

# Equity Research

WELLS FARGO

Price Target Change — December 18, 2025

## Retailing, Specialty Softlines, and E-commerce

### NIKE, Inc.

America's Great Again...China Not So Much; Numbers Coming Down, Upside Again Pushed Out

#### Our Call

More for Bears in 2Q w/ nums again coming down as stability/inflection remains out of reach. NA upside not good enough, as sustainability of NA growth questioned while other headwinds accelerate (China) as FY27 Bull Case moves from ~\$3.00 to ~\$2.50.

**2Q Thoughts.** First, while the NA market is turning + driving growth and margin (ex tariffs) the overall business remains in a "non-linear" recovery from the disconnect on brand momentum across varying channels and geos (largely weighed down by China (which badly missed: profit fell 50% YoY). Second, while NA strength is notable the channel dynamics create debate (wholesale +24%, DTC -10%) as angst around channel stuffing grows. *All in, a bad print, with little for Bulls to hang their hat on NT.*

**Mgmt Callback Takes.** 1) Confirmed attending the ICR conf in Jan, 2) no change to tariff guide at -120bps for FY26 (-315bps for 3Q is "gross"), 3) Classics -25% in 2Q and 2H to moderate further (entirely DUNK driven), 4) EMEA marketplace healthy, but higher-than-expected promo activity taking place in market, 5) China furthest behind, need to reset the structure, 6) no obsolescence charges planned in 3Q, 7) 10% margin goal will "take time"—still need to shift the trajectory.

**NA Back in the Lead (The Good).** NKE stated NA is leading the way today—a great signal for future success in other geos. 2Q beat nicely on revs (+9%; vs St flattish)—with wholesale sig outpacing DTC (+24% vs -10%) incl ongoing liquidation to OP, but also including sig progress on digital promos (more FP selling). Importantly—inv \$ were down -MSD w/units -DD (and closeout units -DD too). On product, running inc +HDD across channels and sportswear grew +LSD even with Classics -20% YoY.

**China Back of the Pack (The Bad).** The biggest driver to NKE's "non-linear" recovery is China—a "longer road that will take time"—which missed badly. Results were much worse than feared and feed a key Bear argument. Revs decelerated seq (to -16% vs. -10% 1Q) as did OM (-850bps vs -520 1Q), incl obsolescence charges. Higher markdowns, returns, wholesale discounts and obsolescence were all called out as headwinds in 2Q, and pressures remain go-fwd (3Q CC revs planned similar to 2Q's -16%).

**Dynamic Channel Dynamics.** A key debate (almost as loud as China) is on the disparity b/w wholesale and DTC (mainly in NA). Here, NT results seem to favor Bears who question when NKE can return to "linear" results given con't choppiness in current trends (NA wholesale +24% with DTC -10%). Wholesale has benefited from value shipments in 1H, & is set to moderate materially in 2H (implied closer to flat)—which begs concern on 1) sustainable channel growth, 2) compares next yr & 3) channel stuffing.

PT to \$65 (from \$75)

After-hours price (12/18/25): \$58.57

**Overweight**  
**Price Target: \$65.00**

Notable Changes				
\$ (May)	Current	Prior	% Chg	
Price Target	\$65.00	\$75.00	-13.3%	▼
EPS 2026	1.40	1.70	-17.3%	▼
EPS 2027	2.00	2.40	-16.5%	▼
Rev. (MM) 2026	46.28B	47.06B	-1.7%	▼
Rev. (MM) 2027	47.60B	49.15B	-3.2%	▼

Ticker	NKE
Upside/(Downside) to Target	(1.0)%
Price (12/18/2025)	\$65.63
52 Week Range	\$52.28 - 82.44
Market Cap (MM)	\$97,067
Enterprise Value (MM)	\$95,882
Average Daily Value (MM)	\$1,022
Dividend Yield	2.4%

\$ (May)	Q1	Q2	Q3	Q4	FY
EPS					
2026E	0.49 A	0.53 A	0.26 E	0.10 E	1.40 E
Prior	NC	0.39 E	0.46 E	0.35 E	1.70 E
2027E	0.53 E	0.70 E	0.45 E	0.29 E	2.00 E
Prior	0.64 E	0.55 E	0.65 E	0.52 E	2.40 E

Source: Company Data, Wells Fargo Securities estimates, and Factset.  
NA = Not Available, NC = No Change, NE = No Estimate

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## Wells Fargo Express Takeaways

**NIKE, Inc. (NKE) | Rating: Overweight | Price Target: \$65.00**

**Analyst:** Ike Boruchow

### Financials

FY (May)	2025A	2026E	2027E
<b>ESTIMATES</b>			
<b>EPS</b>			
Q1	0.70 A	0.49 A	0.53 E
Q2	0.78 A	0.53 A	0.70 E
Q3	0.54 A	0.26 E	0.45 E
Q4	0.14 A	0.10 E	0.29 E
AN	2.16 A	1.40 E	2.00 E
<b>Rev. (MM)</b>	46.31B A	46.28B E	47.60B E
<b>EBIT (MM)</b>	3,778.0 A	2,524.3 E	3,442.2 E
<b>EBITDA (MM)</b>	4.59B A	3.31B E	4.25B E
<b>FCF (MM)</b>	3,268.0 A	2,462.4 E	3,461.6 E

### WELLS FARGO vs. CONSENSUS

Consensus Estimate	3.06 A	1.66 E	2.51 E
Difference from Consensus		(15.4)%	(78.8)%

### VALUATION

P/E	30.3x	46.8x	32.8x
EV/Revenue	2.1x	2.1x	2.0x
EV/EBIT	25.4x	38.0x	27.9x
EV/EBITDA	20.9x	29.0x	22.6x
EV/FCF	29.3x	38.9x	27.7x
FCF Yield	3.4%	2.5%	3.6%

Consensus Estimate: EPS; Source: FactSet

Source: Company Data, Wells Fargo Securities estimates, and Factset.

NA = Not Available, NE = No Estimate

### Investment Thesis

We rate NKE Overweight. We believe a few things are happening: **1)** Visibility is improving into NKE's revamped strategies (numbers are bottoming), **2)** Material green shoots are appearing (innovation) and **3)** Significant headwinds from "Classics" clean up should start to dissipate in the coming quarters. We can finally begin to map out realistic "return to growth" forecasts, while sizable margin levers likewise take hold.

### Risk vs. Reward – Upside/Downside Price Target Scenarios



\*As of 12/18/25  
Source: Wells Fargo Securities, LLC estimates and Factset.

### Base Case | \$65.00

Our \$65 price target is based on a ~32x P/E on our FY27E EPS. This is a slight premium to NKE's history, closer to a "recovery" multiple on trough earnings which we believe accurately reflects current headwinds vs. upside potential. We believe that ongoing opportunities for rev growth, margin expansion and FCF generation justify our target multiples, though we do see many near-term puts and takes around revenue/margin.

### Upside Scenario | \$75.00

Our \$75 Bull Case reflects a 30x P/E on ~\$2.50 FY27 EPS (*above our forecasts*).

Factors that would contribute to the Bull Case scenario include:

- (1)** Classics headwinds have peaked
- (2)** GM declines inflect materially in FY27
- (3)** Non-Classics Footwear growth + Apparel growth drives revenue upside
- (4)** Overseas markets get "clean" by FY end

### Downside Scenario | \$40.00

Our \$40 Bear Case reflects a 25x P/E on ~\$1.50 FY27 EPS (*below our forecasts*).

Factors that would contribute to the Bear Case scenario include:

- (1)** Prolonged franchise management actions combined with longer timeline on innovation
- (2)** A higher level of brand investment is needed to turn NKE around
- (3)** NKE gains back only some of its lost transitory GMs, while seeing deleverage in other cost lines on the weaker top-line growth.
- (4)** China becomes a structural problem

### Upcoming Catalysts

- Reads on US Wholesale channel
- Color on China

### Company Description

NIKE, Inc., based in Beaverton, Oregon, is a leading global designer, marketer, and distributor of athletic footwear, apparel, equipment, and accessories across a range of sports and activities. NKE products are sold at various sporting goods retailers, as well as company-operated stores and websites.

## Investment Thesis

Key themes surrounding the company include:

1. **King of the Hill.** Just over one year ago NKE named their next leader—a 30+ year NKE veteran, Elliot Hill returns to the company and has played out several initiatives where he'd like to focus. One of the first things CEO Hill spoke about in this regard is the culture. While this is a fairly broad statement, Hill elaborated on his view that "culture" is about several key dynamics that need to be in place in order to drive the Nike brand—putting sport back at the center of everything they do, taking insights from their athletes and turning that into great product and improving storytelling behind their consumer led marketplace (with Direct and Wholesale working together). Elaborating further, over the years NKE had shifted to a mentality of a tech company vs. sports company. Too much reliance on data and analytics, which was a mistake. This led to poor decision-making and created the current marketplace issues that exist today. "*We've been in this situation before and will work our way through it over time.*" Certainly not pleased with their financial performance over the past few years, Hill has stated that the strategy was off, execution was off and while the organization did put a number of actions into place 12+ months, he believes there remains several areas where they simply need to move faster.
2. **More on Recent Initiatives.** 1) NKE (and Hill) is **reigniting their culture** by leading with sports (with more athlete and team collaborations) and inviting more consumers into the sport world — while putting athletes at the center of decisions again (pivoting away from lifestyle). Notably, they are shifting back towards having the mentality of a sports company (and away from a tech company) with a greater focus on art vs. science. 2) Shifting into sport-led teams (which move at a faster pace) to **accelerate a complete product portfolio** across 10 different sports spanning footwear, apparel, equipment, and accessories (and analyzing how growth in each separate category rolls up to the total company) — with opportunities not only from product innovation but also merchandising. 3) Shifting investments back towards creating demand for brands (with demand creation close to 10% of revenue) by creating **strong marketing stories** and emotionally connecting with consumers during important sports moments and product launches—with the teams currently building anticipation for new launches and **shifting spend from performance marketing to brand marketing**. 4) **Building back an integrated marketplace (wholesale)**, after it was de-prioritized due to a focus on digital revenue, and managing inventory across the marketplace by **liquidating aged inventory** to create space to sell new assortments and innovation coming in Fall and Holiday 2025. 5) **Investing in specialty channels**, including running and football (soccer)—and **engaging with wholesale partners** to build out a pipeline off innovative products across all sports and price points, while reducing weeks of supply to increase full-price selling.
3. **China Remains a Headwind.** After several years of very strong growth China slowed materially post-COVID on a number of issues. Local companies like Anta (Salomon also gets a tailwind from its Anta association) and Li Ning have raised their own game in terms of sneaker technology, are able to price well below Nike—and have benefited from a cultural shift to China-centric companies. At the same time newer competitors like On and Hoka have also captured share in China on the rise of trail and road running, at the expense of basketball. These companies' focus on sport/technology has led to lifestyle success as well—mirroring broader trends in athletic participation. While we had previously expected the sales headwind to persist through summer 2026 (FY27), with any improvement in profitability driven more by margin normalization rather than a return to growth, 2Q results obscure this timeline. That said, recapture potential is significant—with operating margins down (1,500)bps over the last four years and (725+)bps over the last two.
4. **Financial Headwinds Could Start to Slow in 2H26.** While not out of the woods yet (we forecast an additional \$1.5B of clearance through 1Q27) we do believe the rate of change slows for NKE after 2Q26 (\$800M of the remaining \$1.5B). Further, we do see greenshoots in footwear ex-Classics and NKE's "Rest of Business" - each of which improved sequentially in NA through 2Q26. However, we see GM recapture as the key near-term driver. NKE has absorbed a significant amount of cost, in multiple ways, cleaning up Classics footwear (we estimate \$6B total revenue headwind). These include impacts to 1) channel mix and margin rates within channels—incremental sell-in to closeout, 2) ASP driven declines in Nike Direct—both stores and online, 3) through inventory and sales reserves and inventory obsolescence charges, and on 4) fixed costs.

## The Bull vs. Bear "Tug of War"

Below, we illustrate how we think the buyside is positioning its thesis—detailing the current Bull and Bear arguments on NKE shares.

**Exhibit 1 - The Bull vs Bear "Tug of War"**



#### ***The Bull Case....***

We believe that investors who are bullish on NKE shares are focused on: **(1)** favorable risk-reward at current levels—NKE remains one the strongest softlines brands in the space that, while experiencing some transitory challenges, still has the key long-term opportunities intact; **(2)** "new" CEO Elliot Hill is aggressively cleaning inventory and removing stale product from the market; **(3)** numbers have been reset and sentiment remains low; and **(4)** with marketplace inventories eventually clean NKE can refocus on growth, now driven internally through sport—which allows for focused innovation, marketing and community connection.

#### ***The Bear Case....***

On the other hand, investors who are bearish on NKE shares are likely focused on: **(1)** NT outlook to remain choppy—global demand very different across geographies and each on separate timelines; **(2)** China is structurally challenged with headwinds persisting longer than expected; **(3)** NT issues exacerbated by strong competitors such as ON and HOKA in the US and local brands in China (along with recent strength by Salomon and Arc'Teryx); and **(4)** global sport and fitness has transitioned more towards trail running and outdoor sport relative to "indoor" sports where NKE has historically found success.

#### **Financial Outlook**

**FY26E:** Our FY26E EPS estimate is \$1.40 (lowered) representing EPS -35.2%. We're projecting total sales flattish. We are projecting gross margin down ~200bps, to 40.8%, and we expect SG&A to grow +0.5% in dollars, to ~35%. As a result, we expect operating margin to contract ~270bps, to 5.5%.

**FY27E:** We forecast FY27 EPS of \$2.00 representing EPS +42.8%. We're projecting total sales +2.8% and gross margin up ~130bps to 42.1%. We expect SGA to grow +1.7% in dollars but see (39)bps of leverage to 34.5%. As a result we forecast operating margin to expand +178bps to 7.2%.

## Financials

### Exhibit 2 - NKE Income Statement

In \$millions except per-share data

	<b>FY25</b>	<b>1Q26</b>	<b>2Q26</b>	<b>3Q26E</b>	<b>4Q26E</b>	<b>FY26E</b>	<b>1Q27E</b>	<b>2Q27E</b>	<b>3Q27E</b>	<b>4Q27E</b>	<b>FY27E</b>	<b>FY28E</b>
<b>Revenues</b>	<b>\$46,309</b>	<b>\$11,720</b>	<b>\$12,427</b>	<b>\$11,136</b>	<b>\$10,996</b>	<b>\$46,278</b>	<b>\$11,736</b>	<b>\$12,713</b>	<b>\$11,620</b>	<b>\$11,527</b>	<b>\$47,596</b>	<b>\$50,779</b>
<b>Cost of sales</b>	<b>26,519</b>	<b>6,777</b>	<b>7,382</b>	<b>6,745</b>	<b>6,645</b>	<b>27,549</b>	<b>6,709</b>	<b>7,394</b>	<b>6,841</b>	<b>6,768</b>	<b>27,711</b>	<b>29,138</b>
Gross profit	19,790	4,943	5,045	4,391	4,350	18,729	5,028	5,319	4,779	4,759	19,885	21,640
<b>Demand creation</b>	<b>4,689</b>	<b>1,188</b>	<b>1,273</b>	<b>1,142</b>	<b>1,303</b>	<b>4,907</b>	<b>1,259</b>	<b>1,324</b>	<b>1,188</b>	<b>1,355</b>	<b>5,127</b>	<b>5,460</b>
<b>Operating overhead</b>	<b>11,399</b>	<b>2,828</b>	<b>2,766</b>	<b>2,785</b>	<b>2,881</b>	<b>11,260</b>	<b>2,828</b>	<b>2,766</b>	<b>2,813</b>	<b>2,909</b>	<b>11,316</b>	<b>11,882</b>
Total SG&A	16,088	4,016	4,039	3,927	4,184	16,166	4,087	4,090	4,001	4,265	16,443	17,342
<b>Other expense/(income)</b>	<b>(76)</b>	<b>23</b>	<b>16</b>	<b>0</b>	<b>0</b>	<b>39</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Operating income</b>	<b>3,778</b>	<b>904</b>	<b>990</b>	<b>463</b>	<b>167</b>	<b>2,524</b>	<b>940</b>	<b>1,229</b>	<b>778</b>	<b>494</b>	<b>3,442</b>	<b>4,299</b>
<b>EBITDA</b>	<b>4,586</b>					<b>3,310</b>					<b>4,248</b>	<b>5,153</b>
<b>Interest expense</b>	<b>(107)</b>	<b>(18)</b>	<b>(9)</b>	<b>(10)</b>	<b>(15)</b>	<b>(52)</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>	<b>(10)</b>	<b>(40)</b>	<b>(40)</b>
Pretax income	3,885	922	999	473	182	2,576	950	1,239	788	504	3,482	4,339
<b>Income tax expense</b>	<b>666</b>	<b>195</b>	<b>207</b>	<b>90</b>	<b>34</b>	<b>526</b>	<b>166</b>	<b>217</b>	<b>138</b>	<b>88</b>	<b>609</b>	<b>759</b>
Net income	3,219	727	792	384	148	2,051	784	1,023	650	416	2,873	3,579
<b>Diluted EPS</b>	<b>\$2.16</b>	<b>\$0.49</b>	<b>\$0.53</b>	<b>\$0.26</b>	<b>\$0.10</b>	<b>\$1.40</b>	<b>\$0.53</b>	<b>\$0.70</b>	<b>\$0.45</b>	<b>\$0.29</b>	<b>\$2.00</b>	<b>\$2.55</b>
Diluted shares outstanding	1,488	1,479	1,481	1,474	1,465	1,461	1,473	1,463	1,453	1,443	1,434	1,402
<b>MARGIN ANALYSIS</b>												
Gross margin	42.7%	42.2%	40.6%	39.4%	39.6%	40.8%	42.8%	41.8%	41.1%	41.3%	42.1%	42.6%
y/y change (bps)	<b>(197)</b>	<b>(319)</b>	<b>(302)</b>	<b>(206)</b>	<b>(71)</b>	<b>(198)</b>	<b>66</b>	<b>124</b>	<b>170</b>	<b>172</b>	<b>133</b>	<b>53</b>
<b>Demand creation as % of sales</b>	<b>10.1%</b>	<b>10.1%</b>	<b>10.2%</b>	<b>10.3%</b>	<b>11.9%</b>	<b>10.6%</b>	<b>10.7%</b>	<b>10.4%</b>	<b>10.2%</b>	<b>11.8%</b>	<b>10.8%</b>	<b>10.8%</b>
Overhead as % of sales	24.6%	24.1%	22.3%	25.0%	26.2%	24.3%	24.1%	21.8%	24.2%	25.2%	23.8%	23.4%
Total SG&A as % of sales	34.7%	34.3%	32.5%	35.3%	38.0%	34.9%	34.8%	32.2%	34.4%	37.0%	34.5%	34.2%
y/y change (bps)	<b>321</b>	<b>(66)</b>	<b>8</b>	<b>78</b>	<b>67</b>	<b>19</b>	<b>56</b>	<b>(33)</b>	<b>(84)</b>	<b>(105)</b>	<b>(39)</b>	<b>(67)</b>
<b>Operating margin</b>	<b>8.2%</b>	<b>7.7%</b>	<b>8.0%</b>	<b>4.2%</b>	<b>1.5%</b>	<b>5.5%</b>	<b>8.0%</b>	<b>9.7%</b>	<b>6.7%</b>	<b>4.3%</b>	<b>7.2%</b>	<b>8.5%</b>
Tax rate	17.1%	21.1%	20.7%	19.0%	18.5%	20.4%	17.5%	17.5%	17.5%	17.5%	17.5%	17.5%
Net margin	7.0%	6.2%	6.4%	3.4%	1.3%	4.4%	6.7%	8.0%	5.6%	3.6%	6.0%	7.0%
<b>GROWTH ANALYSIS</b>												
Total Revenue	-9.8%	1.1%	0.6%	-1.2%	-0.9%	-0.1%	0.1%	2.3%	4.3%	4.8%	2.8%	6.7%
<b>Constant-FX Revenue (+HSD-LDD Target, June '21)</b>	<b>-9.1%</b>	<b>-0.5%</b>	<b>-0.1%</b>	<b>-4.6%</b>	<b>-2.4%</b>	<b>-1.9%</b>	<b>0.1%</b>	<b>2.2%</b>	<b>4.3%</b>	<b>4.8%</b>	<b>2.8%</b>	<b>6.7%</b>
Gross profit	-13.8%	-6.0%	-6.4%	-6.1%	-2.7%	-5.4%	1.7%	5.4%	8.8%	9.4%	6.2%	8.8%
Demand creation	9.4%	-3.1%	13.5%	5.0%	4.0%	4.6%	6.0%	4.0%	4.0%	4.0%	4.5%	6.5%
Overhead	-4.3%	0.2%	-4.1%	-0.5%	-0.5%	-1.2%	0.0%	0.0%	1.0%	1.0%	0.5%	5.0%
Total SG&A	-0.7%	-0.8%	0.8%	1.0%	0.9%	0.5%	1.8%	1.3%	1.9%	1.9%	1.7%	5.5%
<b>Operating income</b>	<b>-46.0%</b>	<b>-28.5%</b>	<b>-28.9%</b>	<b>-43.9%</b>	<b>-43.6%</b>	<b>-33.2%</b>	<b>4.0%</b>	<b>24.2%</b>	<b>67.9%</b>	<b>196.3%</b>	<b>36.4%</b>	<b>24.9%</b>
Net income	-46.8%	-30.8%	-31.9%	-51.7%	-29.8%	-36.3%	7.8%	29.1%	69.6%	180.8%	40.1%	24.6%
<b>EPS</b>	<b>-45.3%</b>	<b>-29.8%</b>	<b>-31.5%</b>	<b>-51.5%</b>	<b>-29.1%</b>	<b>-35.2%</b>	<b>8.3%</b>	<b>30.7%</b>	<b>72.0%</b>	<b>184.9%</b>	<b>42.8%</b>	<b>27.4%</b>
Shares	-2.8%	-1.5%	-0.6%	-0.5%	-0.9%	-1.8%	-0.4%	-1.2%	-1.4%	-1.5%	-1.9%	-2.2%

Source: Company data and Wells Fargo Securities, LLC Estimates

## Investment Thesis, Valuation and Risks

### NIKE, Inc. (NKE)

#### Investment Thesis

We rate NKE Overweight. We believe a few things are happening: **1)** Visibility is improving into NKE's revamped strategies (numbers are bottoming), **2)** Material green shoots are appearing (innovation) and **3)** Significant headwinds from "Classics" clean up should start to dissipate in the coming quarters. We can finally begin to map out realistic "return to growth" forecasts, while sizable margin levers likewise take hold.

#### Target Price Valuation for NKE: \$65.00 from \$75.00

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We believe that ongoing opportunities for rev growth, margin expansion and FCF generation justify our target multiples, though we do see many near-term puts and takes around revenue/margin.

#### Risks to Our Price Target and Rating for NKE

Downside risks: **(1)** new innovation (along w/ franchise reset) does not drive topline; **(2)** global demand remains tepid; and **(3)** the transition back to wholesale from DTC causes more material headwinds to profits in the NT. Upside risks include a positive turn in Chinese consumption trends and better than expected performance in US clearance activity on both sales and margins.

## Companies Mentioned in Report

Company Name	Ticker	Last Price (12/18/25)	Rating
NIKE, Inc.	NKE	\$65.63	Overweight

Source: Wells Fargo Securities LLC Estimates, FactSet

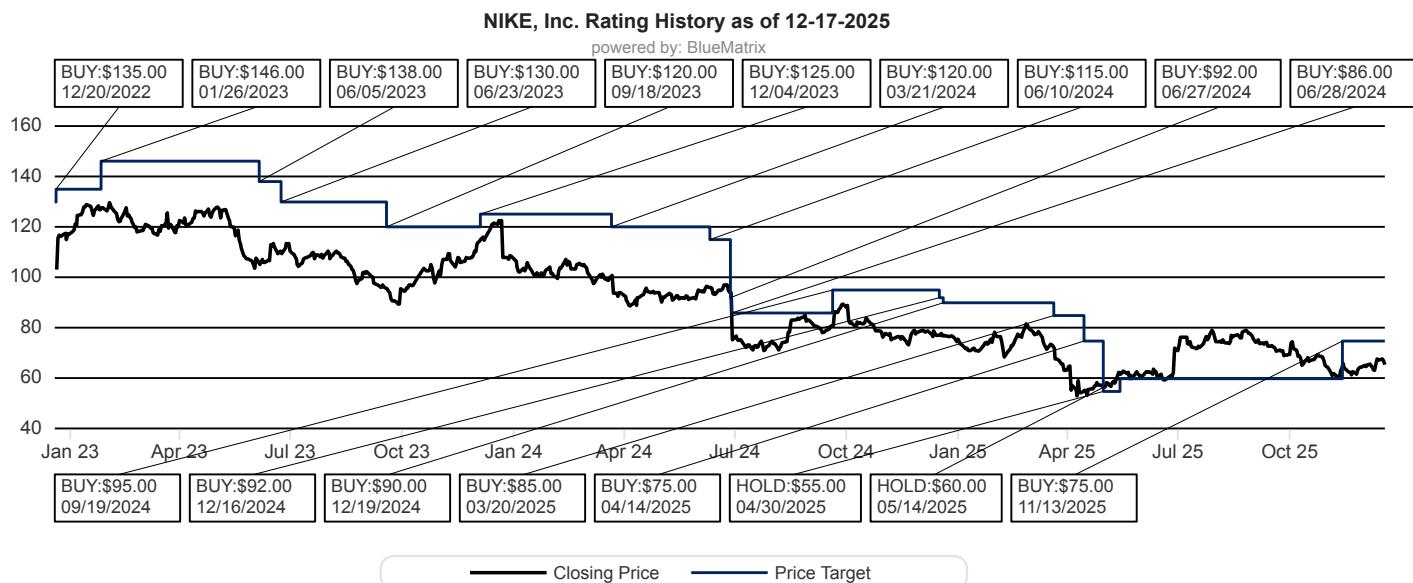
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