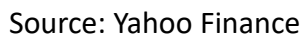




DATE:	December 3, 2023
INDUSTRY:	Consumer Durables & Apparel
CURRENT PRICE (12/1/23):	\$113.48
RECOMMENDATION:	BUY
INDUSTRY VIEW:	POSITIVE
MARKET CAP (Billions):	\$172.71
SHARES OUTSTANDING (Billions):	1.52
P/E Ratio:	34.92



### Figure 1: NKE TTM performance

## Company Description

Nike Inc., established over five decades ago in 1964 as Blue Ribbon Sports and rebranded as Nike in 1971, is a global athletic apparel and footwear company renowned for its innovation and iconic branding. The company generates revenue by selling sports products, licensing, and sponsorships. Nike's diverse product line includes footwear, apparel, equipment, and accessories, focusing on performance and style. It caters to athletes and consumers of all ages. It operates through a widespread retail network encompassing its stores, partnerships with various retailers, and a robust e-commerce platform across the U.S., Canada, Europe, Asia, and South America. The company faces competition from prominent industry rivals such as Adidas, Puma, and Lululemon. Still, it remains a leading player in the athletic and lifestyle industry due to its global recognition and commitment to innovation.



**Figure 2:** sample of recognizable Nike Products



**Figure 3: Major competitors of Nike**

## Industry Analysis

Nike primarily operates in the athletic footwear and apparel industries and has smaller business segments in sports equipment and leisure footwear/apparel. All these industries are highly competitive globally, and Nike competes with companies operating in one or multiple sectors. Despite this, Nike remains the most valuable apparel brand in the sportswear industry and the most valuable globally, with its brand value being over 30 billion dollars (about \$92 per person in the US). Nike's primary industry, athletic footwear, generated 50.96 billion USD in revenue in 2022 and grew to around 52.98 billion in 2023, with a growth rate of approximately 4.1%.

Its second primary industry, athletic apparel, grew similarly, generating 204.33 billion in 2022 and 213 billion in 2023. The other two sectors in which it operates accounted for less than 9% of its total revenue (62.42% in athletic footwear, 29.05% in athletic apparel, 5.05% in sports equipment, and 3.48% in casual clothing/footwear in 2022). Inside these industries, Nike's most significant competitors include newer and older companies such as Adidas, Anta, ASICS, Li Ning, Lululemon Athletica, Puma, Under Armor, V.F Corp, to name a few that operate in one or both primary industries listed above. In terms of broader industry trends, Nike's success typically correlates with the success of the professional sports leagues in which it has partnerships with the athletes in those leagues with which it has endorsements. As the popularity and overall industry of professional sports continues to grow globally, which it has consistently over the last few years, Nike will as well. The increasing popularity and trend of E-Commerce will also cause Nike to shift and adjust their business strategies to take advantage of it, as it will allow them to expand their reach to a much broader global audience and allow them to optimize their online presence as needed to be as responsive as possible to consumer behavior changes.

## Risks & Mitigants

1. Concerning economic and industrial risks, the global economy's uncertainty, including rising inflation and interest rates, leads to an increased risk of recession, overall impacting businesses worldwide. Specific to Nike, it would affect the business's operating results and financial condition. Examples could include reduced spending and customer demand, increased inventories, and lower profitability.

Mitigant: To mitigate this risk, Nike engages in the diversification of markets, continuous market research, supply chain efficiency to avoid inventory buildup, pricing strategies, and committing to sustainability and ethical practices to maintain brand loyalty and customer trust.

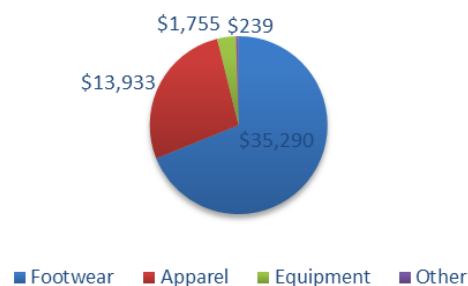
2. Many Nike products are manufactured outside the United States, generating revenues and expenses in various foreign currencies. This leads to increased susceptibility to inflation and fluctuations in foreign currency exchange rates, which can influence the company's financial performance. Specifically, it affects the value of the U.S. dollar, reduces revenues, and makes it more expensive and difficult to purchase raw materials and finance their operations.

Mitigant: To mitigate this risk, Nike usually engages in hedging activities that aim to reduce the impact of any market fluctuations or unfavorable price movements. Various financial instruments are used for hedging, including options, forward contracts, swaps, futures contracts, and financial derivatives. Some types of hedging that Nike currently does are currency hedging, commodity hedging, interest rate hedging, and stock market hedging. However, even though such actions mitigate the risk, they do not eliminate it. To sum up, the mitigation strategy of hedging is used to enhance financial stability.

3. One of Nike's other more significant risks is that it operates in a highly competitive industry. Nike specializes in consumer products for athletic footwear, apparel, and equipment offered by many other diverse athletic leisure/footwear/equipment companies in the United States and worldwide. Nike, also a retail industry, poses a level of risk because the way customers shop is changing, mainly due to a growing emphasis on digital commerce (online shopping). This can affect Nike's wholesale operations and sales from their stores and website.

Mitigant: Nike mitigates this risk by offering a wide range of athletic footwear, accessories, and apparel, covering the various preferences of their consumers. Because of the diversification of Nike products, it helps to reduce the company's reliance on a specific product or market segment. Nike places a strong emphasis on product innovation to create innovative products, allowing Nike to stay ahead of competitors. Nike also has a digital online presence through their company website and mobile apps to engage with customers directly. Additionally, the company uses innovative materials such as cushioning, breathable fabrics, lightweight materials, etc., to accommodate customer preferences and comfort.

**Disaggregation of Revenues (in millions)**



## Competitive Analysis

### SWOT Analysis

#### Strengths:

##### R&D:

- Strong Side brand businesses have grown through innovation (Converse + Hurley)
- Strong R&D Department that introduced many developments in competitive sportswear

##### Marketing:

- Strong relationships with known public figures and celebrities
- Because of Nike's marketing strategies and creating awareness of the 'swoosh' logo, their strong marketing has created brand awareness
- By identifying its target audience and marketing towards this audience through reaching target demographics, psychographics, behavior, and location, Nike has created Brand Loyalty through its target audience

##### Manufacturing & Distribution:

- Strong control of a global product distribution network
- Low manufacturing costs

**Weaknesses:****Management:**

- Poor working conditions for employees in foreign countries
- Contradicting strategies: “Nike pledged to shift all its facilities to 100% renewable energy with net-zero carbon emissions under the ‘Move to Zero’ scheme. While the strategy is great and welcomed, it contradicts Nike’s strategy that favors innovation over sustainability. This creates the perception that Nike is not committed to addressing climate change and its pledge is just a marketing stunt.”

**Legal/Regulatory:**

- Sexual Harassment allegations in the workplace: “The New York Times conducted interviews with 50 former and present Nike employees to investigate the company culture. Through the interviews, it was established that Nike did have a toxic working environment, where sexual misconduct was rampant.”
- Facing lawsuits for alleged discrimination and toxic sexual harassment culture in the workplace

**Financials:**

- Facing supply chain issues
- Decreasing sales in China
- Share price is falling: “Nike’s shares fell more than 10% Friday after the company described problems with overstocked inventory levels and the aggressive steps it’s taking to lower them.”

**Opportunities:****Economy:**

- Opportunity to expand to emerging markets like India and Brazil.
- Expansion into other fashion lines like sports sunglasses

**Technology:**

- Acquired Artificial Intelligence Start-up: “With its vast financial resources, Nike can acquire small or medium companies or startups. It recently acquired predictive analytics platform – Elect to expand its online sales capabilities and predict customer’s shopping behavior.”
- Furthering Consumer Direct Strategy: “Nike has accelerated the consumer-direct strategy, shifting its focus to digital business and closing physical stores. In fiscal year 2022, 42% of its Nike revenue comes from online sales.”

**Sustainability:**

- Opportunity to create products from recycled materials → “10X the amount of finished product waste refurbished, recycled or donated” is the 2025 target
- waste reduction in their production → “10% waste reduction per unit in manufacturing, distribution, headquarters, and packaging through improved design and operational efficiency” is the 2025 target
- “Adopt clean chemistry alternatives for our ten priority chemistries across our supply chain.”

**Threats:****Competition:**

- Increasing pressure from competition
- Competitors are spending more on advertising
- Counterfeit Nike products

#### Legal/Regulatory:

- Nike Faces a Wave of Retail and Warehouse Thefts
- Animal abuse scandals in the past
- Currently filed patent infringement and conflicts with Lululemon and Adidas

#### Economy:

- International Trade Tensions: “As an international brand, Nike is exposed to the nuances of trade agreements, embargoes, protectionism, and trade tensions. This is especially important now due to the heightened tensions between the United States and China, with the latter being the largest buyer of Nike products in Asia and one of the most significant markets outside the U.S.”
- Potential of currency value fluctuations because of international operations

### Porters 5 Forces

#### **Threat of New Entrants - Low**

Given Nike's well-established brand presence, the barriers to entry for new brands in the industry are notably high. While sourcing materials and initiating operations may be relatively easy, overcoming Nike's extensive history of research and development, substantial financing, and unparalleled industry expertise proves formidable. Nike's extensive experience has enabled the company to achieve significant economies of scale, further solidifying its competitive edge. Moreover, Nike often provides customers with discounts and additional perks, solidifying its dominance and making it a challenging prospect for aspiring newcomers in the market.

#### **Bargaining Power of Suppliers - Low**

Suppliers need more substantial bargaining power. Nike sources its materials and manufacturing services from a wide range of suppliers across the globe. This low concentration means no single supplier controls Nike's operations significantly, reducing the risk of supply chain disruptions. While they rely on these suppliers, their size, brand strength, and the volume of orders they place give them leverage in negotiations, enabling them to maintain favorable terms and prices.

#### **Bargaining Power of Buyers - Moderate**

The bargaining power of buyers is moderate. Nike's customers include both individual consumers and retailers. Giant retailers have some bargaining power due to their size and ability to negotiate pricing and terms. However, Nike's strong brand and product differentiation give them a degree of control in influencing customer preferences and loyalty.

#### **Threat of Substitutes - Moderate**

The threat of substitutes in the sportswear industry is moderate. While there are alternative brands and products, Nike's strong brand identity and innovative product development help reduce the appeal of substitutes. However, changes in consumer preferences, emerging competitors, or new fashion trends can influence the extent of this threat.

#### **Degree of Rivalry - High**

While Nike is a renowned and established brand, it faces formidable competition from industry giants such as Adidas, Puma, and Under Armor, all offering similar product lines. Intense price competition prevails due to product homogeneity in this competitive landscape. The industry is experiencing reasonable growth, influenced by prevailing economic conditions, which, despite inflation, are gradually improving. Additionally, consistent sports trends contribute to this growth. Nike's unique selling proposition lies in its incorporation of cutting-edge technology into its products, providing consumers with novel experiences and aligning with the lifestyle that

Nike embodies. While consumers can switch brands easily, Nike's strong reputation for quality and continuous innovation is a powerful incentive for retaining customer loyalty.

### Company Comparable Analysis

We conducted a company comparable analysis with a peer group of similar conglomerates in the footwear and athletic wear industry.

Ticker	NAME	Market Cap (MC)	Enterprise Value	P/E	P/S TTM	EV/SALES	EV/EBITDA
LULU	Lululemon	54.45	54.54	54.47	6.21	6.7	23.79
ADS	Adidas	31.96	36.71	42.55	1.44	1.65	29.56
PMMAF	Puma	7.96	8.87	26.9	0.93	11.01	14.73
SKX	Skechers	7.84	8.34	14.92	1.01	1.05	9.1
NKE	Nike	160.94	164.33	3.27	3.2	3.19	24.49
		:::: in billions	:::: in billions				
MEDIAN		31.96	36.71	32.64	1.44	3.19	23.79

Observations:

- Nike appears relatively more expensive than its peers based on the P/E ratio compared to Adidas, Puma, and Skechers.
- Nike's P/S ratio indicates it generates more sales relative to its market value than Lululemon but is less efficient than Puma and Skechers.
- Nike's EV/Sales ratio is higher than Adidas, suggesting it is relatively less expensive based on sales.

### Conclusions/Recommendation

#### Investment Thesis

Nike, Inc. is a formidable athleisure and footwear brand, showcasing a diverse product line encompassing footwear, apparel, equipment, and accessories. Despite operating in a fiercely competitive market, Nike remains the preeminent apparel brand in the sportswear industry. The company's resilience is evident through its robust digital presence and consistent in-store customer experience, highlighting its adaptability and sustained brand strength.

The challenges posed by the global pandemic in recent years testify to Nike's ability to navigate adversity. While facing a dip in share prices in May 2020, the company successfully orchestrated a recovery, with shares rebounding to approximately \$170 by November 2021. It is noteworthy that external factors, such as the 2023 recession, likely contributed to the temporary decline, given the economic implications, particularly the impact of high inflation on consumer spending.

Despite these challenges, the current share price of \$107 demonstrates resilience and stability that aligns with Nike's historical performance. We view this as an opportune entry point for investors, with a buy recommendation and a price target of \$123.76. This projection represents an estimated upside of approximately 13% from the current price of \$107.82.

Furthermore, our confidence in Nike's future trajectory stems from the company's ongoing commitment to research and development. This dedication positions Nike for a steady and gradual growth trajectory. As such, we anticipate that the company will continue to navigate challenges effectively, making it an attractive investment with promising long-term potential.



## Income Statement

### INCOME STATEMENT

Fiscal year	2021A	2022A	2023A	2024P	2025P	2026P	2027P	2028P
Fiscal year end date	5/31/21	5/31/22	5/31/23	5/31/24	5/31/25	5/31/26	5/31/27	5/31/28
Revenue	44,538	46,710	51,217	54,290	57,547	61,000	64,660	68,540
Cost of sales (enter as -)	(24,576)	(25,231)	(28,925)	(29,981)	(31,780)	(33,687)	(35,708)	(37,850)
<b>Gross Profit</b>	<b>19,962</b>	<b>21,479</b>	<b>22,292</b>	<b>24,309</b>	<b>25,768</b>	<b>27,314</b>	<b>28,952</b>	<b>30,690</b>
Selling, general & administrative (enter as -)	(13,025)	(14,804)	(16,377)	(16,721)	(17,725)	(18,788)	(19,915)	(21,110)
<b>Operating profit (EBIT)</b>	<b>6,937</b>	<b>6,675</b>	<b>5,915</b>	<b>7,588</b>	<b>8,043</b>	<b>8,525</b>	<b>9,037</b>	<b>9,579</b>
Interest income	34	94	297	297	297	297	297	297
Interest expense (enter as -)	(296)	(299)	(291)	(291)	(291)	(291)	(291)	(291)
Other expense, net (enter as -)	(14)	181	280	280	280	280	280	280
<b>Pretax profit</b>	<b>6,661</b>	<b>6,651</b>	<b>6,201</b>	<b>7,874</b>	<b>8,329</b>	<b>8,811</b>	<b>9,323</b>	<b>9,865</b>
Taxes (enter expense as -)	(934)	(605)	(1,131)	(1,653)	(1,749)	(1,850)	(1,958)	(2,072)
<b>Net income</b>	<b>5,727</b>	<b>6,046</b>	<b>5,070</b>	<b>6,220</b>	<b>6,580</b>	<b>6,961</b>	<b>7,365</b>	<b>7,794</b>
Shares outstanding (millions)	1,573	1,579	1,552	1,522	1,522	1,522	1,522	1,522
EPS	\$3.64	\$3.83	\$3.27	\$4.09	\$4.32	\$4.57	\$4.84	\$5.12
Depreciation & amortization	797	840	859	859	859	859	859	859
<b>EBITDA</b>	<b>7,734</b>	<b>7,515</b>	<b>6,774</b>	<b>8,447</b>	<b>8,902</b>	<b>9,384</b>	<b>9,896</b>	<b>10,438</b>
<u>Growth rates &amp; margins</u>								
Revenue growth	19.1%	4.9%	9.6%	6.0%	6.0%	6.0%	6.0%	6.0%
Gross profit margin	44.8%	46.0%	43.5%	44.8%	44.8%	44.8%	44.8%	44.8%
SG&A % of sales	29.2%	31.7%	32.0%	30.8%	30.8%	30.8%	30.8%	30.8%
Tax rate (Taxes/ EBIT)	13.5%	9.1%	19.1%	21.0%	21.0%	21.0%	21.0%	21.0%

## Data Box

### P/E and EPS Comparison and Databox

Current Share Price: \$113.48

#### EPS

##### Our Calculated EPS

2024 Estimated	2025 Estimated
\$4.09	\$4.32

##### WallStreet Analyst's Estimated EPS

2024 Estimated	2025 Estimated
\$3.23	\$3.72

#### P/E

##### Our Calculated P/E

2024 Estimated	2025 Estimated
27.77	26.25

##### WallStreet Analyst's Estimated P/E

2024 Estimated	2025 Estimated
35.13	30.51

Base Case	2023A	2024E	2025E
Company EPS	\$3.27	\$4.09	\$4.32
S&P EPS	\$215.18	\$243.33	\$275.16
Company P/E	34.74	27.77	26.25
S&P P/E	20.35	17.99	15.90
Relative P/E	1.71	1.54	1.65

Bear Case	2023A	2024E	2025E
Company EPS	\$3.27	\$3.20	\$3.32
S&P EPS	\$215.18	\$243.33	\$275.16
Company P/E	34.74	35.49	34.18
S&P P/E	20.35	17.99	15.90
Relative P/E	1.71	1.97	2.15

Bull Case	2023A	2024E	2025E
Company EPS	\$3.27	\$4.46	\$4.81
S&P EPS	\$215.18	\$243.33	\$275.16
Company P/E	34.74	25.42	23.60
S&P P/E	20.35	17.99	15.90
Relative P/E	1.71	1.41	1.48