

Nike

The Swoosh Synonymous with Excellence Looks to Improve in the Short-Term to Position Itself for Succes in the Long-Term

Summary: I recommend a buy with a \$120.11 target price. Nike is perhaps one of the most iconic brands in the world. However, the swoosh synonymous with dominance has softened their hold on the athletic market with competitors rapidly growing. Although pressures have weighed on the business in fiscal 2023, Nike’s has shown encouraging signs for their future, with a shift in their product range rotation and potential to drive growth from their long-term drivers including women’s, Jordan brand, running, as well as an effort to grow their China and European business. Nike’s short-term turbulence represents an opportunity to initiate a position in a strong proven business.

Notable Trends and Drivers

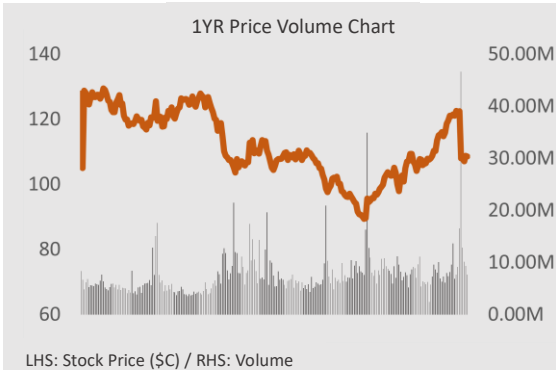
Nike has begun a multiyear product innovation cycle that has already proven to be successful early on. The company has identified three main growth opportunities in Women’s, Jordan brand, and running. To capitalize on these opportunities as well as in other segments, Nike has looked to add new innovative products which have performed extremely well at the outset. In running, which is one of Nike’s fastest growing segments, the brand saw tremendous success with its new Alphafly, Structure, and Vomero product lines and models. Nike’s commitment to innovation signifies an opportunity to drive growth both in mature segments as well as amplify market capture in new and developing opportunities.

A focus on growth opportunities allows for a more targeted and streamlined approach to key initiatives. Nike identified areas of significant growth such as Women’s, Jordan brand, and running, to name a few, which they believe they have an outsized opportunity to drive long-term profitable growth. To drive this growth, Nike has proactively looked to free up investment capacity to fuel speed and scale. As the company looks to rapidly drive scale into segments which they see opportunity, we should expect continued incremental success in regards to their key drivers. For example, Nike’s commitment to growing the Jordan brand into the #2 footwear brand in North America will come with increased year over year revenue and margin growth as efforts to growth the brand is accelerated.

Nike’s focus on operational excellence bodes well for strong future margins and the facilitation of revenue growth. In the recent Q2 earnings call, management showcased their plan to deliver \$2B in cumulative cost savings over the next years to help fuel Nike’s next phase of innovation, growth, and profitability. The plan to invest these savings into the business will provide Nike the opportunity to streamline their operations and improve margins while participating in markets worldwide.

Joshua DeSousa

NKE-NYSE	RATING	PRICE	TARGET
	BUY	\$102	\$120.11



Valuation (Base Case) \$122.47

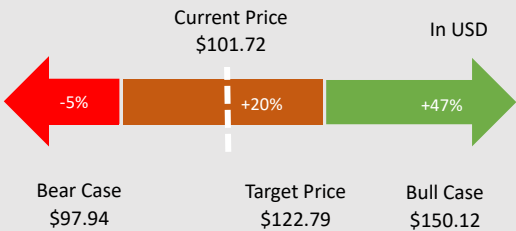
My target of \$120.11 is based on a 16.0x EV/EBITDA exit year multiple. Nike shares are currently priced at 20.0x EV/EBITDA which is much higher compared to a number of their peers and my conservative multiple is more in line with their overall comparables and forecasted future EV/EBITDA multiples. However, Nike’s resilient and proven business along with positive trends pointing to possible tailwinds coming out of this slowdown, support a ~20% implied upside in price.

Bull Case \$150.12

My bull case forecasts Nike slightly exceeding expectations with better-than-expected sg& and gross margins along with attractive revenue growth, thanks to their cost savings program and enhanced global growth. This implies a price of \$150.12 at a 16.5x EV/EBITDA multiple, slightly higher than my base case, representing upside potential of ~47% .

Bear Case \$97.94

My bear case forecasts headwinds for Nike’s business post fiscal 2024 with slowing global growth and profitability. Lower expected gross margins, revenue growth, sg&a margins, and a weaker balance sheet contribute to a price target of \$97.94 at a 15.5x EV/EBITDA multiple, slightly lower than my base case. This implied price represents ~(5%) potential loss compared to the current price.



January 24, 2024

Nike – Summary Model (in Millions \$USD)

Income Statement	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Total Revenues	51,217	51,729	54,316	59,204	64,532	70,986	78,084
Total Revenue Growth (%)	9.6%	1.0%	5.0%	9.0%	9.0%	10.0%	10.0%
Gross Profit	22,292	23,278	24,442	26,642	29,362	32,299	35,919
Gross Margin (%)	43.5%	45.0%	45.0%	45.0%	45.5%	45.5%	46.0%
SG&A	16,377	17,588	17,924	18,945	20,650	22,715	24,597
SG&A % of rev	32.0%	34.0%	33.0%	32.0%	32.0%	32.0%	31.5%
Net Income	5,070	4,821	5,503	6,468	7,299	8,010	9,432
EBITDA	6,774	6,553	7,377	8,620	9,658	10,619	12,389
Tax Rate (%)	18.2%	18.0%	18.0%	18.0%	18.0%	18.0%	18.0%
EPS	3.23	3.07	3.51	4.12	4.56	5.10	6.01
Balance Sheet	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Total Current Assets	25,202	25,443	26,897	28,896	30,621	32,140	34,447
Total Assets	37,531	38,368	39,988	42,613	45,058	47,383	50,555
Total Current Liabilities	9,256	9,153	9,587	10,408	11,207	12,281	13,347
Total Liabilities	23,527	23,438	24,130	25,502	26,606	27,824	29,211
Retained Earnings	1,358	1,127	1,516	2,206	2,963	3,464	4,617
Total Shareholders' Equity	14,004	14,930	15,858	17,111	18,452	19,560	21,345
Total Liabilities and Equity	37,531	38,368	39,988	42,613	45,058	47,383	50,555
Cash Flow Statement	2023A	2024E	2025E	2026E	2027E	2028E	2029E
Change in Non-Cash WC	(513)	(143)	(365)	(690)	(782)	(913)	(1,041)
Cash Flow from Operations	5,841	5,691	6,185	5,962	7,802	8,566	9,996
Capital Expenditure	(969)	(983)	(978)	(1,066)	(1,097)	(1,207)	(1,249)
Cash Flow from Investing	564	(967)	(1,111)	(1,481)	(1,820)	(2,302)	(2,754)
Cash Flow from Financing	(7,447)	(4,287)	(4,356)	(5,032)	(5,811)	(6,795)	(7,583)
Free Cash Flow	4,213	4,404	4,862	5,479	6,211	6,774	8,060

Nike – DCF Output Summary

EXIT EBITDA APPROACH		Fair Value per Share	Exit EBITDA
Terminal Year EBITDA	12,107	Enterprise Value	151,710
Exit EBITDA Multiple	16.0x	Less: Net Debt	2,250
Terminal Value	193,709	Equity Value	149,460
PV of Terminal Value	121,547	Shares Outstanding	1,217
PV of Stage 1 CF	26,907	Equity Value per Share	\$122.79
Enterprise Value	148,454	Premium (Discount)	20.29%
WACC	9.0%		

Nike – Comparables Table (In \$USD)

Name	Ticker	Share Price	Mkt Cap (\$M)	EV (\$M)	P/E	EV/EBITDA LTM	EV/EBITDA 2024E	EV/EBITDA 2025E
adidas AG	ADS:XTRA	190.24	33,967	39,629	NM	8.2x	14.4x	10.9x
Capri Holdings Limited	CPRI:NYSE	50.69	5,891	9,445	18.9x	8.6x	11.5x	10.0x
Crocs, Inc.	CROX:NASDAQ	86.46	5,236	7,396	8.0x	8.6x	6.6x	6.3x
Lululemon Athletica Inc.	LULU:NASDAQ	491.10	61,972	62,049	62.5x	7.3x	24.3x	21.1x
PUMA SE	PUM:XTRA	51.51	7,714	9,651	23.0x	11.3x	7.4x	6.5x
Skechers U.S.A., Inc.	SKX:NYSE	60.40	9,300	10,152	17.7x	24.3x	9.2x	8.2x
Under Armour, Inc.	UAA:NYSE	7.90	3,390	4,206	8.7x	11.1x	9.1x	8.0x
V.F. Corporation	VFC:NYSE	16.90	6,572	13,876	NM	5.7x	11.7x	10.3x
First Quartile		25.35	5,400	7,908	8.6x	7.5x	7.8x	6.9x
Median		55.95	7,143	9,902	18.3x	8.6x	10.3x	9.1x
Third Quartile		164.29	27,801	33,191	32.9x	11.3x	13.7x	10.8x
Nike, Inc.	NKE: NYSE	102.08	154,664	156,914	29.8x	20.0x	21.7x	18.5x

Investment Thesis

Planned Growth

The initial stages of a multi year product innovation cycle have proven successful early and positions Nike well for future growth. Nike has embarked on an enhanced commitment to development and has brought new products and product lines to market over the past year which have seen early success. These new products are key to the future growth of the brand with Nike starting to see some stalling in regards to North America revenue growth. Nike has always strived to innovate and onboard more consumers into the brand through products grounded in sport. Their commitment to a multi year product innovation cycle shows that Nike acknowledges future growth must come from continued expansion of products which resonate with consumers. Early signs point to early success with new product lines seeming to resonate with customers over the past year. In fiscal 2024 year to date, Nike has seen rapid growth in the Running category which they break into three segments, road running, trail, and everyday running. The reason behind this outperformance in the category can be attributed to new footwear releases that were either a refresh of a product line or a new innovative model. For example, Nike saw their trail segment within Running grow 20% in the quarter which was mostly due to the new Ultrafly Trail which was the first trail shoe with a carbon fibre plate. In the other Running segments, new footwear releases such as the Vomero 17 drove sales in the everyday running segment while the Alphafly 3 dominated the road running segment. These wins over the past months within Running showcase the early success of Nike's commitment to innovation which has proven to be a key driver of growth and will continue to be in the future as the brand continues on their multi year plan.

Nike has identified two areas with vast growth opportunities, the first being their Women's business. In their recent Q2 earnings call, management signified a concerted effort to drive growth into their Women's business. This segment is already a \$9B business for Nike, excluding their Jordan and Converse brands, and has provided reliable high single digit growth over the past three years on average. Nike sees white space in this area of their business due to the composition of their member base. Today, approximately 40% of Nike members are women and they represent a larger proportion of new members compared to men. This audience is a huge part of Nike's current customer base and they have accelerated their demand per member as Nike continue to see a disproportionate amount of new female clients. Nike will aim to target this segment by building off their existing wins and leveraging their innovation cycle to bring new products into previously untapped opportunities within the Women's business. For example, Nike has onboarded many female clients over the past year through their launch of bras and leggings, up and down the cost spectrum. This was a previously underserved part of their business which they committed to growing over the past year through developing a new material to enhance the fit and comfort of this product line to great success. In fact, leggings were the main driver behind fitness apparel growth in Women's for the retailer in Q2 of this year. Additionally, Nike will look to build off their established product lines, such as Air Force 1s, to continue to drive momentum and growth in the Women's business. The brand's focus on this segment should bode well for revenue growth as Nike continues to see more and more women choose them as their athletic apparel retailer of choice.

Second, growing the Jordan brand. Nike told investors of their plan to grow the Jordan brand to become the #2 footwear brand in North America during their recent earnings call. Paramount to their plan, is the emphasis on product innovation and diversifying what consumers can expect from Jordan brand in the future. Nike, through growing the product portfolio of Jordan brand, has been able to onboard more consumers into the brand by expanding beyond the core launch business of Jordan centred around men's footwear and apparel. On that note, Jordan Women's and Kids continues to lead overall growth for the brand with the segment's share within Jordan increasing 7 points over the past three years. Additionally, Jordan Apparel is now approximately a \$1B business with 20% growth on average over the past three years. Although Nike is looking to grow Jordan brand to be the #2 footwear brand not named Nike in North America, the retailer sees substantial opportunity in growing the Jordan brand internationally. Nike has slowly introduced Jordan to internationally markets organically and have seen tremendous success with their retail concepts in Milan, Tokyo, and Seoul. As Nike continues to progress through their multi year product innovation cycle, the results of this strategic initiative should help accelerate Jordan's growth both in North America and in international markets.

Geographic Improvements

North America growth has slowed but Nike has looked to their next leg of growth through product innovation. Nike has run into some headwinds in North America. A more cost-conscious U.S. consumer and overall economic factors cited as key hurdles in fiscal 2024 leading to weaker growth. In Q2 2024, Nike's North America revenue declined 3% with wholesale down 9% compared to the prior year. The retailer saw very modest growth in their direct, retail, and digital business but it could not compare to the heights of Q2 2023 which saw North America revenue increase by 31%. Although Nike maintained lower mark downs than their competitors over the last quarter, promotional activities such as Black Friday and the Cyber Week led to strong sales periods but cited that sales fell short of expectation outside of these promotional or key retail periods. The takeaway from Q2 earnings however, was the performance of Nike's initiatives mentioned above. The brand saw their Jordan, Women's, and Running segments leading momentum in the marketplace. New shoe models and drops were core contributors to both Jordan's and Running's success in the quarter with Nike's new \$100-plus leggings delivering strong growth in their Women's category. Although North American growth has stalled in Q1 and Q2 of this fiscal year, Nike has shown that their product innovation cycle can and should continue to provide a lever for growth in a market already dominated by the swoosh.

Growth can be found in EMEA, China, and APLA. Nike has long been crowned the king of athletic apparel and footwear in North America. They have had tremendous success in that market and have blown away a vast majority of their competitors. Their dominance has been so strong that it seems growth will be harder to come by in their main market although opportunities to accelerate growth have appeared, such as Women's, Jordan, and Running, touched on above. Nike however, sees a lot of white space in their international markets which include EMEA, China, and APLA. The retailer has been especially impressive in China where they have realized double digit revenue growth on average over the past three quarters. They have continued to capture market share in the region and have a lot of room to continue expanding across sports, categories, and brands. Given the headwinds surrounding the macroeconomic outlook in China, Nike has performed well in the midst of uncertainty and continues to see China as a growth driver for the company. Additionally, EMEA and APLA have grown revenue in the mid single digits over the past quarters with football and Women's driving growth in Europe and Women's, Kid's, and Jordan driving growth in Asia and Latin America. We should expect continued growth in Nike's international operations as the company reaps the rewards of their organic approach to penetrating these markets and the planned product innovation growth in the quarters and years to come.

Improvements in Fundamentals

Nike will be enacting a cost savings plan over the next 3 years to responsibly fuel growth. To support their multi year product innovation cycle, Nike announced that they would be looking to deliver up to \$2B in cumulative cost savings, both up and down the company's P&L and across their value chain, over the next 3 years. Although this restructuring will be a slight drag on margins in the short term, mainly SG&A, Nike will look to invest the savings back into the business to drive greater efficiency to facilitate growth and value in the years to come. The business will look for consumer-facing investments to drive maximum impact for the client, rather than investing in people or talent, to help deliver the best customer experience. This "Safe To Invest" plan further proves Nike's commitment to comments made in previous quarters surrounding lowering their marginal cost of growth as they look towards their future and their long term targets. The cost savings will allow Nike to responsibly invest back into the business to fuel growth while still allowing the company to reach their targets such as normalizing sg&a and improving margins to pre-pandemic levels.

Nike has slowly returned to pre-pandemic trends. Nike was not the only victim who fell prey to pandemic/transitory costs and other headwinds which contributed to disappointing margins over the past fiscal year. Many retailers felt a drag on their operational efficiency, higher costs, and underperformance due to the obstacles they faced such as higher freight costs. One metric which was high among all retailers over the last quarters was inventory levels. In the past two quarters however, Nike saw a reduction in their inventory levels signalling a return to pre-pandemic levels. Although this was largely due to promotional activities which came with impressive sales but lower margins due to mark downs, Nike has positioned themselves well while other competitors struggle to get rid of their excessive inventory affordably. This normalization over the past quarter was not exclusive to inventory however, with both gross margins and sg&a reaching closer to pre-pandemic levels which will help the company realize their growth initiatives while streamlining their operations over the coming years.

Valuation Assumptions and Guidance

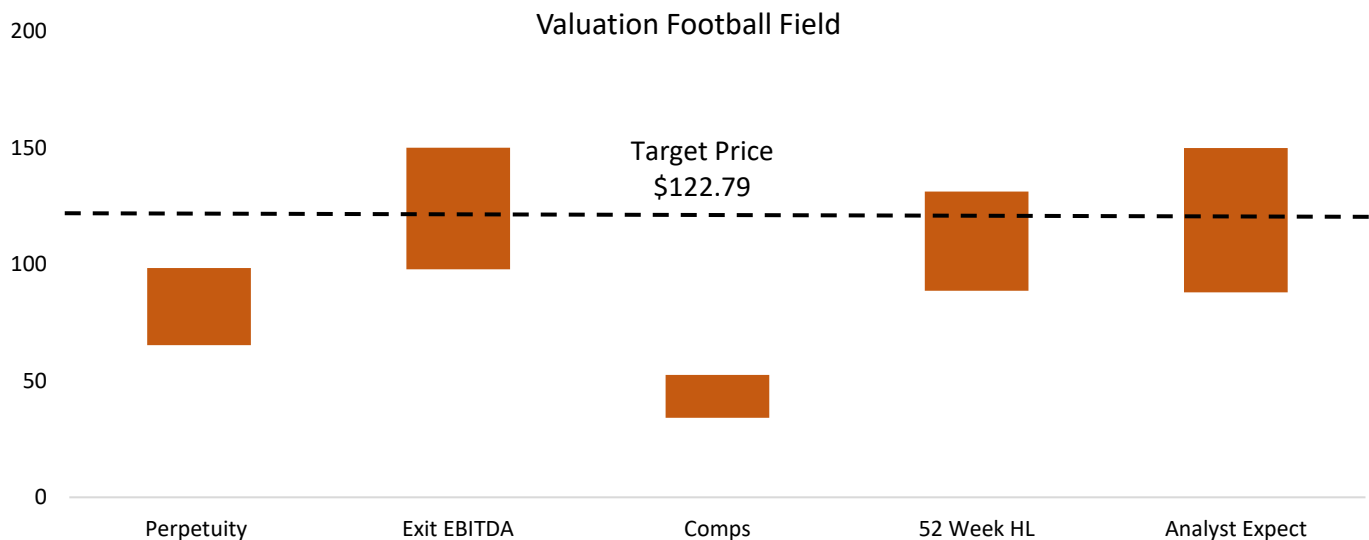
Nike has provided guidance for fiscal 2024 along with other long-term goals and initiative to help in regards to valuation. Some of these long-term goals and initiatives have been touched upon in the investment thesis section above, such as returning to pre-pandemic margin levels, continued accelerated growth in Women's, Running, and Jordan, and a focus on growing international business. The success of these levers has not all been quantified by management, but I have utilized these assumptions as key long-term targets:

- Revenue of ~\$78B in fiscal 2029 representing a CAGR of approximately 7%
- SG&A and Gross Margin slow but incremental improvements through fiscal 2029
- Continued Dividend payments and a relatively strong Balance Sheet

Additionally, with the mixed Q1 and Q2 of this year, my assumptions for the end of fiscal 2024 and rebound into fiscal 2025 were as follows:

- Revenue to grow 1% in fiscal 2024 and grow 5% in fiscal 2025 with global economic headwinds subsiding and Nike further along in their growth plan
- Gross profit margin to increase by 140bps through fiscal 2024, which on the conservative side of management guidance, and remain flat at 45.0% in fiscal 2025 largely due to a slower improvement in operations as the cost saving plan continues through fiscal 2026
- SG&A as a % of net revenue to increase by 300bps through the end of fiscal 2024 due to restructuring charges from the "Safe To Invest" plan with 100bps of improvement in fiscal 2025 as pressures subside and costs related to the cost savings normalize

With these assumptions as the basis of my model, my final valuation utilized a more conservative exit multiple than Nike's current EV/EBITDA multiple and consensus forecasts. With a 16.0x EV/EBITDA multiple and a WACC of 9.0%, I reached a final target price of \$122.79 representing an implied upside of approximately 20%. Below is a summary of all valuation approaches and other measures.



Risks and Uncertainties

As Nike navigates through a turbulent fiscal 2024 and looks to the future for growth opportunities to compound their commitment to operational excellence, some key risks that may impact the business and their financial conditions are noted below:

- **Uncertainty surrounding consumer spending.** Nike has seen a pullback in top line revenue growth with an estimated 1% increase in revenue in fiscal 2024 after 9.6% revenue growth in the prior year. This is largely due to the current macroeconomic environment which has continued to weaken the consumer worldwide and, in the U.S., which is their main market. To compensate for consumer weakness, Nike has participated in retail mark down events such as Black Friday, which have been the best days for the brand over the fiscal year to date as consumers look for savings.
- **Product innovation cycle is not as well received by customers as development progresses.** Nike has seen early success with their new products as they place an emphasis on their innovation cycle to drive growth. The company may however find their recent success with new models and product lines unsustainable and could find that new products are not as well received and are a drag on revenue growth and inventory levels. With product development and innovation a key lever for growth, Nike places a big bet on new products continuing to sell and perform well in global markets.
- **Competition is ripe within the athletic space.** Although Nike is the leader in the athletic footwear and apparel space, they constantly face competition from new and existing entrants. With global competitions such as the Olympics and the World Cup approaching, there is an opportunity for other brands to grab the spotlight and continue to grow market share as they find success with products or services. The competition within the apparel space continues to accelerate with companies like Lululemon growing at rapid rates and other market participants looking to capture share away from Nike.
- **Uncertain global penetration.** With North America largely a saturated market for Nike, although slow growth is expected, the brand will rely on increasing their geographic penetration to drive top line growth. In Q2 2024, Nike reported a YoY change of -3% for North America revenue while reporting low single digit growth for EMEA and China and a 13% YoY change for Asia Pacific and Latin America. As Nike finds it harder to grow their North American business, the brand will need to rely on growing their geographic business to contribute to overall growth. Continued headwinds in China and uncertain market capture in EMEA may prove a roadblock to continue top line revenue growth and increased margins.

Analyst Thoughts and Recommendation

It is safe to say that Nike is the leader in athletic apparel and footwear worldwide. In many cases, people have equated the Nike brand to owning sports with not just their products on display, but with their brand in winning positions throughout sports. My experience with Nike has been plentiful throughout my life. As a high-level soccer player, I seemed to only buy Nike, like most people growing up, both for shoes and apparel. With all the top athletes in my sport wearing Nike, it was logical that owning Nike would also help my success as well. This phenomenon was not limited to soccer however, Nike was the face of every sport I followed, from Basketball to Football to Tennis to even Golf, it was clear that if you were a winner, you wore Nike. This was the core principle of the brand and how I connected to it growing up at a young age. As I got older, my preferences changed and so did the brand to seemingly best serve those changes. I still played soccer and always bought Nike, but like many who come of age, there was an eventual stop to that dream of professionalism. The athletic and competitive side never left me and as such, I gravitated back to Nike to keep that feel recognizable in my appearance. I switched the cleats and soccer socks to Jordans, Nike trainers, and Nike crew socks along with other pieces that suited my tastes. At the time, Nike was also progressing through an early cycle of product innovation which spawned new products and product lines both for sport and for the casual but athletic lifestyle. The brand synonymous with winning was now also synonymous with status. Jordan releases were the hot topic everyday at school and the iconic Nike tracksuits were flush in the market. Nike's first big commitment to growth and improving their product offerings and brand overall led to tremendous growth among many of their segments and

January 24, 2024

sports. Today, Nike has still kept their feel and image, but now look to once again tap into their core competency of product innovation to replicate what I and many others experienced not too long ago.

Nike announced their commitment to a multiyear product innovation cycle in their Q2 2024 earnings call to develop new products, refresh existing product lines, and fuel overall growth with products that resonate with consumers. The brand has already seen early success with their new offerings in the Women's and Running categories where Nike has identified large opportunities for growth. Their new Ultrafly Trail, which was the first trail shoe with a carbon fibre plate, helped grow their trail segment revenue within Running by 20% in the quarter. Additionally, new innovations in fabric led to growth in the Women's segment within the quarter, largely attributed to new \$100 priced leggings which leveraged the improved material. It is clear that Nike is trying to emulate their previous innovation cycle which was the basis for their tremendous growth over the past decade, leading them to firmly cement their place as the number one athletic brand in North America. Early signs point to early success in the brand's product development pipeline with continued growth forecasted as Nike continues down their multiyear initiative. With North America largely dominated by Nike already, Nike will look to add to their market capture with their new innovations, but see tremendous opportunity in bringing the Nike ethos to their international markets where Nike is not as firmly established as #1. Over the past three quarters, Nike's decision to organic growth in these markets has been a tremendous success as they look to grow their market share internationally. In Greater China, Nike has seen double digit revenue growth on average over the past three quarters stemming from the success of their new products and existing lines which they have been slowly growing. Nike's next phase of growth will leverage their proven innovation capabilities to keep Nike the biggest player in North America, while bringing the swoosh to new heights in their international markets.

Their planned product growth will not come to the detriment of Nike's long-term operations and efficiency. To fund their growth responsibly, the company announced their "Safe To Invest" plan in Q2 which will look to deliver \$2B in cumulative cost savings over the next 3 years to fuel the company's growth. This plan showcases the commitment Nike has to not only growing the brand, but doing so in a responsible way to position itself for sustained success in the long-term. I believe that Nike's plan and initiatives will help them realize their long-term growth goals while improving operational margins and maintaining a relatively strong balance sheet. When modelling the company, I leaned to the more conservative side by utilizing slower margin improvements, slower sg&a improvements, and slower revenue growth during the early years of their multiyear product innovation cycle. With these assumptions and a more conservative exit multiple, I finalized my price target at \$122.47 which represents a 20% upside to the current price. Those covering the name have on average downgraded Nike's target price over the last two quarters due to the mixed Q1 and Q2 which has seen Nike slowly begin to overcome their recent headwinds. The company has displayed early signs that they can emulate the same success of the previous decade's product innovation cycle, while continuing to grow the brand internationally. I believe that the early success of Nike's proven product development has been underappreciated and instead mixed recent growth has been the main sticking point for many as economic headwinds persist. As Nike looks to the future, they are positioning themselves up for long-term success by investing in the present, as evident by their "Safe To Invest", to bring the swoosh both to new consumers and existing consumers who will have more opportunities to grow with brand just as I did early in my athletic career. Although short-term pressures may weigh on the company in fiscal 2024, the company projects improvements as the year progresses and I rate the stock a Buy with Nike improving in the short-term to fuel long-term growth.