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Account 100

Professor Gao

Nike Inc.

1. Background

I’m willing to bet that every single person in the United States has heard the brand name “NIKE.” Occupying a sector of the retail industry. However, they specialize in athletic accessories and sports equipment. They are the world’s largest supplier of athletic shoes and apparel, but also play a major role in sports equipment as well.



(1) Looking at the vertical analysis the vast majority of the companies assets are

contained within their cash and equivalents account. With over a quarter of their total assets sitting in this account. With their next largest account being their inventory account. Something very notable about the company’s capital structure is the amount of debt held within the company. Their total liabilities in 2018 was about 13,000 and was about 25,000 in 2021. Nearly a 100% increase in total liabilities over the four years. Total shareholders’ equity did not see this same increase, as it increased only about 33% over the four years. Meaning the company’s debt-to-equity ratio increased significantly over these four years. Looking directly at their asset composition, their cash increased by about 133% over these years combined. Just over the last year, the short-term investments account has skyrocketed compared to previous years. Making a 717.1% increase in a single year. Both of these play a major factor in the increase in total current assets. However, besides this I do not believe there was much significant other change to the asset composition over these four years.

(2) Overall, the company had a negative year over fiscal year 2020 (but who didn’t). Seeing negative in almost every single category, most notably: revenue (-4.4%), gross profit (-7.1%), and net income (-37.0%). This was to be expected for many companies due to the entire economy shutting down due to the pandemic. Before the pandemic, the company saw an incredible increase in net income (108.4%). Then there was a major decrease in the next fiscal year, but the company seemed to rebound very well post the major part of the economic shutdown. Resulting in a net income increase of 125.6% in this last fiscal year. I would say that this is a healthy performance from the company. Seeing the company’s revenue, gross profit, and net income drastically increase post pandemic is certainly a good sign for investors. Especially after a year that no one can blame NIKE for.

(3) Looking at the statement of cash flow the company had a significant $5,727 million inflow in net income. Over the last two years specifically, there have been two very large swings in cash flow through accounts receivable. In fiscal year 2020, the account resulted in a decrease of $1,239 million and in fiscal year 2021 there was cash inflow of $1,606 million. Looking at the investing activities, NIKE spent an immense amount of money on short-term investments totaling $9,961 million on them. However, they also had short-term investments mature for cash inflow of $4,236 in the same fiscal year. Interestingly, over the fiscal year 2020 the company only matured $74 million in maturities from short-term investments (significantly lower than all other years). Finally, in financing activities, in all years besides 2020 the company paid out at least $1,243 million in dividends each year. However, in 2020 it seems that they actually took in $2,491 million from dividends.

(4) Looking at the Return on Equity (ROE) within the profitability of the company, we see that the company continually has varied during the 4 years. Going from: 39.40% to 42.74% to a lower 29.70% and then to 55.01% in the last year. Even during the drop in ROE during the 2020 year all of these are considered very good values for a company. Especially the 2021 fiscal year with an incredible 55.01%. Meaning that they made about 55 cents for every dollar of equity. Looking at the NIKE’s current ratio, this tells a very different story. Between all four years, the current ratio lies between .15 and .25. From this value, we can figure that NIKE can not easily pay off it’s short-term liabilities. Finally one of the most interesting measures was the company’s Days Inventory Outstanding. This measures the average amount of days it takes for inventory to convert to sales. NIKE within the last 4 years has always ranged between 90 and 115 days for inventory turnover.

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(1) With the last report coming at the start of their 2020 fiscal year, Nike releases an

“Impact Report” detailing the company’s goals and efforts towards sustainability. All these yearly reports can be found at: <https://purpose.nike.com/reports>. I will be specifically focusing on the FY19 NIKE, Inc. Impact Report (where FY19 means: fiscal year 2019).

(2) In this 81 page document, there is a section called “Our Approach” where their main areas of focus when it comes to sustainability. Where most of their concern was with energy consumption and materials sourcing. The issue definitions for these two are, “Energy used for electricity; use of fossil fuels and renewable energy sources,” and “Sourcing non-renewable and renewable materials; consideration of social and environmental impacts associated with material sourcing; prioritizing less impactful options and third third-party certifications.” These are only a couple areas that they are attacking, but they have a much larger list and a degree for how much focus they are putting into each. According to the article, “Over the past five years, we have significantly increased the number of products scored on sustainability. Teams work across categories to analyze their decisions that drive reductions in each product’s footprint” (38). One of their most devoted goals in the article says that they strive to 100% environmentally preferred materials (EPM). This certainly shows the commitment from the company towards a more sustainable future.

(3) There seems to be countless efforts that NIKE is making to improve their sustainability, first of all they mention that they have a significant amount of key shoe components to be made 100% from sustainable materials. Along with this, they are creating new types of materials like: new recycled polyester and leather alternatives. These will hopefully be able to make an impact in a vast amount of their product lines.They mention that in FY19, they managed to save over 28,000 metric tons of carbon through their use of a recycled polyester. The recycled polyester seems to be one of the leading forces in NIKE towards a more sustainable future. They commonly use recycled plastic water bottles to make this polyester. They mention, “Since 2010, we have diverted more than 7.5 billion plastic bottles from landfills and waterways by using recycled polyester” (40). However, this is not even close to the end. Every year, they keep track of what percentage of their apparel are created with sustainable materials. Starting at 19% of apparel in FY15 and ending FY19 at 41%, over a 100% increase. They also mention creating new technology to reduce the amount of water and electricity used in textiles for the dying of their apparel, and their cotton production using over 200,000 kilograms less than a traditional method

(4) In their commitment to renewable energy, the company has a contract with Avangrid (a large energy company in the US) to cover more than 75% of their yearly electricity load. This commitment is an investment of more than $200 million. Looking at the balance sheet, this could certainly explain the 14.6% increase in Accounts Payable from FY18 to FY19. Another issue that they listed in attempting to minimize was waste, or the reduction of mistakes in production of their shoes. They mention that in FY19, they managed to reduce waste by an amount of $18.5 million in value. This would significantly decrease the cost of goods sold within the company. However, this value is not large enough to specifically identify a change in the Cost of Goods Sold due to values on the income statement reaching into multiple billions.