inflecting positively in Q2 while we're managing SG&A tightly really sort of sets the table for inflection in earnings as we go from there.

Operator

0:45:35

Our next question will come from the line of Simeon Siegel with Guggenheim Securities. Please go ahead.

Simeon Siegel

Senior Managing Director and Senior Analyst

0:45:41

Thanks. Hey, good afternoon, guys. In the spirit of all this information, which, again, thank you. I know you guys don't normally give this detail, but any color you can share on D2C gross margins or just any way to think about the health of that channel. I know I've gotten a lot of questions around wholesale growth versus D2C declines. It just might be helpful to hear a little bit more about the quality of those D2C sales versus the reported declines, Elliott. Then, Matt, just could you quantify the severance booked into the operating overhead this quarter? Is that the full \$230 million? I'm just trying to think through the change in operating overhead on a recurring basis and how you're thinking about operating overhead expense into next year as you further variabilize the P&L. Thanks, guys.

Elliott Hill

President and CEO

0:46:18

Yeah. Thanks, Simeon. Let me jump in and then, Matt, I'll let you take the specifics around the D2C questions. Here's what I want to make sure that everybody on the call understands. We had been servicing our consumers with a direct-to-consumer model, and now we are moving to serve the consumers wherever, however they choose to shop with us. We want to make certain that we're managing our business across a balanced and integrated marketplace. That is the strength of Nike is when we're able to have a portfolio of places that we serve consumers. We're making certain that we segment and differentiate the assortments across multiple channels. Nike Direct is certainly a part of that, but we are also making certain that we serve consumers in specialty, sporting goods, athletic specialty, department stores, family footwear, and digital and physical. That's the power of Nike.

Elliott Hill

President and CEO

0:47:16

I think we're doing a much better job of working directly with our partners, developing long-term plans, and making certain that we gain back shelf space and ultimately share. Again, yes, D2C is critically important to our success moving forward. I want to make sure you hear me say that. Also, I want to make certain that you guys hear that an integrated and balanced marketplace is also critically important.

Matt Friend

EVP and CFO

0:47:42

Specifically to your question about the quality of the D2C business, what I'd say, Simeon, is that North America is the geography where we saw the most improvement in the quality of the business in direct. Specifically, I'm really specifically talking about digital. We did, with our focus on sports, see strong results across our Nike stores around the world, lining up against sport, getting behind key sport moments.

Matt Friend

EVP and CFO

0:48:13

On the digital side in North America, we saw continued improvement in the gap between wholesale and direct. When we look at the quality of that business in North America, we continue to be encouraged. I mentioned a couple things on the call, but we saw sequential growth throughout the quarter, driven by strong launch, that's across both Nike and Jordan. We saw growth in key sports on digital, and we saw continued improvement in average retail discounts in North America. We saw demand on the Nike App grow in Q3 in North America. As I mentioned, you know, we saw sell-through overall in the marketplace in North America in February inflect up, and it was the first time in two years that we saw positive growth in all channels. That includes wholesale and across direct.

Matt Friend

EVP and CFO

0:49:07

We continue to be encouraged that as we're getting deeper into our win now actions, that we're getting closer to balanced growth between wholesale and direct in the North America marketplace. That is the playbook that we're taking to Europe, to APLA, and to Greater China, and what we're focused on executing through the balance of the calendar year.

Operator

0:49:33

Our next question will come from the line of Michael Binetti with Evercore ISI. Please go ahead.

Michael Binetti

Senior Managing Director

0:49:39

Oh, hey, guys. Thanks for taking our questions here. I guess just to clean up, is that -4% in fourth quarter reported or currency? And then I guess, bigger picture, with revenues down 2%-4% and North America growing modestly, China down 20%, you didn't guide EMEA in the fourth quarter, but it seems like you're triangulating somewhere close to down mid-singles. You know, down a bit despite the World Cup. Maybe just some shape of the, you know, major puts and takes in EMEA in fourth quarter since the revenue rate changed so much in third quarter. I guess the follow-up there is the margins in EMEA were surprisingly strong in third quarter despite the revenue decline. Could you just comment there on, maybe any color and whether those positive offsets continue?

Matt Friend

EVP and CFO

0:50:28

You know, the comments that I made on EMEA in the third quarter definitely impact the way we're thinking about the fourth quarter. We expect to continue to see growth in the performance dimensions. We're incredibly excited about World Cup. I mentioned that we've got strong double-digit growth in running, and we're excited about upcoming product launches in both training and running. You know, training's the second biggest performance category, and it's super important to continue to build momentum as we continue to drive our training business across all sports. The real change in the quarter was sell-through on the sportswear side. Our outlook reflects a modification too. It takes this into consideration in terms of our expectation of the sportswear business in Q4 because we're managing the marketplace carefully.

Matt Friend

EVP and CFO

0:51:31

We've also taken into consideration not only what we've seen in the Middle East as it relates to traffic, but also our expectations of the disruption of that in this marketplace, you know, based upon what we can see today. That's really the other factor that we've taken into consideration in this fourth quarter guidance. We continue to be encouraged by the momentum in North America. We've got a strong order book for summer. We're seeing positive signs in sell-through. We're not seeing a consumer reaction to what's going on in the Middle East at this point in time in North America. Our teams are continuing to work hard to connect with consumers and to continue to rebuild back brand momentum across those, that geography and the rest of the geographies.

Operator

0:52:21

Our next question will come from the line of Brooke Roach with Goldman Sachs. Please go ahead.

Brooke Roach

Managing Director of Equity Research

0:52:26

Good afternoon, and thank you for taking our question. Elliot, Matt, I was hoping to get your latest thoughts on the opportunity to stabilize the sportswear business. How much additional reset activity is needed in the Classics

franchise by geography? And are you seeing any green shoots in the North America sportswear portfolio that gives you confidence that the strength in performance can translate to better momentum in sportswear over time? Thank you.

Elliott Hill

President and CEO

0:52:52

Yeah. Thanks, Brooke. Here's how I think about sportswear, and I said it in the prepared remarks, but we're definitely moving from defense to offense in both Nike Sportswear and Jordan Streetwear. We, you know, we gotta think about both of those, especially as you think about North America. Let me first start with where we prioritize, and we did prioritize our performance business. We felt like we had to get performance products right because sport is what drives our authenticity. It's our point of difference and distinction. It drives our best products and storytelling. Ultimately, sport is what creates a halo over the sportswear and streetwear businesses.

Elliott Hill

President and CEO

0:53:39

We really got after the sport business through and running a complete offense, making sure that we had innovative product driven by athlete insights. Now, as you're hearing from Matt and me, we're paying it off across the integrated marketplace. It's working on the sportswear, on the sport side. In terms of how we're doing on the sportswear and the streetwear side, here's what I would say. I did use the specific where we intentionally pulled back, which created about a five-point headwind this quarter, of removing unhealthy inventory from those Classics. What I would say is the Air Force 1 and the AJ1, they stabilized this quarter. We're seeing month-to-month improvement in full price realization in those two franchises. I also wanna make sure that you hear me say that we see that as a positive because we believe these icons will always be staples.

Elliott Hill

President and CEO

0:54:41

For the consumer. We're still stabilizing the Dunks. We have a little bit of work to do there. At the same time, the green shoots, as you call them, we're starting to see the team create some buzz around our business this quarter that we had some really good and tremendous launches, AJ11 Gamma, the AJ5 Wolf Grey, the Nike Air Max 95, and all of them had a high full price realization and really strong sell-through. The Sportswear team's moving to play an offense, and what you'll see from us is that team taking insights from the consumers that they serve and focusing on creation around comfort, innovation. Yes, we will continue to leverage our unmatched vault. I'm really pleased with the progress that the Sportswear and the streetwear teams are making.

Elliott Hill

President and CEO

0:55:37

We still have work to do, and that, you know, I call that out, that, you know, we still have work to do, and confident in the actions that we're taking and pleased with the way the consumer is responding.

Operator

0:55:51

Our next question will come from the line of Brian Nagel with Oppenheimer & Company. Please go ahead.

Brian Nagel

Managing Director and Senior Analyst

0:55:57

Hey, guys. Thanks for taking my questions. Elliott, the question I want to ask, I mean, you've mentioned several times in your comments, you know, that the, you know, you're headed in the right direction, but the process is taking longer than you initially expected. The question is that as you look at the reasons for that, is it more, you know, internal or is it more external? The environment, you know, in the different geographies or whatever is, you know, has proven more challenging for the turnaround effort here.

Elliott Hill

President and CEO

0:56:26

Brian, I think, you know, it's the easy answer for me to say it's a little bit of both, right? But here's what I would say. The starting point for each GR or each country was at a different place. By the way, each marketplace has a different structure as well. You know, we had to make certain that we truly understood where each country and each marketplace was in terms of their performance across the entire integrated marketplace, you know, again, from Nike Direct all the way through the different channels.

Elliott Hill

President and CEO

0:57:04

You know, I think the easiest way to think about it is, you know, the comeback, it is substantial and at our size and scale, building for the future, it just takes time and, you know, and it's taken longer than I would like. What I would tell you is, you know, we got our teams reorganized from a product perspective as well in September, and Spring 2027 will be the first time we see the fruits of those teams working together. In the end, I'm pleased with where we're headed. You know, I think everybody when I came into this role said, "Hey, it's gonna take two years," and, you know, that's where we're tracking right now. A little bit of both, Brian.

Elliott Hill

President and CEO

0:57:48

We do have some external factors that we're having to deal with while we're in a bit major comeback, but that's no excuse. We're controlling what we can control. We're getting our teams lined up internally around product and the consumer and storytelling, and then we're getting our country teams lined up around driving a more integrated and elevated marketplace. Ultimately, that's what's gonna pay dividends for us and build the foundation for future growth.

Operator

0:58:13

Our final question will come from the line of Matthew Boss with JPMorgan. Please go ahead.

Matthew Boss

Equity Research Analyst

0:58:19

Great. Thanks. Elliott, could you, if we take a step back, just update us on health of the global sportswear backdrop or where does your outlook for the industry stand today relative to when you took the helm? Matt, on low to mid-single-digit constant currency revenue declines for the back half of the year. Is there a way to parse out self-inflicted headwinds or maybe where you see underlying demand exiting this fiscal year? What have you

embedded for overall sell-through rates through the balance of the calendar year just relative to the pressure that you cited that you've experienced to date?

Elliott Hill

President and CEO

0:58:56

Matthew, I think the easiest answer on Sportswear is that it will remain a very large part of the overall industry, and it will be critical to our success moving forward. You know, we're taking a bottoms-up approach to this and making certain that we help this big giant business feel more local. It takes time to seed and ignite and scale product over time. Returning to a healthy Sportswear business is essential and vital to our comeback because it will continue to be a critically important part of the overall market and an overall part of our growth. With that said, I'm incredibly positive on the athletic industry overall, not just in sportswear, and we see it as a tremendous opportunity for us to continue to drive growth in an expanding market.

Matt Friend

EVP and CFO

0:59:59

Matt, to your question on sell-through assumptions. You know, maybe let me hit revenue first. You know, for the first half of next year, I think it's safe to look to the range we provided for Q4 as a guide for what we're expecting for revenue, for those last two quarters. I think it's really highlighted by the trends that we've talked about. It's North America, you know, continuing to sustain momentum. We expect to see more balanced growth across channels. Given where inventory is in the marketplace, we expect to continue to see improvement in underlying profitability in that geography.

Matt Friend

EVP and CFO

1:00:44

The top line will be tempered a little bit like we've been talking about because we are anniversarying quite a bit of off-price liquidation in the prior year. It's a healthier business, it's a more profitable business, and it's a sustainable growing business across all channels of the marketplace. As you go outside the U.S., you know, I think that we've been clear that that we believe that we can complete the win now actions in EMEA and APLA, you know, by the end of of this calendar year. That's how you should read what we're communicating. I think that will continue to be us going deeper on cleaning up the marketplace, especially digital. You know, quarter-by-quarter, we're planning for improvements in sell-through.

Matt Friend

EVP and CFO

1:01:32

As it relates to Greater China, we're managing sell-in, and by managing sell-in, we expect to continue the trend like we saw this quarter of sequential improvement in sell-through rates. We're managing supply in order to be able to continue to shift the mix of inventory in that marketplace to be more full price and more healthy. That's why I gave the commentary around, while the actions we're taking will create a headwind to revenue in Greater China, we do expect to see profitability bottom faster because it's gonna be a healthier, more profitable business as we set that foundation for much more balanced growth as we go forward in China.

Operator

1:02:26

That will conclude the question and answer session and our call today. Thank you all for joining. You may now disconnect.