

Apparel and Footwear

NIKE, Inc. (NKE)
RATING
BUY
PRICE TARGET
\$78.00
PRICE
\$69.73
52-WEEK RANGE
\$52.28 - \$89.64
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Top-Line Trends Improving, But Some Pain Points Persist

OUR CALL

NKE continues to make progress on their turnaround, with a significant QoQ acceleration in top-line trends and improvement in key focus areas of the business (wholesale, performance products, etc.) Although some sources of pressure persist (China, e-commerce traffic, Dunks), it seems as though trends are generally heading in the right direction. That said, we are lowering our estimates due primarily to incremental tariff headwinds since the last EPS print, now modeling FY26/27 EPS of \$1.56/\$2.16 (vs. \$1.69/\$2.44 prior). For the quarter, revenue was down 1% constant-FX (flat ex-Converse), which was above guidance of down MSD, and EPS of \$0.47 was handily above Street at \$0.27. Q2 revenues were guided down LSD (in line with the Street).

TOM'S TAKEAWAYS

Tom's Takeaway #1: Reaping Benefits From Playing Nice In The Sandbox With Wholesale Partners. Wholesale returned to growth this quarter (+5%) following declines in 6 of the prior 7 quarters (by comparison, DTC stores and e-commerce declined -1% and -12% respectively). The improvement was driven by strong +11% growth domestically, as NKE re-emphasizes the channel. Importantly, after stating last call that Fall order books were positive, they now stated that Spring order books are also positive.

Tom's Takeaway #2: Sport Categories Growing Nicely. Running is furthest along in the turnaround, up more than 20% in the quarter, and it was even a bright spot in the challenging Chinese market (+HSD). They also generated +DD growth in key sport-related categories such as Training and Basketball. Unsurprisingly, sportswear/lifestyle remains the laggard, with the "Big 3" franchises (Jordan/Dunk/Air Force) down a combined 30% YoY. Within the Big 3, Air Force 1 seems to have stabilized and Jordan is in the process of rebalancing supply/demand, but there's more work to do on the Dunk franchise. They cited a big pullback in Dunk in the current quarter as a major reason for a QoQ worsening of top-line trends in Q2.

Tom's Takeaway #3: Most Regions Grew In Q1, But China Remains A Problem. North America surprisingly grew +4% in Q1 (vs. -11% in Q4), while EMEA and APLA grew 1% each (vs. declines of 10% and 3% respectively in Q4). That said, China remains a sore spot, with a 4th consecutive quarter of double-digit declines (-10%), and they believe this region will remain pressured as it lags the rest of the world due to region-specific challenges.

Tom's Takeaway #4: Incremental Tariff Headwinds Impacting Margins. Gross margins were down 320bps in the quarter which was ahead of guidance of down 350-425bps. Given updated tariff rates since the Q4 call, they now expect a 120bps net impact for FY26 (up from 75bps previously). This includes a 175bps headwind in Q2, contributing to an overall gross margin decline of 300-375bps expected for Q2. Other headwinds include channel mix and market reset actions in China and for Converse.

KEY DATA

Market Cap (MM)	\$102,984.5
Price [09/30/2025]	\$69.73
52-Week Range	\$52.28 - \$89.64
Shares Outstanding	1,476.90
Avg. Daily Volume	12,743,003.0

ESTIMATES

FY (May)	2025A	2026E	2027E
Rev. (MM)[\$]			
Q1	11,589.0A	11,720.0A	-
Previous	—	10,921.4E	—
Q2	12,354.0A	12,288.3E	-
Previous	—	12,062.2E	—
Q3	11,269.0A	11,628.8E	-
Previous	—	11,746.6E	—
Q4	11,097.0A	11,356.7E	-
Previous	—	11,714.6E	—
Year	46,309.0A	46,993.9E	49,683.6E
Previous	—	46,444.7E	49,710.6E
Growth Rev	[9.8]%	1.5%	5.7%
FY (May)	2025A	2026E	2027E
EPS			
Q1	0.70A	0.49A	-
Previous	—	0.26E	—
Q2	0.78A	0.39E	-
Previous	—	0.55E	—
Q3	0.54A	0.43E	-
Previous	—	0.51E	—
Q4	0.14A	0.25E	-
Previous	—	0.36E	—
Year	2.16A	1.56E	2.16E
Previous	—	1.69E	2.44E
Growth	NM	NM	38.4%
P/E	32.2x	44.7x	32.3x

At a Glance

OUR INVESTMENT THESIS

This one-time darling of investors has clearly been off its game in recent years, but we believe that the worst may nearly be over. The biggest catalyst of change is the recent CEO transition, from John Donohoe (who in hindsight was ill-suited for the role) to well-respected Nike veteran Elliott Hill. We also believe that management is clear-headed about the mistakes they've made, and is working aggressively to correct them.

BULL CASE ASSUMPTIONS

Given the pain the company took in FY25, the declines in Jordan/Dunk/Air Force 1 could moderate more quickly than expected, with a faster than expected benefit from newer styles. As a result, sales could actually be flat-to-up in constant-FX terms this year, in which case EBIT margin pressure would be much better than we are currently forecasting (perhaps only down 100bps). With a recovery in sales/margins in FY27, earnings could climb to ~\$3.00 and the share price could reach \$90 (~30x FY27E).

BASE CASE ASSUMPTIONS

We assume that sales are -LSD constant-FX in FY26, with positive FX impacts resulting in reported sales up slightly. We expect EBIT margin down 200-225bps. In FY27, we expect solid growth in sales (up MSD), margins (up 150-200bps), and EPS (up 35%-40%), as management's turnaround initiatives take hold. Our 12-month price target of \$78 is based on a mid-30's P/E on FY27 EPS of \$2.16, which we view as a depressed level of earnings that does not reflect the company's true earnings power.

BEAR CASE ASSUMPTIONS

In a bear case, NKE's revenue recovery could take longer than expected, with additional margin deleverage resulting in FY26 EPS of \$1.25-\$1.50. Assuming some fundamental improvement in FY27, earnings power could be below \$2.00. A mid-20's P/E on that EPS figure would result in a ~\$50 stock.

COMPANY DESCRIPTION

Nike, Inc. is the world's leading designer and distributor of athletic footwear, apparel, equipment, and accessories. Nike sells products from its namesake brand and from Converse.

PRICE PERFORMANCE



KEY DATA

Market Cap (MM)	\$102,984.5
Price [09/30/2025]	\$69.73
52-Week Range	\$52.28 - \$89.64
Shares Outstanding	1,476.90
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Figure 1 - NKE Income Statement

	May FY19	May FY20	May FY21	May FY22	May FY23	May FY24	Aug 1Q25	Nov 2Q25	Feb 3Q25	May 4Q25	May FY25	Aug 1Q26	Nov 2Q26E	Feb 3Q26E	May 4Q26E	May FY26E	May FY27E
Revenues	39,117	37,403	44,538	46,710	51,217	51,362	11,589	12,354	11,269	11,097	46,309	11,720	12,288	11,629	11,357	46,994	49,684
COGS	21,643	21,162	24,576	25,231	28,925	28,475	6,332	6,965	6,594	6,628	26,519	6,777	7,300	6,912	6,762	27,750	28,794
Gross profit	17,474	16,241	19,962	21,479	22,292	22,887	5,257	5,389	4,675	4,469	19,790	4,943	4,988	4,717	4,595	19,244	20,889
Demand creation	3,753	3,592	3,114	3,850	4,060	4,285	1,226	1,122	1,088	1,253	4,689	1,188	1,346	1,142	1,316	4,992	5,492
Overhead expense	8,949	9,534	9,911	10,954	12,317	12,291	2,822	2,883	2,799	2,895	11,399	2,828	2,939	2,790	2,851	11,408	11,566
Total SG&A	12,702	13,126	13,025	14,804	16,377	16,576	4,048	4,005	3,887	4,148	16,088	4,016	4,285	3,933	4,167	16,401	17,058
Other expense/(income)	(78)	(261)	14	(181)	(280)	(228)	(55)	(8)	(38)	25	(76)	23	0	0	0	23	0
Operating income	4,850	3,376	6,923	6,856	6,195	6,539	1,264	1,392	826	296	3,778	904	703	785	428	2,820	3,831
EBITDA	5,570	4,495	7,720	7,696	7,054	7,383	1,448	1,577	1,068	493	4,586	1,124	923	1,005	653	3,705	4,766
Interest expense/(income)	49	89	262	205	(6)	(161)	(43)	(24)	(18)	(22)	(107)	(18)	(16)	(22)	(29)	(85)	(114)
Pretax income	4,801	3,287	6,661	6,651	6,201	6,700	1,307	1,416	844	318	3,885	922	719	806	458	2,905	3,945
Income taxes	772	348	934	605	1,131	1,000	256	253	50	107	666	195	144	161	92	592	789
Net income	4,029	2,939	5,727	6,046	5,070	5,700	1,051	1,163	794	211	3,219	727	575	645	366	2,313	3,156
Diluted EPS	\$2.49	\$1.85	\$3.56	\$3.75	\$3.23	\$3.73	\$0.70	\$0.78	\$0.54	\$0.14	\$2.16	\$0.49	\$0.39	\$0.43	\$0.25	\$1.56	\$2.16
Basic shares outstanding	1,579.7	1,558.8	1,573.0	1,578.8	1,551.6	1,517.6	1,497.7	1,486.8	1,478.1	1,476.7	1,484.8	1,476.6	1,474.7	1,472.7	1,470.7	1,473.7	1,449.8
Diluted shares outstanding	1,618.4	1,591.6	1,609.4	1,610.7	1,569.8	1,529.7	1,502.0	1,490.0	1,480.6	1,477.7	1,487.6	1,479.0	1,487.7	1,485.7	1,483.7	1,484.0	1,462.8
MARGINS																	
Gross margin	44.7%	43.4%	44.8%	46.0%	43.5%	44.6%	45.4%	43.6%	41.5%	40.3%	42.7%	42.2%	40.6%	40.6%	40.5%	40.9%	42.0%
Demand creation/sales	9.6%	9.6%	7.0%	8.2%	7.9%	8.3%	10.6%	9.1%	9.7%	11.3%	10.1%	10.1%	11.0%	9.8%	11.6%	10.6%	11.1%
Overhead expense/sales	22.9%	25.5%	22.3%	23.5%	24.0%	23.9%	24.4%	23.3%	24.8%	26.1%	24.6%	24.1%	23.9%	24.0%	25.1%	24.3%	23.3%
Total SG&A/sales	32.5%	35.1%	29.2%	31.7%	32.0%	32.3%	34.9%	32.4%	34.5%	37.4%	34.7%	34.3%	34.9%	33.8%	36.7%	34.9%	34.3%
Other expense/sales	-0.2%	-0.7%	0.0%	-0.4%	-0.5%	-0.4%	-0.5%	-0.1%	-0.3%	0.2%	-0.2%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EBIT margin	12.4%	9.0%	15.5%	14.7%	12.1%	12.7%	10.9%	11.3%	7.3%	2.7%	8.2%	7.7%	5.7%	6.7%	3.8%	6.0%	7.7%
EBITDA margin	14.2%	12.0%	17.3%	16.5%	13.8%	14.4%	12.5%	12.8%	9.5%	4.4%	9.9%	9.6%	7.5%	8.6%	5.8%	7.9%	9.6%
Pretax margin	12.3%	8.8%	15.0%	14.2%	12.1%	13.0%	11.3%	11.5%	7.5%	2.9%	8.4%	7.9%	5.9%	6.9%	4.0%	6.2%	7.9%
Tax rate	16.1%	10.6%	14.0%	9.1%	18.2%	14.9%	19.6%	17.9%	5.9%	33.6%	17.1%	21.1%	20.0%	20.0%	20.0%	20.4%	20.0%
Net margin	10.3%	7.9%	12.9%	12.9%	9.9%	11.1%	9.1%	9.4%	7.0%	1.9%	7.0%	6.2%	4.7%	5.5%	3.2%	4.9%	6.4%
YoY changes (bps)																	
Gross margin	83	(125)	140	116	(246)	104	115	(98)	(326)	(442)	(183)	(319)	(303)	(92)	19	(179)	110
Demand creation/sales	(23)	1	(261)	125	(32)	42	232	76	152	264	178	(44)	187	17	29	50	43
Overhead expense/sales	108	261	(324)	120	60	(12)	80	69	(103)	231	68	(22)	58	(84)	(98)	(34)	(100)
Total SG&A/sales	85	262	(585)	245	28	30	312	145	49	495	247	(66)	245	(68)	(69)	16	(57)
EBIT margin	37	(337)	652	(87)	(258)	64	(157)	(292)	(355)	(1,060)	(457)	(319)	(555)	(58)	110	(216)	171
GROWTH METRICS																	
Revenue growth	7.5%	-4.4%	19.1%	4.9%	9.6%	0.3%	-10.4%	-7.7%	-9.3%	-12.0%	-9.8%	1.1%	-0.5%	3.2%	2.3%	1.5%	5.7%
FX impact	-3.5%	-2.4%	2.1%	-1.0%	-6.4%	-0.7%	-1.4%	1.3%	-2.3%	-1.0%	-0.8%	2.1%	2.0%	4.2%	1.9%	2.4%	0.0%
Divestiture impact	0.0%	-0.3%	-0.6%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Organic growth	11.0%	-1.7%	17.6%	6.0%	16.0%	1.0%	-9.0%	-9.0%	-7.0%	-11.0%	-9.0%	-1.0%	-2.5%	-1.0%	0.4%	-1.0%	5.7%
Organic CAGR vs. FY19		-1.7%	7.5%	7.0%	9.2%	7.5%	4.0%	5.7%	4.3%	3.2%	4.6%	3.3%	4.4%	3.5%	2.8%	3.8%	
Gross profit	9.5%	-7.1%	22.9%	7.6%	3.8%	2.7%	-8.1%	-9.7%	-15.9%	-20.7%	-13.5%	-6.0%	-7.4%	0.9%	2.8%	-2.8%	8.6%
Demand creation	4.9%	-4.3%	-13.3%	23.6%	5.5%	5.5%	14.7%	0.7%	7.6%	14.8%	9.4%	-3.1%	20.0%	5.0%	5.0%	6.5%	10.0%
Overhead expense	12.8%	6.5%	4.0%	10.5%	12.4%	-0.2%	-7.4%	-4.9%	-12.9%	-3.4%	-7.3%	0.2%	1.9%	-0.3%	-1.5%	0.1%	1.4%
Total SG&A	10.3%	3.3%	-0.8%	13.7%	10.6%	1.2%	-1.7%	-3.4%	-8.0%	1.5%	-2.9%	-0.8%	7.0%	1.2%	0.5%	1.9%	4.0%
Constant-FX SG&A growth	12.3%	4.6%	-2.1%	13.9%	17.0%	1.9%	-0.2%	-4.7%	-5.7%	2.4%	-2.1%	-2.9%	5.5%	-2.0%	-1.0%	-0.5%	4.0%
Operating income	10.8%	-30.4%	105.1%	-1.0%	-9.6%	5.6%	-21.7%	-26.7%	-38.9%	-82.3%	-42.2%	-28.5%	-49.5%	-5.0%	44.7%	-25.4%	35.9%
EBITDA	8.1%	-19.3%	71.7%	-0.3%	-8.3%	4.7%	-19.6%	-24.3%	-34.2%	-73.7%	-37.9%	-22.4%	-41.5%	-5.9%	32.5%	-19.2%	28.6%
Pretax income	11.0%	-31.5%	102.6%	-0.2%	-6.8%	8.0%	-20.7%	-26.3%	-39.9%	-81.6%	-42.0%	-29.5%	-49.2%	-4.4%	43.9%	-25.2%	35.8%
Net income	1.2%	-27.1%	94.9%	5.6%	-16.1%	12.4%	-27.5%	-26.3%	-32.3%	-85.9%	-43.5%	-30.8%	-50.5%	-18.7%	73.5%	-28.1%	36.4%
Diluted EPS	3.7%	-25.8%	92.7%	5.5%	-14.0%	15.4%	-25.5%	-24.2%	-30.2%	-85.6%	-41.9%	-29.8%	-50.5%	-19.0%	72.8%	-28.0%	38.4%
Diluted shares outstanding	-2.5%	-1.7%	1.1%	0.1%	-2.5%	-2.6%	-2.7%	-2.7%	-3.0%	-2.6%	-2.8%	-1.5%	-0.2%	0.3%	0.4%	-0.2%	-1.4%

Source: Company reports and Needham & Co. estimates. Line items in \$millions

VALUATION (PRICE TARGET: \$78.00)

Our 12-month price target of \$78 is based on a mid-30's P/E on FY27 EPS of \$2.16, which we view as a depressed level of earnings that does not reflect the company's true EPS power.

POTENTIAL UPSIDE DRIVERS

Potential upside drivers for NKE include:

- The arrival of new CEO Elliott Hill could reinvigorate the brand to a greater degree than expected.
- Reduced supply of over-distributed styles could lead to reduced discounting/markdowns, driving higher gross margins.
- Some of the "green shoots" in the product assortment (Vomero, P-6000, Signature Basketball) could gain momentum and offset some of the declines of over-distributed styles.

RISKS TO TARGET

NKE

Risks to the NKE story include:

- It could longer than expected for new CEO Elliott Hill to effect change at the company, particularly given long lead times for new product development.
- The company has a large exposure to China (15% of revenues), which is a market that has become far more challenging in recent quarters.
- The ability to wean consumers off of discounts and get them to buy more at full-price could prove more challenging than expected, which could either keep a lid on margins or negatively affect revenues.



ANALYST CERTIFICATION

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