

NIKE, INC. (NYSE: NKE)

Equity Research Report – Executive Summary

Fiscal Year Ending May 31, 2024

1. Investment Thesis

Nike Inc. is the world's leading seller of athletic footwear and apparel, renowned for its innovative product development, global brand equity, and expanding direct-to-consumer (DTC) platform. While macroeconomic pressures and elevated inventory levels have recently weighed on performance, the company's operational resilience, ongoing digital transformation, and renewed cost discipline position it for sustainable long-term growth. Our analysis suggests Nike is a high-quality core holding, though near-term upside may be limited until profitability metrics normalize.

Recommendation: Hold

Current Price(July 25, 2024): \$66.61

Target Price (12-month): \$76

Valuation Basis: DCF analysis and relative valuation using P/E multiples

FY2024 Financial Highlights

- **Total Revenue:** \$51.4 billion (+0.3% YoY)
 - **Net Income:** \$5.7 billion
 - **Gross Margin:** 43.7% (impacted by promotional activity and logistics costs)
 - **Nike Direct Revenue:** \$21.5 billion (+1% YoY), now 44% of total
 - **Inventory:** Down 11% YoY, indicating improved supply chain discipline
 - **Free Cash Flow:** \$6.2 billion (OP Cash Flow - CAPEX)
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Strategic Developments

- **Enterprise Efficiency Initiative:** Announced December 2023, targeting \$2 billion in cost savings over 3 years through product simplification, automation, and scale efficiencies.
 - **Digital First Strategy:** Nike Direct (owned retail + digital) continues to grow as a share of sales, aided by Nike's SNKRS app, exclusive drops, and personalized online experiences.
 - **Product & Brand Innovation:** Focus on proprietary technologies (ZoomX, FlyEase, Dri-FIT, Air Max) and sustainability goals (Move to Zero initiative).
 - **Geographic Trends:**
 - **North America:** Stable revenues with competitive discounting pressure.
 - **Greater China:** Rebounded with +7% growth, bolstered by localized marketing.
 - **EMEA & APLA:** Posted modest gains driven by digital commerce strength.
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Risks

- **Consumer Spending:** Vulnerable to inflation and macro uncertainty.
 - **FX Volatility:** Continued headwinds from USD strength as more than 50% revenues comes from outside
 - **Competitive Landscape:** Increased pressure from Adidas, On, Puma, Lululemon, and digital-native brands.
 - **Execution Risk:** Particularly in DTC expansion and inventory realignment.
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2. Business Overview: Nike, Inc.

Core Business & Revenue Segments

Nike, Inc. is the world's largest seller of athletic footwear and apparel. Its core business revolves around the **design, development, marketing, and sale** of:

- **Athletic footwear**
- **Apparel**
- **Sports equipment**
- **Accessories and services**

Nike operates through two key brands:

- **Nike Brand:** Includes Nike and Jordan brand products, organized around consumer segments such as Men's, Women's, and Kids'.
- **Converse:** Focused on casual sneakers, apparel, and accessories.

Nike's revenues are primarily derived from:

1. **Nike Direct:** Direct-to-consumer sales via owned retail stores and digital platforms.
2. **Wholesale:** Sales to third-party retailers, licensees, and distributors globally.

In FY2024, Nike generated approximately **42% of its revenues from the U.S.** and **58% from international markets**.

Geographical Presence

Nike operates across four major geographic segments for the Nike brand:

- **North America**
- **Europe, Middle East & Africa (EMEA)**
- **Greater China**
- **Asia Pacific & Latin America (APLA)**

Nike has a significant global retail footprint:

- **377 retail stores in the U.S.**
- **668 retail stores internationally**
- **Digital commerce platforms** in over 40 countries

Recent Trends & Strategic Focus

1. Direct-to-Consumer (DTC) Acceleration

- Nike is aggressively pushing its **Nike Direct** strategy, prioritizing owned digital channels and retail stores.
- Investments in **e-commerce** and **digital memberships** have fueled personalized consumer experiences.

2. Innovation

- A key differentiator, Nike continues to innovate with technologies such as **Nike Air, Zoom, Flyknit, Dri-FIT**, and **React**.
- It invests heavily in **R&D**, drawing on expertise in biomechanics, engineering, and sustainability to design high-performance products.

3. Sustainability

- Nike has committed to sustainability through materials innovation, circular design, and waste reduction.
- The company's **Move to Zero** initiative targets zero carbon and zero waste to help protect the future of sport.

4. Product & Category Focus

- There is a strong emphasis on category offense in basketball, running, and women's sports.
- Nike leverages deep consumer insights to align collections across footwear, apparel, and accessories.

5. Digital Transformation

- The integration of **digital services, apps, fitness platforms**, and enhanced in-store experiences underscores its consumer-focused digital ecosystem.
- It offers personalized engagement through **Nike apps**, connected products, and sport-focused content.

6. Global Diversification

- With strong growth in EMEA and Greater China, Nike is enhancing local product relevance while optimizing global scale.

3. Industry & Competitive Landscape

Position Within the Sector

Nike, Inc. is the **global leader in athletic footwear and apparel**, commanding a dominant position in the sportswear industry. The company is recognized for its deep brand equity, wide product portfolio, innovative technologies, and extensive global reach. Nike is the largest player in its segment, ahead of key competitors like Adidas, Puma, Under Armour, and newer entrants like On Running and lululemon in performance categories.

Its business model—anchored in **consumer direct engagement, product innovation**, and **global scale**—allows Nike to set trends and shape the direction of the broader athletic and athleisure markets.

Macro Factors Impacting Nike

Several macroeconomic and industry-wide forces are shaping Nike's performance:

- **Consumer Spending Pressure:** Elevated inflation and high interest rates globally have pressured discretionary spending, particularly in developed markets. As a premium brand, Nike faces sensitivity to shifts in consumer sentiment.
- **Foreign Exchange (FX) Volatility:** With over 58% of revenue generated outside the U.S., Nike is significantly exposed to currency fluctuations. A stronger U.S. dollar negatively impacts revenue translation and cost competitiveness in international markets.
- **Global Supply Chain Dynamics:** While supply chain disruptions have eased post-pandemic, Nike continues to navigate increased freight costs, regional manufacturing dependencies (notably in Vietnam, China, and Indonesia), and evolving trade regulations.

- **Digital & Channel Shifts:** The accelerated shift toward online shopping and direct-to-consumer models impacts traditional wholesale dynamics and requires ongoing investment in digital platforms, data analytics, and personalization.
- **Geopolitical Uncertainty:** Tariff changes, trade tensions (particularly U.S.-China relations), and regional instability can affect production costs, supply continuity, and consumer demand.

Key Competitors and Nike's Edge

Key Competitors:

- **Adidas:** Strong global presence with a focus on lifestyle and performance.
- **Puma:** Known for fashion-forward sportswear with celebrity collaborations.
- **Under Armour:** Focused on performance and fitness categories, especially in North America.
- **lululemon:** A growing competitor in women's athletic apparel and expanding into footwear.
- **On Running & HOKA:** Gaining traction in running and technical footwear.

Nike's Competitive Advantages:

- **Brand Strength:** Globally iconic with strong athlete endorsements (e.g., LeBron James, Serena Williams, Kylian Mbappé).
- **Innovation Pipeline:** Continuous development of performance-enhancing technologies (e.g., ZoomX, FlyEase, Dri-FIT ADV).
- **DTC Leadership:** Deep customer relationships through Nike Direct and Nike apps, supported by personalization and loyalty programs.
- **Global Scale and Supply Chain:** Diversified manufacturing and distribution enable broad market coverage and cost leverage.
- **Cultural Relevance:** Nike has a unique ability to blend sport, fashion, and culture—staying relevant through storytelling and purpose-led marketing.

4. Financial Model Summary

- We first calculate all the supporting schedules—including revenue, cost of goods sold, operating expenses, depreciation, capital expenditures, working capital changes, intangibles and goodwill, taxes, debt and interest, share buybacks, and equity movement. The commentary on each of these schedules is given below.
- Using these inputs, we can then build the **Income Statement**, **Cash Flow Statement**, and **Balance Sheet** in a fully linked and internally consistent manner. This integration ensures that all forecast assumptions flow through accurately to the core financials, enabling robust analysis of Nike's expected financial performance over the next five years.

Revenue Schedule

Nike does not publicly disclose unit sales figures. To estimate units sold across key categories for FY2024, we utilized Nike's reported revenue breakdown by product category (Footwear, Apparel, Equipment, and Converse) and applied average selling price (ASP) estimates sourced from external equity research, including firms such as Morgan Stanley. These ASP figures served as the foundation for our Base Case projections.

For the period from 2025 to 2029, we assume a **moderate annual ASP growth of 2–4%** under the Base Case scenario. To assess sensitivity, we applied a **±4% adjustment** to the ASPs, creating a range that reflects **Best Case (ASP +4%)** and **Worst Case (ASP -4%)** outcomes. This methodology was consistently applied across Nike's primary revenue segments: Footwear, Apparel, Equipment, and Converse.

For smaller revenue streams such as the **Global Brand Division** and **Corporate Growth Division**, which historically represent a minimal share of total revenues and have shown a consistent decline, we assume a **flat annual decline of 15%** under the Base Case. Sensitivity analysis for these segments similarly includes a **±4% range**.

Recent data from Nike's latest 10-K filing indicates a downward trend in units sold growth within the footwear and apparel segments. Accordingly, we have used these figures as a benchmark to establish our base case, best case, and worst case scenarios for sales volume growth.

Hence, projected ASP and sales volume provides a realistic and flexible framework for forecasting NIKE's revenues for the upcoming 5 years

Cost of Production Schedule

Nike does not disclose a detailed breakdown of its cost structure. Based on industry trends for companies that outsource the majority of their production, we estimate Nike's variable costs to comprise approximately **85% of its Cost of Goods Sold (COGS)**, with fixed costs accounting for the remaining **15%**. Using this assumption, we have allocated Nike's reported COGS of

\$28,475 million in FY2024 into \$24,204 million in variable costs and \$4,271 million in fixed costs.

We assume an annual cost inflation rate of 2%, which we apply to inflate the aggregate fixed costs over the next five years. To calculate the per-unit variable cost in 2024, we divide the estimated variable cost (\$24,204 million) by the total units sold (804.5 million units, comprising footwear, apparel, equipment, and Converse).

This per-unit variable cost is then projected forward using the assumed inflation rate. By multiplying the inflated per-unit variable costs by the forecasted sales volumes each year, we derive the total annual variable costs. Adding these to the fixed costs gives us the aggregate total costs. Dividing total costs by units sold yields the per-unit total cost, from which we isolate the per-unit fixed cost given known per-unit variable costs.

This methodology forms the basis of our COGS schedule for Nike over the forecast period.

Nike has disclosed that its **S, G & A costs are independent of the sales volume** and hence we treat them as 100% fixed and inflate them at the cost inflation rate in absence of any known information of management decisions on such spending in the future.

Fixed Assets (PP&E) Schedule

Based on Note 2 of Nike's latest 10-K, capital expenditures (CapEx) for FY2024 amounted to \$199 million, while depreciation expense totalled \$280 million. This translates to CapEx representing approximately **0.4% of revenue**, and **depreciation equaling 5.5% of the beginning net PP&E balance of \$5,081 million for the year.**

We have applied these percentages consistently over the forecast horizon to estimate annual CapEx and depreciation for the next five years. Using these figures, we calculate the ending PP&E balances each year, forming the basis of our fixed assets schedule.

Short-term Investment schedule

We have used the purchase of short-term securities in FY2024, along with the ending cash balance from FY2023, to establish a baseline purchase rate of approximately 65% of beginning cash. This percentage is applied annually to estimate the purchase of short-term securities from beginning-of-year cash balances throughout the forecast period.

Based on historical patterns, we estimate that approximately 28% of the total short-term securities (i.e., beginning-of-year balance plus current-year purchases) mature within a given year. Additionally, we assume that about 73% of the remaining short-term securities (beginning balance + purchases – maturities) are sold during the year—also derived from historical trends.

Using these assumptions, we calculate the ending balance of short-term investments for each year in the forecast period.

Income Tax Schedule

Nike reported an effective tax rate of approximately 15% for FY2024, which we have assumed will remain constant over the forecast period. This rate is applied to pre-tax income (EBT) to calculate total income tax expense (i.e., accounting tax = $EBT \times 15\%$).

To estimate cash taxes paid, we adjust for deferred tax movements. Specifically, we add the increase in deferred tax assets and subtract the decrease in deferred tax liabilities. Based on historical trends, we assume deferred tax assets will remain at **around 8% of revenue for the year**, while deferred tax liabilities are estimated to remain relatively flat over time.

This approach enables us to project both the income tax expense and the cash tax outflows for each year in the forecast

Working Capital Schedule

The working capital schedule includes the following items:

- **Current Assets(excluding cash and interest bearing assets):** Accounts receivable, inventories, and prepaid expenses
- **Current Liabilities(excluding cash and interest bearing liabilities):** Accounts payable, accrued liabilities, and income taxes payable

We have calculated the corresponding “days” values (e.g., Days Sales Outstanding, Days Inventory Outstanding, Days Payables Outstanding) based on historical data from FY2023 and FY2024, using net revenue and COGS. These days metrics are assumed to remain mostly stable during the forecast period, with slight variations where justified.

For the forecast period, we estimate each working capital item by applying the relevant “days” metric to projected net revenue or COGS. This allows us to derive the projected working capital balances for each year.

Net working capital is calculated as:

$$\text{Net Working Capital} = \text{Current Assets} - \text{Current Liabilities}$$

The year-over-year change in net working capital is then included in the Operating Activities section of the Cash Flow Statement.

- An increase in working capital is treated as a use of cash
- A decrease in working capital is a source of cash

Intangibles and Goodwill schedule

For the forecast period, we assume intangible assets will be amortized at a rate of 6% of their beginning-of-year balance. Goodwill is projected to be impaired at a rate of 15% annually, also based on historical trends observed in Nike's financial statements.

These percentage-based assumptions allow us to systematically reduce the intangible assets and goodwill balances over time. The amortization and impairment charges are reflected in the income statement and reduce the carrying value of these assets on the balance sheet each year.

Shareholders' Equity Schedule

In the absence of specific guidance on future stock issuance, we project increases in **Capital in Excess of Stated Value** based on estimated stock-based compensation for each year of the forecast period.

We assume a **dividend payout ratio of 50%**, consistent with Nike's recent historical trend. For **Retained Earnings**, we start with the beginning balance, add projected net income, and include estimated proceeds from the exercise of stock options and other equity issuances. From this, we subtract projected dividend payments and planned **share buybacks*** to arrive at the ending retained earnings for each year.

This approach provides a structured and historically grounded forecast of Nike's shareholders' equity over the projection horizon.

Share Buybacks*: Nike's management announced a \$18 billion share repurchase program spanning four years, starting in 2022. As of the end of FY2024, approximately \$9 billion of this program has already been executed. We assume the remaining \$9 billion will be completed evenly over FY2025 and FY2026, resulting in projected share buybacks of \$4.5 billion in each of those years.

For the remaining years of the forecast period, we estimate annual share repurchases of \$2.5 billion, in line with Nike's historical capital return practices and expected cash flow generation.

Debt and Interest Schedule

Nike provides a detailed maturity schedule of its long-term debt in Note 6 of the FY2024 10-K. Using this, along with the total outstanding debt at the end of FY2024, we calculate the annual debt repayments over the forecast period. We assume Nike pays an average interest rate of 3% on the beginning-of-year long-term debt balance, consistent with the rates disclosed in the filing.

For short-term borrowings and credit facilities (Notes Payable), we estimate the need for additional financing based on Free Cash Flow (FCF) after mandatory obligations—specifically

debt repayments and dividend payments. FCF is calculated as the sum of operating and investing cash flows, minus mandatory financing outflows including dividends and share repurchases. Any shortfall is first funded through available cash. If cash is insufficient, Nike is assumed to draw on its short-term credit lines, increasing notes payable accordingly.

Historically, Nike has maintained a strong cash position and has rarely utilized these short-term facilities. However, if used, we assume an interest rate of 5% on short-term borrowings based on estimates from Note 5 of the 10-K.

Nike is also assumed to earn a 1% return on its beginning-of-year cash balance. Summing the interest expense on long-term debt, potential short-term borrowings, and cash interest income yields the **net interest expense**, which is recorded in the income statement.

5. Valuation

We have valued Nike Inc. using a combination of a **Discounted Cash Flow (DCF)** approach and a **relative valuation** based on a forward **P/E multiple** of 20x. Our analysis incorporates a **WACC of 9%**, a **terminal growth rate of 2%**, and an **effective tax rate of 15%**. We have considered three scenarios — **Bear Case**, **Base Case**, and **Bull Case** — to capture a range of potential outcomes based on varying assumptions around revenue growth, margins, and capital efficiency.

Scenario	DCF Valuation (\$)	P/E based valuation (\$)	Implied Fair Value Range (\$)
Base	76.9	76.9	76.6
Best	112.1	112.1	112.1
Worst	40.4	41.7	41.1

As of **July 25, 2025**, Nike's stock is trading at **\$66.61**.

- Under the **base case**, Nike appears **undervalued**, with an upside potential of approximately **15%** relative to the current market price.
- In the **bull case**, the stock could offer upside of over **60%**, supported by margin expansion and sustained brand strength.
- However, in the **bear case**, the valuation suggests **downside risk**, particularly if consumer demand weakens or cost pressures persist.

We assign a **Hold** rating on Nike Inc. (NKE), with a **base case intrinsic value of \$76.6**, representing a **modest upside of approximately 15%** from the current share price of **\$66.61** as of July 25, 2025. While our valuation suggests Nike may be moderately undervalued, we believe near-term upside is limited given the growing macro and geopolitical risks.

A key concern stems from Nike's **heavy reliance on overseas manufacturing**, particularly in Asia. With the U.S. administration signaling a more protectionist trade stance, **potential tariffs and supply chain disruptions** present material downside risk to margins and earnings stability. These risks are not fully captured in historical financials and could limit Nike's ability to maintain its cost structure and competitive pricing.

While Nike remains a fundamentally strong business with global brand equity and long-term growth drivers, we believe the current risk/reward is balanced. As such, we recommend investors **wait for greater clarity** on trade policy developments or a more attractive entry point before initiating or increasing positions.

Rating: Hold

Target Price (Base Case): \$76.6

Current Price(July 25, 2024): \$66.61

Implied Upside: ~15%, but with elevated policy risk

6. Risks

Several factors could impact Nike's performance and valuation outlook:

- **Trade and Tariff Risk:** Nike relies heavily on overseas manufacturing, particularly in Asia. Potential tariff escalations or trade restrictions by the U.S. administration could increase costs and disrupt supply chains.
- **Consumer Spending Volatility:** A slowdown in global consumer demand, especially in key markets like China and North America, could pressure revenue growth.
- **Competitive Pressure:** Intensifying competition from Adidas, Lululemon, On, and emerging DTC-native brands may force higher marketing spend or pricing concessions.
- **FX and Macro Risk:** As a global company, Nike remains exposed to foreign exchange volatility and macroeconomic uncertainty in key markets.
- **ESG and Brand Risk:** Increasing scrutiny over labor practices, sustainability, and political stances could influence consumer perception and investor sentiment.

7. Catalysts

Despite current headwinds, several near- to medium-term catalysts could support Nike's stock price:

- **Margin Recovery:** Improvement in gross margin through supply chain normalization and easing input costs.
- **Product Innovation:** Successful new product launches (e.g., in performance running or lifestyle segments) could drive top-line growth and brand momentum.
- **Digital Growth:** Continued traction in Nike's DTC and e-commerce channels could enhance margins and customer loyalty.
- **Macro Stabilization:** A more accommodative trade or fiscal policy could ease cost pressures and restore investor confidence.
- **Buybacks/Capital Allocation:** Share repurchases or dividend increases may support total shareholder returns.

8. Conclusion & Recommendation

Nike remains a globally dominant athletic brand with a resilient business model, strong innovation pipeline, and long-term growth potential. Our base case valuation of \$76.6 suggests a 15% upside from the current share price of \$66.61, indicating the stock is modestly undervalued on a fundamental basis.

However, we believe the risk/reward is balanced at current levels. Elevated geopolitical risk — particularly around manufacturing concentration outside the U.S. and the potential for punitive trade measures — poses a meaningful threat to Nike's margin structure and supply chain efficiency.

Until there is greater clarity on the trade policy front, or a more favorable entry point emerges, we recommend investors remain on the sidelines.

Rating: Hold

Target Price: \$76.6

Current Price(July 25, 2024): \$66.61

Implied Upside: ~15%

Time Horizon: 6–12 months

