**NIKE FINANCIAL ANALYSIS**

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1. **Executive Summary**

**Table

Description automatically generated**Nike is the world's largest supplier of athletic shoes and apparel and a major manufacturer of sports equipment, with revenue in excess of US$44.5 billion in 2020. This year is the evidence that Nike has regained its growth momentum in a remarkable way after losing sales in 2019 due to the pandemic.

The report for the first three quarters of 2021 shows that the company continues to have a successful year with sales growth increasing by 8% compared to the same period last year.

On March 4, 2022, Nike has 1.58B shares outstanding, market cap of $207.43B and is being traded at $131.18 on New York Stock Exchange (ticker symbol NKE).

A HOLD / BUY is my recommendation toward Nike stock based on my valuation method and final projected price $164.77 which is 25.61% over the current price.

1. **Company Overview**

Nike, Inc. is an American multinational corporation that is engaged in the design, development, manufacturing, and worldwide marketing and sales of footwear, apparel, equipment, accessories, and services.

Nike was founded in 1964 as Blue Ribbon Sports by Bill Bowerman, a track-and-field coach, and his former student Phil Knight. They opened their first retail outlet in 1966 and launched the Nike brand shoe in 1972. The company was renamed Nike, Inc., on May 30, 1971. By 1980, Nike had attained a 50% market share in the U.S. athletic shoe market, and the company went public in December of that year. Nike headquarter is located in Beaverton, Oregon, USA with 1096 retail stores and distribution in more than 170 countries. As of 2020, it employed 76700 people worldwide. In 2020 the brand alone was valued in excess of $32 Billion, making it the most valuable brand among sports businesses.

Nike sponsors many high-profile athletes and sports teams around the world, with the highly recognized trademarks of “Just Do It” and its logo—a curved check mark called the “swoosh” (which represents the wing of the Greek goddess Nike).

**Acquisitions:**

Nike has acquired several apparel and footwear companies over the course of its history, some of which have since been sold. Its first acquisition was the upscale footwear company Cole Haan in 1988, followed by the purchase of Bauer Hockey in 1994. In 2002, Nike bought surf apparel company Hurley International from founder Bob Hurley. In 2003, Nike paid US$309 million to acquire Converse, makers of the Chuck Taylor All-Stars line of sneakers. The company acquired Starter in 2004 and Umbro, known as the manufacturers of the England national football team’s kit, in 2008.

In order to refocus its business lines, Nike began divesting itself of some of its subsidiaries in the 2000s. It sold Starter in 2007 and Bauer Hockey in 2008. The company sold Umbro in 2012 and Cole Haan in 2013. As of 2020, Nike owns only one subsidiary: Converse Inc. In February 2021, Nike acquired Datalogue, a New York based company focused on digital sales and machine learning technology.

**Products:**

Nike markets its products under its own brand, as well as Nike Golf, Nike Pro, Nike+, Air Jordan, Nike Blazers, Air Force 1, Nike Dunk, Air Max, Foamposite, Nike Skateboarding, Nike CR7, and subsidiaries including Jordan Brand and Converse.

Nike produces a wide range of sports equipment and apparel, includes three mains product lines:

* Footwear (lifestyle, running, basketball, soccer, tennis, etc..)
* Clothing (swimwear, cycling apparels, yoga, kids clothing, etc..)
* Accessories and Equipment (bag & backpacks, hats, visors & headbands)

1. **Corporate Governance**

The board currently comprised of 12 directors who are selected on the basis of numerous criteria, including experience and

Chart, diagram

Description automatically generatedachievements, fields of significant knowledge, good character, sound judgment, and diversity, includes:

* Philip H Knight, a director since 1968, is co-founder and Chairman Emeritus of the Board of Director.
* Timeline

  Description automatically generatedMark G Parker is Chairman of the the Board of Directors and has been a director since 2006.
* John J Donahoe, is President and Chief Executive Officer of the company and has been a

And 9 other directors. The Board’s goals are to build long-term shareholder value, including by promoting the sustainability of the Company, and to responsibly address the concerns of other stakeholders, including employees, consumers, customers, suppliers, shareholders, governments, local communities and the general public.

The Board is also responsible for reviewing and establishing procedures designed to ensure that the Company’s management and employees operate in a legal and ethically responsible manner.

* Highlights:
* 9 out of 12 directors are independent
* Separate Chairman, CEO, and Lead Independent Director positions with clearly defined roles
* Refreshed Board and committee structure, with 4 new independent directors added in last 4 fiscal years
* Retirement policy generally requires that directors do not stand for election after reaching the age of 72

1. **Industry and Competitive Advantage**

Nike operates in Footwear Manufacturing and Retail Services Industry which is very competitive from tons of local and international brands. However, the direct competitors and top players in the market can be named are Adidas, Puma from Germany brands, Columbia Sportwear, Skechers, and Under Armour from United States, and Asisc from Japan.

**Porter Five Forces**

***Bargaining Power of Suppliers – Low***

With products made globally in 620 factories in 42 countries, Nike is an international brand who lots of supplier are looking for to comply with, Nike put itself in a dominating position while dealing with suppliers. Nike also sets standards for its supplier, holds strong control and audits them regularly through third parties for compliance.

***Bargaining Power of Customers – Low to Moderate***

The number of Nike competitors is not so small but not very large. Buyers do have the options from different brand but limited. Nike has strong brand name which is a factor that keep the bargaining power of customers at moderate level as brand affiliation. Nike focuses on performance and design to produce very innovative products, sportswear, and apparel exclusively made from sustainable materials to build good customer loyalty.

***Thread of New Entrants – Low to Moderate***

The investment for starting the sport business is not very large, still there are other requirements that are not easy to fulfil. Apart from production, there are marketing, distribution and supply chain management that require investment, skilled workers and time. Any new competitor may have to start at a local or small level initially and it takes time, efforts and capital investment to be recognised by most customers. Nike’s strong position in the market mitigates the threat to a large extent.

***Threat of substitute products – Moderate***

A large number of competing brands in local and international markets are making similar or matching products to Nike and offering lower price. To some extent this threat is moderated by the quality and design of Nike products. But in some case, as customers are gradually becoming knowledgeable about the brand and quality of products, they are willing to buy high quality and expensive shoes and apparels.

***Competitive Rivalry – High***

The sports industry has a strong level of competition. There are few direct competitors and top players which make competition more intense. The sports industry has grown saturated, and the current players are taking part in tough competition for deeper market penetration and to snatch away market share from one another.

**Competitive Advantage**

Nike is the most valuable apparel brand with a brand value of over $ 30 billion far higher than any other company in the same industry. Another factor that helps Nike would continue to take the list is innovation because Nike has strong financial power that supports Nike's research and design a wide range of type of products according to the new demand of customers.

Nike has a robust distribution with more than 1000 stores operational across the globe. Nike's marketing is another important characteristic that gives it an edge in the global athletic wear market. Nike also connects with its customers through celebrity endorsements and partnerships.

Nike is an amazing brand in the athletic wear sector, with the highest popularity and consumer loyalty. This is a significant competitive edge that has allowed Nike to stay ahead of its competitors.

1. **Financial Analysis and Valuation**

## **1. Financial Ratios**

In recent years, Nike has performed quite well in keep sales growth at 5 to 10 percent each year. After being hit hard by Covid-19 causing decrease in revenue by 4.38% in 2019, Nike has had a tremendous rebound of 19% in 2020, maintaining its leading position in the sports business in terms of revenue.

**Solvency**

Overall, Nike has a good financial health over the year. Short term solvency ratio shows that Nike has good ability to instantly pay downs its current liabilities, while long term solvency ratio shows that the company is ultilizing debt to grow in recent years.

**Profitability**

Nike Gross Margin experienced high ratio from 2013 to 2015 then decrease gradually after that. The company Gross Margin is lower 2.27% average than Industry.

Profit Margin of Nike is quite consistent before 2016 and fluctuate in recent years. By controlling good expenses, Nike Profit Margin is 5.95% higher than that of Industry in average.

**Return on Investment**

I compared Nike Return On Asset to the industry to discover how profitable it has been in relation to its assets and Return On Equity for relation to its equity. Those two ratios had same pattern during the period, a slightly growth from 2011 to 2016 before experiencing a sudden decrease in 2017 then fluctuate from 2018 to 2020. Overall in terms of these two ratios, Nike has been doing better than industry by average 9.25% difference on ROA and 21.45% difference on ROE over the years.

**Expense**

To get more detail on how Nike manage expense to generate profit, I analyze on Cost of Good Sold, and Selling General and Admin. By make comparison on these two cost of Nike and Industry, I figure that Nike has higher direct cost than that of Industry which why Nike generate lower Gross Margin. However, in recent year, while other companies tends to increase Selling General and Admin expense, Nike has been doing much better to keep it under control which makes it lower than 2.63%, thus Nike Profit Margin is at good sign.

**Inventory**

By compute Nike inventory turn over and make comparison with industry average, Nike’s ratio is lower than Industry 21%, which means that the sales of inventory of Nike is not good as others competitors. As a result, Nike remains inventory longer than others (Days in Inventory is higher than 4.59)

## Table, timeline Description automatically generated**2. Discounted Cashflow Model**

For Discounted Cashflow Model, I started looking at Nike financials for the past 10 years (2011-2020) and then expanded to next 6 years by make assumptions for annual sales growth and other ratios : expenses to sales, tax rate, cash to sales, account receivable to sales, inventories to sales, fix asset and other asset to sales based on historical performance.

For sales growth, as it is very stable from 4% to 10% over the period as well as the economy is recovering after pandemic, so I decided to make it keep increasing from 5% to 10% from 2021 to 2025 before stay instant at 4% growth every year from 2026.

For Risk Free Rate and Market Risk Premium, I make a prediction based on historical data which was downloaded from google. Cost of Debt is the current domestic bond rate of Nike.

Beta is coefficient of linear regression of the effect of market stock (S&P 500) on Nike stock and perpetual cashflow growth is GDP growth of USA in 2021. Number of shares is the current number of shares outstanding in thousands scale.

**Calendar

Description automatically generated**Complemented other calculations within excel model, I got result of Enterprise Value by summarize all discounted free cashflow, then I compute Equity Value by subtract Enterprise Value from Net Debt and devided to number of shares outstanding, I got the share projected price is $170.66

**Discounted Cashflow Monte Carlo Simulations**

**Chart, histogram

Description automatically generated**To double check this assumption, I run Monte Carlo simulations with 500 trials by randomly changing sales growth rate in 6 years from 2021 to 2026 with mean = 7.2% and standard deviations = 0.0613, the stock price came out at normal distribution with mean = $151.31, median = $145.88, and standard deviations = 42.09. This results make me confident about my project stock price.

## **Relative Value Model**

**Table

Description automatically generated**A relative valuation of Nike stock price was also performed between Nike and six chosen competitors. By comparing P/E ratio, EBITDA multiplier, Sales multiplier, Book Value multiplier, the average project stock price of this model is 96.79, which is lower than DCF model.

## **Valuation Method and Final Project Stock Price**

I decided to use 50% from DCF ($170.66) price plus 25% price from P/E multiplier ($179.80) and 25% from EBITDA multiplier ($137.97) to make it more comparable and reliable.

Therefore, final projected price at $164.77 was chosen to be used as a recommendation.

# **Conclusion**

My conclusion is that Nike is a good investment to hold or buy. I believe that current stock price is a bit undervalued toward its potential growth. Nike was targeting average revenue growth in the range of high single digits percentages by the fiscal year 2025. The company continues to have a strong track record of investing to fuel growth and consistently increasing returns to shareholders, including 20 consecutive years of increasing dividend payouts.

# **Appendix**

1. **Business Question.**

Financial Analysis was applied to perform a valuation of Nike current share price whether or not this company is a good investment opportunity and make recommendation to shareholders to Sell, Hold, or Buy.

1. **Data Collection & Processing**

The data was comprised of standardized Balance Sheet, Income Statement and other Financial Reports over the last 10 years of Nike and its competitors Adidas, Puma, Columbia Sportswear, Skechers, Under Armour, and Asics which were downloaded in same scales of thousand from database Mergent Online. Daily closed price of stock history of those companies and S&P 500 were taken directly from Yahoo Finance from period 2011 to end of 2021.

Balance Sheet and Income Statement are used to compute Financial Ratios for each company. Average of six competitors’ ratios are considered as Industry Index to compare to Nike. From that, Discounted Cashflow and Relative Model were generated to provide Nike projected stock price.

Stock history was reorganized from oldest to newest, then I calculated stock returns and excess returns for each company.

All the data processing and preparation were done in excel and results were loaded into Power BI for further visualization and analysis.

1. **Visualization**

**Chart, radar chart

Description automatically generated**

Radar chart was used to visualize Porter’s Five Forces to see how factors impact Nike. Scores are graded from 1 to 5 for low to high affects.

Chart, bar chart

Description automatically generatedThe bar chart is used to show Revenue of Nike and its 6 competitors over the last 10 years. We can see that Nike and Adidas take majority shares of market, while other competitors were left far behind in total Sales.

Chart, line chart

Description automatically generated

I used line graph to show profit margin of three biggest company in sport business. Adidas and Puma had same fluctuate pattern of Profit Margin over last 10 years. Nike had stable Profit ratio from 2012 to 2018 before dropping significant in 2019 and rebounding in 2020

Graphical user interface, chart, line chart

Description automatically generatedCards are used to show information of Total Asset, Current Asset, Total Liabilities, Current Liabilities, Equity and can be adjusted by choosing year at filter box.

Chart

Description automatically generatedLine graphs are used to visualize financial health of Nike through Short term Solvency and Long term Solvency ratios. Overall Current ratio and quick ratio indicates that Nike has good ability to instantly pay current liabilities, while total debt ratio and debt to equity ratio indicates company tends to utilize debt to grow.

Multiple types of chart are used to visualize revenue, gross profit, net income, sales growth percentage and earnings per share by year of Nike. The charts is best used to illustrate movement of these criteria of Nike over the period from 2011 to 2020.

Chart, line chart, histogram

Description automatically generatedGraphical user interface, chart

Description automatically generated

The area charts are used to visualize many financial ratios and make comparison between Nike and Industry including Gross Margin, Profit Margin, Return On Asset, Return On Equity, Cost of Good Sold to Revenue, Selling General and Amin Expense to Revenue, Inventory Turn Over, Days In Inventory.

Chart

Description automatically generatedFor Stock Analysis, I converted other competitive companies into same scale with Nike to make all of them starting at same point for easier to read, then I used line chart to visualize prices and returns of companies and bar chart to show number of shares outstanding during period. While other competitors’ stock has fluctuated over times, Nike stock has a stable upward trend.

I compared stock returns of Nike and the market (S&P500), the chart illustrate that Nike has better return but bigger variation than market.

The number of shares outstanding are decreasing year by year indicates that Nike has been trying to buy back shares to increase earnings per share, make company shares more valuable.

Cards are used to display current price, projected price and recommendation to stockholders.