

Nike

Combing through the 10Q: Sales visibility low; but margin recapture ongoing

Maintain Rating: NEUTRAL | PO: 125.00 USD | Price: 105.06 USD

Lower unit sales impacted by reduced wholesale sell in

We maintain Neutral and think NKE's 25x P/E (F25E EPS) fairly reflects the combination of ongoing margin recapture opportunities and our more cautious sales outlook. Total sales were relatively flat in 2Q; by channel, DTC (+4%) outperformed wholesale (-3%) as expected given the significant sell-in last year needed to clear excess inventory. By product category, Nike footwear sales were flat ccy in 2Q as average selling prices (ASP) increased 6% and unit sales declined 6%. Nike apparel sales in 2Q declined 2% ccy; unit sales declined 15% and ASP increased 13%.

Gross margin positives: full price ASP, North America

2Q GM increased 170bp y/y, driven by 320bp benefit from higher full price ASP. This was partially offset by FX (-60bp), Nike Brand product costs offset by a freight benefit (-50bp), lower off-price margin (-20bp), and lower margin in Nike Direct (-20bp). North America gross margin increased 240bp (driven by higher full-price ASP, partially offset by higher product costs and a lower mix of full-price sales). Other 2Q gross margin results by region include EMEA -140bp, Greater China +80bp, and APLA -200bp. On a 2yr basis, N.A. margins improved and were down 80bp (-220bp prior qtr).

Greater China margins remain well below pre-Covid

Greater China sales in 2Q increased 8% ccy (+4% reported) driven by 19% growth in wholesale and 4% growth in DTC. Within DTC, store comps increased 7%, but digital sales declined 22% as mgmt decided to preserve margins by not competing with the highly promotional digital marketplace. EBIT increased 1% (op margins -100bp y/y) driven by SG&A +7%, offset by GM up 80bp due to lower product costs. We lack visibility on Greater China margins returning to peak levels in the high 30% (compared to our 31.3% F24E) given ongoing pricing competition and an uncertain consumer outlook.

Inventory getting cleaner

Nike inventory dollars were down 14% y/y in 2Q (down 10% in 1Q). By geography, inventory was down 23% in North America, -5% in EMEA, +12% in Greater China, and +6% in APLA. On a 4yr basis, NA inventory in 2Q24 was up 39% (sales +41%) and China inventory was up 7% (sales +1%). We think the conversation has shifted from clean inventory to sufficient innovation to keep up with peers in '24. We expect Nike to lean into Jordan, making it more accessible to a broader customer base, and to use the Paris Olympics as a launching point for innovation.

Estimates (May) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	3.75	3.23	3.48	4.28	4.95
EPS Change (YoY)	5.3%	-13.9%	7.7%	23.0%	15.7%
Consensus EPS (Bloomberg)			3.61	4.27	4.92
DPS	1.19	1.33	1.45	1.48	1.48
Valuation (May)					
P/E	28.0x	32.5x	30.2x	24.5x	21.2x
Dividend Yield	1.1%	1.3%	1.4%	1.4%	1.4%
EV / EBITDA*	17.5x	19.2x	18.9x	15.7x	13.7x
Free Cash Flow Yield*	3.4%	3.8%	3.6%	4.8%	5.4%

* For full definitions of *IQmethod*SM measures, see page 9.

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Stock Data

Price	105.06 USD
Price Objective	125.00 USD
Date Established	22-Dec-2023
Investment Opinion	B-2-7
52-Week Range	88.66 USD - 131.31 USD
Mrkt Val (mn) / Shares Out (mn)	128,595 USD / 1,224.0
Free Float	98.6%
Average Daily Value (mn)	1070.90 USD
BofA Ticker / Exchange	NKE / NYS
Bloomberg / Reuters	NKE US / NKE.N
ROE (2024E)	37.7%
Net Dbt to Eqty (May-2023A)	10.6%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM Nike

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	21.2%	17.4%	18.8%	21.9%	23.0%
Return on Equity	43.1%	34.6%	37.7%	42.4%	41.5%
Operating Margin	14.7%	11.5%	11.9%	13.8%	15.0%
Free Cash Flow	4,430	4,872	4,662	6,148	6,908

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.1x	1.1x	1.1x
Asset Replacement Ratio	1.1x	1.4x	1.3x	1.3x	1.3x
Tax Rate	9.1%	18.2%	16.4%	16.6%	16.6%
Net Debt-to-Equity Ratio	5.5%	10.6%	9.8%	2.9%	-6.5%
Interest Cover	33.4x	NA	NA	NA	NM

Income Statement Data (May)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	46,710	51,217	51,611	55,288	58,968
% Change	4.9%	9.6%	0.8%	7.1%	6.7%
Gross Profit	21,479	22,292	23,224	25,506	27,793
% Change	7.6%	3.8%	4.2%	9.8%	9.0%
EBITDA	7,573	6,898	6,997	8,426	9,644
% Change	-1.2%	-8.9%	1.4%	20.4%	14.5%
Net Interest & Other Income	(205)	6	126	88	(32)
Net Income (Adjusted)	6,046	5,070	5,321	6,447	7,332
% Change	5.6%	-16.1%	5.0%	21.2%	13.7%

Free Cash Flow Data (May)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	6,046	5,070	5,321	6,447	7,332
Depreciation & Amortization	717	703	756	787	824
Change in Working Capital	861	264	(247)	(109)	(122)
Deferred Taxation Charge	(650)	(117)	(128)	0	0
Other Adjustments, Net	(1,786)	(79)	(78)	53	(28)
Capital Expenditure	(758)	(969)	(963)	(1,030)	(1,099)
Free Cash Flow	4,430	4,872	4,662	6,148	6,908
% Change	-25.7%	10.0%	-4.3%	31.9%	12.4%
Share / Issue Repurchase	(4,014)	(5,480)	(3,833)	(3,000)	(3,000)
Cost of Dividends Paid	(1,837)	(2,012)	(2,218)	(2,228)	(2,192)
Change in Debt	15	(504)	5	0	0

Balance Sheet Data (May)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	8,574	7,441	7,538	8,458	10,174
Trade Receivables	4,667	4,131	4,163	4,459	4,756
Other Current Assets	14,972	13,630	13,078	13,806	14,614
Property, Plant & Equipment	4,791	5,081	5,245	5,489	5,764
Other Non-Current Assets	7,317	7,248	7,419	7,419	7,419
Total Assets	40,321	37,531	37,443	39,631	42,727
Short-Term Debt	500	0	0	0	0
Other Current Liabilities	10,230	9,256	8,963	9,150	9,325
Long-Term Debt	8,920	8,927	8,934	8,934	8,934
Other Non-Current Liabilities	2,613	2,558	2,558	2,558	2,558
Total Liabilities	25,040	23,527	23,240	23,427	23,602
Total Equity	15,281	14,004	14,203	16,204	19,125
Total Equity & Liabilities	40,321	37,531	37,443	39,631	42,727

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Footwear

Company Description

Nike is the premier global athletic footwear and apparel company with roughly 40% global athletic footwear market share. It also sells brand Jordan, Converse, and Nike golf shoes and athletic apparel. It produces through independent contracts and sourcing abroad.

Investment Rationale

We rate Nike shares Neutral. While we are bullish on the long-term prospects for Nike's accelerated innovation and digital strategy, we see risks from a difficult North American retail environment and margin weakness in China that balance the risk/reward.

Stock Data

Average Daily Volume

10,193,209

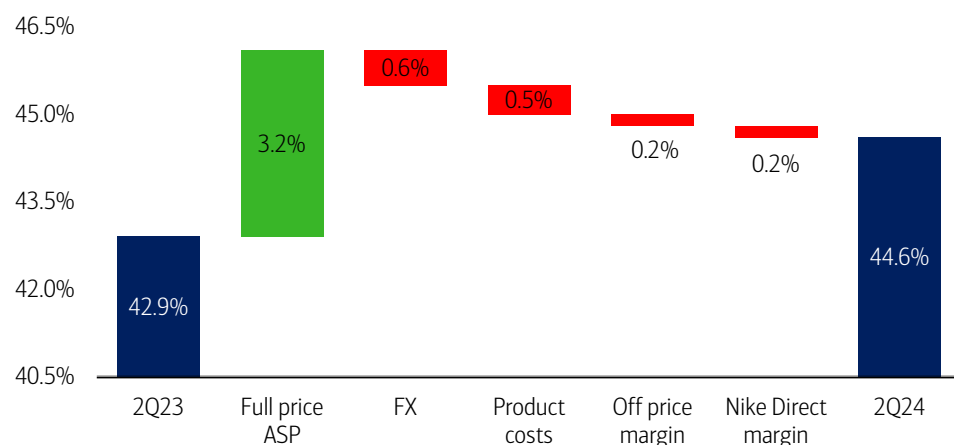
Quarterly Earnings Estimates

	2023	2024
Q1	0.93A	0.94A
Q2	0.85A	1.03A
Q3	0.79A	0.47E
Q4	0.66A	1.03E

2Q24 gross margin bridge

Exhibit 1: 2Q24 gross margin bridge

2Q24 GM increased 170bp y/y as benefits from full price ASP were partially offset by headwinds led by product costs, FX, lower off price margin, and lower Nike Direct margin



Source: Company reports

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North America declined due to wholesale

F2Q (Nov): Total revenue declined 4% y/y (-3% ccy), driven by a 9% decline in wholesale, offset by a 3% increase in DTC. Footwear revenues declined 5% y/y on a currency neutral basis, driven by lower revenues in Men's, Kids' and Women's, partly offset by higher revenues in the Jordan brand. Footwear unit sales declined 17% and average selling price (ASP) increased 12%. Apparel revenues declined 1% y/y mainly due to Men's. Unit sales declined 16% while ASP increased 15%.

Reported EBIT increased 2%. Gross margin increased 240bp primarily due to higher full-price ASP, partially offset by higher product costs and a lower margin in Nike Direct. Selling and administrative expense increased 2% driven by higher operating overhead expense. Demand creation expense was flat as lower sports marketing expense was offset by higher digital marketing.

Exhibit 2: North America Segment Analysis

2Q24 sales declined 3% y/y, led by a 9% decrease in wholesale

North America	Sales to Wholesale	% change	FX-Neutral % change	Sales to DTC	% change	FX-Neutral % change	NKE Direct Digital Growth	NKE Direct Same Store Sales	Footwear ASP	Footwear Units	Apparel ASP	Apparel Units	North America Inventory	% change
Aug-Q1	\$2,689	-5%	-5%	\$1,235	2%	2%		0%	-3%	0%	5%	-6%	2,222	-2%
Nov-Q2	\$2,436	-8%	-8%	\$1,049	4%	4%		0%	4%	-11%	3%	-3%	2,241	-2%
Feb-Q3	\$2,382	-10%	-10%	\$1,189	5%	5%		-1%	1%	-9%	7%	-7%	2,242	5%
May-Q4	\$2,652	0%	-	\$1,223	10%								2,270	2%
F2018	\$10,159	-6%	-6%	\$4,696	5%	5%		--	1%	-5%	5%	-4%	2,270	2%
Aug-Q1	\$2,829	5%	5%	\$1,316	7%	7%		-2%	3%	2%	1%	7%	2,214	0%
Nov-Q2	\$2,655	9%	9%	\$1,127	7%	8%		-3%	3%	6%	4%	6%	2,282	2%
Feb-Q3	\$2,547	7%	7%	\$1,263	6%	6%		-8%	8%	2%	3%	-1%	2,260	1%
May-Q4	\$2,844	7%		\$1,321	8%								2,328	3%
F2019	\$10,875	7%	7%	\$5,027	7%	7%		-3%	4%	4%	2%	5%	2,328	3%
Aug-Q1	\$2,864	1%	1%	\$1,429	9%	9%	31%	--	5%	-1%	2%	0%	2,271	3%
Nov-Q2	\$2,734	3%	3%	\$1,248	11%	11%	32%	0%	3%	5%	2%	-1%	2,357	3%
Feb-Q3	\$2,521	-1%	-1%	\$1,458	15%	15%	33%	6%	5%	0%	3%	2%	2,222	-2%
May-Q4	\$1,252	-56%		\$978	-26%								3,077	32%
F2020	\$9,371	-14%	-14%	\$5,113	2%	2%	45%	-20%	6%	-13%	4%	-16%	3,077	32%
Aug-Q1	\$2,719	-5%	-5%	\$1,506	5%	5%	99%	-35%	5%	6%	-2%	-19%	2,541	12%
Nov-Q2	\$2,354	-14%	-14%	\$1,652	32%	32%	107%	-11%	8%	-4%	-3%	0%	2,401	2%
Feb-Q3	\$1,894	-25%	-25%	\$1,670	15%	15%	53%	-20%	9%	-18%	6%	-18%	2,904	31%
May-Q4	\$3,219	157%		\$2,165	121%								2,851	-7%
F2021	\$10,186	9%	9%	\$6,993	37%	37%	73%	5%	8%	17%	0%	8%	2,851	-7%
Aug-Q1	\$2,678	-2%	-2%	\$2,201	46%	46%	43%	49%	6%	4%	14%	13%	2,851	12%
Nov-Q2	\$2,327	-1%	-1%	\$2,150	30%	30%	40%	16%	6%	7%	13%	-5%	2,796	16%
Feb-Q3	\$1,769	-7%	-7%	\$2,113	27%	27%	33%	16%	16%	-10%	17%	-6%	3,541	22%
May-Q4	\$2,847	-12%		\$2,268	5%								4,098	44%
F2022	\$9,621	-6%	-6%	\$8,732	25%	25%	30%	17%	9%	-4%	11%	-2%	4,098	44%
Aug-Q1	\$3,027	13%	13%	\$2,483	13%	13%	19%	4%	7%	10%	0%	5%	4,699	65%
Nov-Q2	\$3,183	37%	37%	\$2,647	23%	23%	31%	9%	2%	37%	-1%	15%	4,299	54%
Feb-Q3	\$2,323	31%	32%	\$2,590	23%	23%	25%	17%	5%	26%	-2%	20%	4,054	14%
May-Q4	\$2,740	-4%		\$2,615	15%								3,806	-7%
F2023	\$11,273	17%	18%	\$10,335	18%	18%	23%	9%	5%	17%	2%	7%	3,806	-7%
Aug-Q1	\$2,772	-8%	-8%	\$2,651	7%	7%	4%	6%	8%	-10%	10%	-11%	3,761	-20%
Nov-Q2	\$2,902	-9%	-9%	\$2,723	3%	3%	2%	1%	12%	-17%	15%	-16%	3,327	-23%

Source: Company reports

BofA GLOBAL RESEARCH

EMEA sales impacted by lower units sold

F2Q (Nov): Total revenue increased 2% (-3% y/y on a currency-neutral basis), driven by a 7% y/y increase in DTC, offset by an 8% increase in wholesale. Currency neutral footwear revenues increased 1% y/y, led by Men's and Jordan. Average selling price (ASP) increased 6% while unit sales declined 5%. Currency neutral apparel revenues declined 10% y/y due to lower revenues in Men's, Women's, and Kid's. Unit sales declined 21% while ASP increased 11%.

Reported EBIT declined 6%. Gross margin declined 140bp primarily due to unfavorable changes in FX, partially offset by lower product costs (including ocean freight), higher full price ASP and higher margin in Nike Direct. Selling and administrative expenses increased 8% due to higher operating overhead and demand creation expense.

Exhibit 3: EMEA Segment Analysis

2Q sales declined 3% ccy due to lower wholesale sales

EMEA	Sales to Wholesale	% change	FX-Neutral % change	Sales to DTC	% change	FX-Neutral % change	NKE Direct Digital Growth	NKE Direct Same Store Sales	Footwear ASP	Footwear Units	Apparel ASP	Apparel Units	EMEA Inventory	% change
Aug-Q1	\$1,722	-1%	0%	\$622	18%	19%		10%	-2%	4%	-3%	13%	1,359	
Nov-Q2	\$1,525	16%	12%	\$608	27%	21%		12%	4%	7%	9%	12%	1,421	
Feb-Q3	\$1,705	19%	9%	\$594	20%	9%		1%	1%	6%	5%	10%	1,457	
May-Q4	\$1,813	26%	-	\$653	19%								1,433	8%
F2018	\$6,765	14%	8%	\$2,477	21%	13%		6%	0%	6%	4%	12%	1,433	8%
Aug-Q1	\$1,916	11%	10%	\$691	11%	9%		4%	1%	9%	6%	4%	1,310	-4%
Nov-Q2	\$1,617	6%	11%	\$696	14%	19%		12%	2%	13%	4%	8%	1,302	-8%
Feb-Q3	\$1,785	5%	11%	\$650	9%	15%		13%	5%	8%	5%	6%	1,271	-13%
May-Q4	\$1,758	-3%	-	\$699	7%								1,390	-3%
F2019	\$7,076	5%	9%	\$2,736	10%	15%		10%	3%	9%	3%	6%	1,390	-3%
Aug-Q1	\$2,042	7%	12%	\$731	6%	11%	29%	7%	9%	4%	2%	8%	1,459	11%
Nov-Q2	\$1,794	11%	15%	\$743	7%	11%	27%	4%	6%	6%	1%	16%	1,577	21%
Feb-Q3	\$1,956	10%	11%	\$753	16%	18%	43%	6%	3%	6%	-1%	21%	1,501	18%
May-Q4	\$782	-56%	-	\$546	-22%								2,070	49%
F2020	\$6,574	-7%	-4%	\$2,773	1%	5%	50%	-15%	7%	-10%	4%	-2%	2,070	49%
Aug-Q1	\$1,973	-3%	-4%	\$937	28%	27%	116%	-11%	8%	-6%	2%	9%	1,891	30%
Nov-Q2	\$1,985	11%	6%	\$973	31%	25%	96%	-20%	-1%	9%	-1%	19%	1,589	1%
Feb-Q3	\$1,805	-8%	-12%	\$804	7%	0%	60%	-44%	11%	-22%	7%	-11%	1,772	
May-Q4	\$2,049	162%		\$930	70%								1,821	-12%
F2021	\$7,812	19%	14%	\$3,644	31%	25%	67%	-10%	4%	9%	-1%	26%	1,821	-12%
Aug-Q1	\$2,224	13%	7%	\$1,083	16%	10%	2%	16%	2%	2%	6%	7%	1,632	-14%
Nov-Q2	\$2,112	6%	6%	\$1,030	6%	6%	-1%	14%	8%	-4%	5%	3%	1,426	-10%
Feb-Q3	\$1,858	3%	10%	\$921	15%	22%	11%	46%	10%	-6%	9%	19%	1,737	-2%
May-Q4	\$2,183	7%		\$1,068	15%								1,887	4%
F2022	\$8,377	7%	10%	\$4,102	13%	15%	8%	30%	10%	-1%	7%	9%	1,887	4%
Aug-Q1	\$2,203	-1%	15%	\$1,130	4%	20%	46%	3%	18%	0%	8%	7%	2,139	31%
Nov-Q2	\$2,242	6%	28%	\$1,247	21%	44%	62%	24%	19%	18%	17%	11%	2,112	48%
Feb-Q3	\$2,061	11%	20%	\$1,185	29%	39%	43%	36%	15%	24%	12%	-2%	2,066	19%
May-Q4	\$2,016	-8%		\$1,334	25%								2,167	15%
F2023	\$8,522	2%	15%	\$4,896	19%	33%	43%	22%	16%	9%	12%	2%	2,167	15%
Aug-Q1	\$2,379	8%	7%	\$1,231	9%	6%	-2%	14%	8%	2%	12%	-15%	2,220	4%
Nov-Q2	\$2,138	-5%	-8%	\$1,429	15%	7%	7%	8%	6%	-5%	11%	-21%	2,013	-5%

Source: Company reports

BofA GLOBAL RESEARCH

Greater China digital sales -22%

F2Q (Nov): Total revenue increased 4% y/y (8% y/y on a currency-neutral basis), driven by a 19% y/y increase in wholesale and 4% decline in DTC. Currency neutral footwear revenues increased 3% y/y, led by higher revenues in Jordan, Women's, Men's and Kids'. Units increased 3% and ASP was flat. Currency neutral apparel revenues increased 24% y/y led by Men's, Women's, Kid's, and Jordan. ASP increased 8% and unit sales increased 16%.

Reported EBIT increased 1%. Gross margin increased 80bp primarily due to lower product costs (reflecting product mix) and was partially offset by unfavorable changes in FX and lower ASP. Selling and administrative expense increased 7% due to higher operating overhead expense. Operating overhead expense increased due to higher Nike Direct costs, partially offset by favorable changes in FX rates.

Exhibit 4: Greater China Segment Analysis

2Q sales increased 8% ccy due to strong wholesale sales

Greater China	Sales to Wholesale	% change	FX-Neutral % change	Sales to DTC	% change	FX-Neutral % change	NKE Direct Digital Growth	NKE Direct Same Store Sales	Footwear ASP	Footwear Units	Apparel ASP	Apparel Units	China Inventory	% change
Aug-Q1	\$730	5%	8%	\$378	16%	20%		2%	-3%	13%	5%	13%	537	25%
Nov-Q2	\$708	5%	4%	\$514	35%	33%		8%	0%	17%	3%	8%	600	36%
Feb-Q3	\$848	21%	16%	\$488	31%	25%		8%	-7%	23%	12%	18%	613	42%
May-Q4	\$930	32%	-	\$538	40%								580	25%
F2018	\$3,216	16%	13%	\$1,918	31%	27%		10%	-3%	19%	3%	20%	580	25%
Aug-Q1	\$871	19%	15%	\$508	34%	30%		18%	-1%	23%	3%	16%	652	21%
Nov-Q2	\$897	27%	33%	\$647	26%	31%		17%	0%	33%	13%	15%	690	15%
Feb-Q3	\$936	10%	15%	\$652	34%	39%		24%	13%	10%	16%	10%	723	18%
May-Q4	\$1,022	10%	-	\$675	25%								693	19%
F2019	\$3,726	16%	19%	\$2,482	29%	33%		23%	5%	20%	9%	14%	693	19%
Aug-Q1	\$986	13%	19%	\$693	36%	42%	74%	23%	10%	17%	8%	20%	775	19%
Nov-Q2	\$1,028	15%	19%	\$819	27%	30%	44%	16%	7%	19%	0%	18%	840	22%
Feb-Q3	\$881	-6%	-5%	\$625	-4%	-3%	32%	-22%	2%	-5%	3%	-12%	916	27%
May-Q4	\$908	-11%	-	\$739	9%								882	27%
F2020	\$3,803	2%	6%	\$2,876	16%	20%	49%	1%	2%	10%	0%	8%	882	27%
Aug-Q1	\$964	-2%	0%	\$816	18%	21%	28%	13%	-9%	19%	-6%	11%	1,113	44%
Nov-Q2	\$1,159	13%	8%	\$1,139	39%	33%	37%	27%	-4%	24%	-5%	21%	1,137	35%
Feb-Q3	\$1,269	44%	35%	\$1,010	62%	52%	44%	56%	2%	39%	-8%	52%	1,136	24%
May-Q4	\$1,121	23%		\$812	10%								1,247	41%
F2021	\$4,513	19%	14%	\$3,777	31%	26%	26%	22%	-1%	20%	1%	18%	1,247	41%
Aug-Q1	\$1,114	16%	5%	\$868	6%	-3%	-6%	-6%	1%	5%	-5%	-4%	1,148	3%
Nov-Q2	\$896	-23%	-27%	\$948	-17%	-21%	-27%	-18%	-5%	-20%	-4%	-17%	1,120	-1%
Feb-Q3	\$1,241	-2%	-5%	\$919	-9%	-11%	-19%	-10%	-8%	2%	-10%	-3%	1,105	-3%
May-Q4	\$830	-26%		\$731	-10%								1,044	-16%
F2022	\$4,081	-10%	-14%	\$3,466	-8%	-12%	-15%	-14%	-3%	-7%	-6%	-15%	1,044	-16%
Aug-Q1	\$839	-25%	-21%	\$817	-6%	-2%	-5%	-3%	-1%	-10%	-11%	-7%	1,115	-3%
Nov-Q2	\$897	0%	8%	\$891	-6%	4%	9%	-4%	6%	15%	4%	-28%	1,083	-3%
Feb-Q3	\$1,126	-9%	-1%	\$868	-6%	3%	-11%	9%	-1%	6%	8%	-16%	1,060	-4%
May-Q4	\$1,004	21%		\$806	10%								973	-7%
F2023	\$3,866	-5%	2%	\$3,382	-2%	5%	-4%	9%	1%	7%	1%	-8%	973	-7%
Aug-Q1	\$895	7%	14%	\$840	3%	10%	6%	7%	2%	9%	16%	-2%	1,182	6%
Nov-Q2	\$1,027	14%	19%	\$836	-6%	-4%	-22%	7%	0%	3%	8%	16%	1,218	12%

Source: Company reports

BofA GLOBAL RESEARCH

Asia Pacific & Latin America update

F2Q (Nov): Total revenue increased 13% (10% y/y on a currency-neutral basis), driven by a 15% y/y increase in DTC and 7% increase wholesale. Currency neutral footwear revenues increased 15% y/y, led by Men's, Women's, Jordan brand, and Kids'. Average selling price (ASP) increased 5% while unit sales increased 10%. Currency neutral apparel revenues declined 2% y/y primarily due to Men's and Women's, as unit sales declined 9% and ASP increased 7%.

Reported EBIT increased 7%. Gross margin declined 200bp primarily due to FX and lower Nike Direct margins. This was partially offset by higher full-price ASP. Selling and administrative expense increased 9% due to higher demand creation and operating overhead expense.

Exhibit 5: APLA Segment Analysis

2Q sales increased 10% ccy due to strong DTC and wholesale sales

APLA	Sales to Wholesale	% change	FX-Neutral % change	Sales to DTC	% change	FX-Neutral % change	NKE Direct Digital Growth	NKE Direct Same Store Sales	Footwear ASP	Footwear Units	Apparel ASP	Apparel Units	APLA Inventory	% change
Aug-Q1	\$889	0%	2%	\$300	23%	24%		19%	0%	6%	-1%	10%	769	
Nov-Q2	\$960	3%	5%	\$313	16%	19%		15%	2%	7%	3%	7%	786	
Feb-Q3	\$928	11%	9%	\$340	19%	16%		8%	6%	6%	4%	9%	787	
May-Q4	\$1,052	8%	-	\$384	25%								687	-1%
F2018	\$3,829	5%	6%	\$1,337	21%	21%		11%	4%	5%	4%	11%	687	-1%
Aug-Q1	\$934	5%	13%	\$336	12%	18%		7%	5%	9%	9%	9%	714	-7%
Nov-Q2	\$937	-2%	12%	\$361	15%	26%		16%	7%	7%	6%	11%	719	-9%
Feb-Q3	\$906	-2%	8%	\$401	18%	29%		23%	6%	7%	13%	4%	708	-10%
May-Q4	\$969	-8%	-	\$410	7%								694	1%
F2019	\$3,746	-2%	9%	\$1,508	13%	23%		14%	6%	6%	8%	7%	694	1%
Aug-Q1	\$950	2%	8%	\$395	18%	24%	46%	12%	14%	-2%	9%	6%	817	14%
Nov-Q2	\$1,022	9%	14%	\$446	24%	28%	67%	14%	14%	5%	11%	7%	849	18%
Feb-Q3	\$953	5%	11%	\$461	15%	20%	51%	10%	11%	0%	2%	18%	614	-13%
May-Q4	\$483	-50%	-	\$318	-22%								770	11%
F2020	\$3,408	-9%	-4%	\$1,620	7%	12%	62%	-4%	12%	-12%	8%	-5%	770	11%
Aug-Q1	\$708	-25%	-19%	\$391	-1%	4%	91%	-28%	12%	-24%	4%	-14%	753	-8%
Nov-Q2	\$925	-9%	-5%	\$546	22%	27%	92%	-3%	11%	-6%	1%	8%	620	-27%
Feb-Q3	\$846	-11%	-12%	\$469	2%	0%	66%	-23%	16%	-23%	14%	-22%	636	4%
May-Q4	\$908	88%		\$550	73%								667	-13%
F2021	\$3,387	-1%	2%	\$1,956	21%	22%	73%	-4%	13%	-5%	5%	5%	667	-13%
Aug-Q1	\$927	31%	28%	\$538	38%	36%	62%	18%	14%	19%	14%	12%	668	-11%
Nov-Q2	\$784	-15%	-13%	\$563	3%	6%	25%	-1%	17%	-25%	-5%	-20%	636	3%
Feb-Q3	\$860	2%	9%	\$601	28%	39%	61%	17%	11%	9%	1%	15%	721	13%
May-Q4	\$958	6%		\$724	32%								686	3%
F2022	\$3,529	4%	8%	\$2,426	24%	30%	51%	13%	15%	2%	9%	3%	686	3%
Aug-Q1	\$914	-1%	8%	\$621	15%	30%	29%	24%	14%	1%	1%	18%	837	25%
Nov-Q2	\$965	23%	37%	\$634	13%	30%	35%	33%	2%	38%	2%	22%	890	40%
Feb-Q3	\$913	6%	11%	\$688	14%	22%	23%	36%	6%	14%	10%	-1%	957	33%
May-Q4	\$944	-1%		\$752	4%								894	30%
F2023	\$3,736	6%	14%	\$2,695	11%	22%	23%	28%	3%	16%	4%	9%	894	30%
Aug-Q1	\$937	3%	3%	\$635	2%	3%	-3%	12%	0%	7%	8%	-17%	1,072	28%
Nov-Q2	\$1,051	9%	7%	\$754	19%	15%	14%	11%	5%	10%	7%	-9%	946	6%

Source: Company reports

BofA GLOBAL RESEARCH

Price objective basis & risk

Nike (NKE)

Our \$125 price objective is based on 29x our F2025 EPS estimate, slightly below Nike's historical forward P/E average as we expect investors will assign a discount to the uncertainty in China and US wholesale.

Upside risks to our PO are faster-than-expected recovery in China and better-than-expected margin improvement from the company's shift away from undifferentiated wholesale channels.

Downside risks to our PO are a worse-than-expected sales and margin recovery from China, the rising cost of shifting to a more digital-centric business model and a continued promotional retail environment hurting the margin recovery.

Analyst Certification

I, Lorraine Hutchinson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao
NEUTRAL				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
UNDERPERFORM				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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Important Disclosures

Nike (NKE) Price Chart



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Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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