Krause Fund Research
Fall 2019

NIKE, Inc. (NYSE: NKE)

Consumer Discretionary – Sportswear

November 15, 2019

Stock Rating: BUY

Analysts

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Current Price: $93
DCF & EP Intrinsic Value: $105
Target Price Range: $100-110

Stock Performance Highlights		
52wk High	$	96.87
52wk Low	$	66.53
Beta Value		0.893
Share Highlights		
Market Cap (M)	$	145,200
Shares Outstanding (M)		1,561
EPS (2020E)	$	3.16
P/E Forward		35.02
Company Performance Highlights		
ROA		17.42%
ROE		42.74%
Financial Ratios		
Current Ratio		2.10%
Debt to Equity		38.32%

Investment Thesis

We recommend a **buy** rating for Nike, Inc. because their Consumer Direct Offense corporate strategy has produced successful results through pursuing the opportunity of growth in the China market, generating demand creation, and further prioritizing digital solutions in a time of changing consumer trends.

Drivers of Thesis

- Nike outperformed earnings in Q12020 and is continuously growing. The company has produced a positive trend in EPS over the past 5 quarters while the consensus estimates remain steady.
- We forecasted revenues to increase 7.9% in fiscal year 2019, streamlined by footwear growth of 9% and we expect the company to continue to build on that with efforts of creating new innovative products.
- Technological acquisitions will drive the Nike direct digital solutions platform by adapting online experience to changing consumer preferences.
- We expect Nike's growth strategy will hold high gross margins due to large investments in research and development.

Risks to Thesis

- The Trade war with China could increase costs for Nike's consumers, which would lower consumer purchasing power.
- Sales within this the sportswear industry depend on consumer preferences and income. The economic shifts and market conditions can create volatile returns for Nike's shareholders.

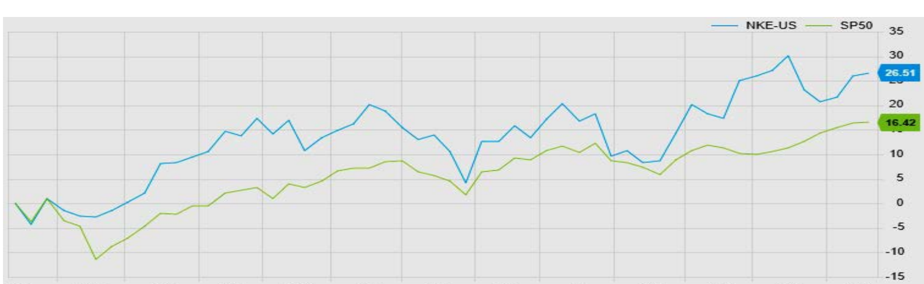
Company Description

NIKE, Inc. (NYSE: NKE) is the world's largest sportswear provider. Nike earns revenue through six reportable segments: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training, and Sportswear. Incorporated in 1967, NIKE distributes through a mix of sales representatives, independent distributors, and licensees internationally. Internationally there are 884 NIKE Brand factory stores, 96 NIKE Brand in-line stores (including employee-only stores), 173 Converse stores, and 29 Hurley stores (U.S. only).

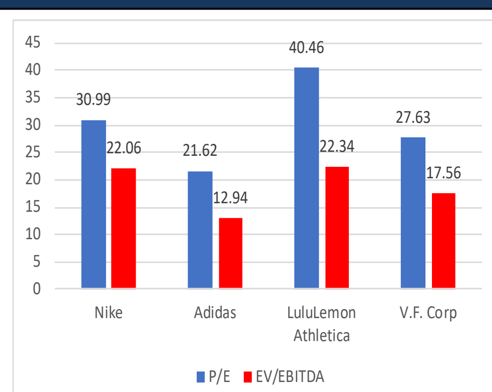
Earnings Estimates

Year	2017	2018	2019	2020E	2021E	2022E
EPS	2.56	1.19	2.55	3.16	3.49	3.77
Growth	15.84%	-53.52%	114.29%	23.92%	10.44%	8.02%

12-Month Performance



Relative Financial Performance



Executive Summary

Our team is issuing a BUY rating for Nike, Inc. (NYSE:NKE) for the Krause Fund Portfolio. With a projected revenue growth of 7.93% in 2020, our team believes that Nike is well positioned to outperform their competitors within the sportswear market. With an increase in technology and digital solutions, NKE will build upon its competitive advantage in the sportswear industry. Additionally, the opportunity to establish higher growth in the Chinese markets, our expectation of a relatively strong Consumer Confidence Index, and the continued success of the Consumer Direct Offense strategy, we expect Nike's bottom line and operating margins to be sustain growth in the future.

Our DCF model yields a price of $105.11 on a relative basis, which indicates that Nike's security is undervalued by 11.50%. Based on these expectations, we see strong growth potential at the current price of $93.04.

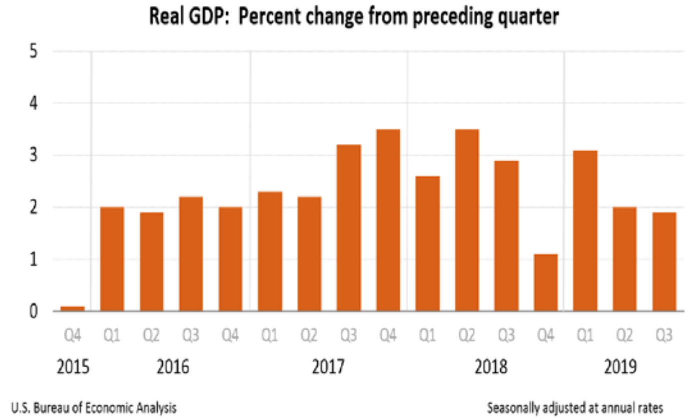
Macroeconomic Outlook

Real GDP

Real GDP is one of the most important indicators of economic health and performance because it values all goods and services produced within the United States on an annual basis. With GDP increasing, it signals that the economy is expanding, which is a good indicator for the Consumer Discretionary Industry. 70% of GDP comes from consumer spending, and if consumer spending continues to increase then the Consumer Discretionary Industry will benefit greatly.

As of Quarter 3 2019 Real GDP has increased by 1.9% from Quarter 3 2018, but it decreased slightly from Quarter 2 2019 where GDP was 2.0%, and a 3.0% growth from Quarter 1 2019. This decrease in GDP Quarter-over-Quarter can be attributed to the ongoing trade war with China which results in margin compression from firms as well as a decrease in capital expenditures.

In the short-term we forecast a decrease in Real GDP of 0.5% to 1.4% in the next quarter due to the continuing trade uncertainty with China and a global economic slowdown. In the long run we expect GDP to decrease to 1.0% because of the effects of a global recession and



Source: U.S. Bureau of Economic Analysis[9]

decreasing corporate profits due to margin compression from the trade war and employment market.

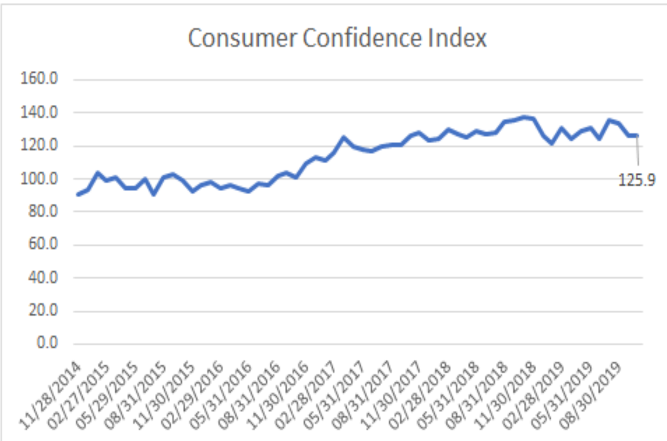
Consumer Price Index (CPI)

Inflation is the rate at which prices are rising as it relates to purchasing power, which is measured by the Consumer Price Index (CPI). When inflation increases, the price of goods and services become more expensive for the consumer. This causes the consumer to spend less on goods and services because they do not have the purchasing power to afford them. The CPI is an important indicator when analyzing the Consumer Discretionary Industry, because the industry is heavily dependent on consumer spending. The inflation rate is currently at 1.8% which is an increase of 0.1% for the period ending September 2019. We expect inflation to increase to 2.0% in the short run due to record low unemployment and record high wages which give consumers more money to spend. In the long run the CPI will decrease to 1.0% due to lower consumer spending during a recession.

Consumer Confidence Index (CCI)

The Consumer Confidence Index is an important indicator of the U.S. economy because it reflects how optimistic consumers are about the direction of the economy. This measure is important in the Consumer Discretionary Industry, because the industry is very dependent on disposable income and consumer spending. Optimistic consumers tend to spend more while pessimistic consumers will spend less, because they fear that they will be facing financial hardship soon and will then save their money instead of spending it.

The CCI dropped slightly in October to 125.9 from a 126.3 reading in September, but this is a very strong reading regardless of the drop. While this is a significant drop from the October 2018 reading of 137.6, we expect the CCI to decrease slightly to 126.4 due to consumers expecting increased wage growth and low unemployment soon. According to IBISWorld, a private research company, they project that by 2021 the CCI will decrease to 122.47 due to the recessionary environment.



Source: FactSet[4]

Unemployment Rate & Labor Force Participation Rate

The unemployment rate has steadily decreased from 6.2% to a record low 3.6% since 2014. The unemployment rate has remained low over the past six months centering around the current unemployment rate of 3.6%. During this time period the labor force participation rate has remained just under 63% and has jumped up to 63.3% as of October. This indicates that people entering the workforce are quickly finding jobs and the labor market is very strong. This is displayed in the most recent Job Opening and Labor Turnover Survey (JOLTS) that shows a ratio of 0.8 unemployed people to job openings. Strong labor markets have historically been a good indicator for the consumer discretionary industry compared to less elastic industries.

We expect that the unemployment rate will increase by 0.1% by the end of the year and to increase by 0.2% over the next year due to recessionary trends. While this may harm the Consumer Discretionary Sector, more countercyclical sectors such as the footwear and apparel sector within the sportswear industry will be impacted less.

Source: Macrotrends[10]

Foreign Currency

The U.S. Dollar per Euro ratio is important to the Consumer Discretionary sector because it is an indicator of the attractiveness of U.S. exports. A strong U.S. dollar makes it more costly for other countries to import American goods, and it will make Europeans less likely to buy discretionary items. The U.S. dollar per Euro ratio has decreased 4.3% this year, or from approximately 1.15 USD to 1.10 USD. The EU countries, together, rank first as an export market for the United States in 2018 (U.S. Trade Representative). A strong U.S. dollar will negatively impact the Consumer Discretionary sector and the economy. We expect the U.S. dollar per Euro ratio to decrease within the next year because of Germany's slumping economy, Brexit, and Europe's negative interest rates. Germany has the largest economy in the EU, and the country's real GDP has decreased in 2019 due to industrial production decreasing by 4.2% since July 2018.

China’s Economy

An important indicator for the consumer discretionary sector, specifically in the sportswear industry, is the state of China’s economy. China is a key market and growth opportunity for the sportswear industry, and Nike has made it a priority to enter the Asian markets. Nike’s Consumer Direct Offense plan targeted 12 key cities, and China has two cities (Beijing and Shanghai) in that list[5]. Due to the increasing wealth of the country, the middle class is rising rapidly. This increase in the middle class is boosting the culture of sports participation, allowing for Nike to sponsor local leagues and clubs in China. Nike sees the primary consumer base as nearly 50 million people, ten times that of the U.S. consumer base.

Industry Description

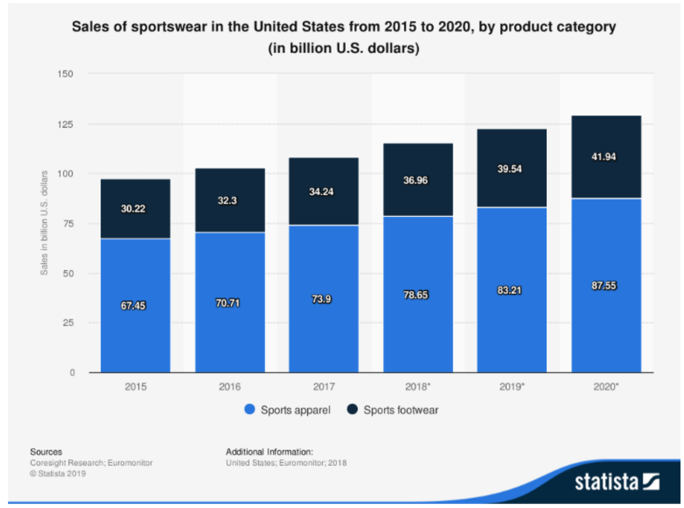
The sportswear industry is a subindustry within the consumer discretionary sector that is primarily composed of athletic apparel and footwear. Since athletic goods are discretionary items, the sportswear industry's goods are heavily influenced by consumer spending. Changes in the economic factors listed above and consumer preferences have a significant impact on the sportswear industry. Sales in the sportswear industry are forecasted to be approximately $181 billion in 2019, and they are expected to grow to $208 billion by 2025. We expect growth in the sportswear industry to remain steady due to current high consumer confidence, and an economic slowdown negatively impacting consumer spending in the next year.

The sportswear market is composed of many players with varying sizes. Nike and Adidas lead in market share with $137.40 billion and $58.61 billion, respectively. Sportswear companies acquire market share by convincing consumers to spend more on their goods, and this is done through brand loyalty development and improving the quality of products. The major players in the sportswear industry predominantly sell their products through wholesale operations. Nike's U.S. wholesale business accounts for 83.3% of the company's total revenue, and Adidas' wholesale operations accounts for 64.4% of its total revenue. With the opportunities of increasing consumer interest presented in the sportswear industry, we project Nike to continuously grow at a rate of approximately 5% over the long-term future.

Industry Trends

Growth in Health Consciousness

People are becoming more health conscious through education and media, and these outlets have played a key role in promoting health awareness and propagating fitness programs. As people participate in their fitness programs, they will purchase sports footwear and athletic apparel. Between 2008 and 2018, gym membership has grown by 37.1%, while the total number of health club-goers has increased by 34% (source). Along with active health participation growing in the U.S., athletic apparel has become more fashionable outside of sports settings. The athleisure style has become more popular, and sportswear companies are strengthening their brands by offering consumers higher product quality and style. According to the chart below, Statista projects for the worldwide sportswear market to increase by approximately 14% over the next five years. Our forecasts predict similar growth based on these factors and the sportswear growth opportunity in China.



Source: Statista[21]

Personalization

Products within the sportswear industry are very customizable, and the demand for personalized goods has increased. Nike, Adidas and Under Armour have all launched online websites that allow for consumers to tailor company products to personal preferences[9]. Consumers have always shown high demand for new basketball shoe releases for NBA players like Lebron James and Kevin Durant, but the desire to customize the new shoe is a growing trend. The surge in product personalization has led to industry leaders receiving extremely valuable customer data. Industry leaders that commit to investing in their online presence for customization will gain the most market share from this trend.

Competitive Landscape

Competitors

Source: FactSet[4]

The sportswear industry is extremely competitive due to the significant number of companies that compete internationally. The industry is controlled by the top three market cap leaders Nike, Adidas and VF Corp. However, new players in the industry have been gaining market share and can compete with leading brand premium products. Lululemon has strong sales for women's clothing and it hopes to tap into menswear to prevent the other cap giants from growing women's clothing sales. (CNBC Source).

EV/EBITDA Comparison

EV/EBITDA is a key industry metric because it shows how a company is valued compared to its free cash flows. As you can see below, Nike's EV/EBITDA is 23.71, which is above the comparable median. A higher than industry median EV/EBITDA can indicate that a company may be overvalued. However, due to Nike's substantially higher than median market cap, Nike's EV/EBITDA multiple should be higher based on their scale of business, the company's margin increases from expanding its direct-to-consumer platform through its digital solutions, and its growing consumer base in China. Nike's multiple is appropriate due to its substantially large market share, and it does not indicate that the company is overvalued. Lululemon appears to be overvalued due to having a higher multiple than Nike and having less than the comparable median in market share. We believe that Nike is in the best position in the sportswear industry to handle our forecasted economic slowdown based on its market share, its growing online platform, and its success in the Asian and Pacific markets.

Forward P/E Comparison

The comparable median for the forward P/E ratio is 35.02, and Nike's forward P/E ratio is below the median at 31.28. This multiple suggests that Nike is undervalued compared to its competitors. The industry is experiencing a higher forward P/E expectation of continued high growth over previous reporting periods. As stated above, purchasing power and employment are at an all-time high, so the sportswear industry is in a position for significant growth. Under Armour and Lululemon have forward P/E ratios significantly higher than the median, and it reflects the market's continued steep growth projections for those companies.

Net Debt/EBITDA Comparison

A low Net Debt/EBITDA ratio is important because it measures how leveraged a company is. This ratio indicates a company's ability to make its interest payments and return value to shareholders through dividends and share repurchases. Nike's Net Debt/EBITDA ratio is 0.51, which is below the comparable median. Additionally, Nike leads the industry with a strong AA- S&P credit rating. Compared to the sportswear industry, both Nike and Lululemon are best positioned to service their debt. Nike does not have as much cash on hand because of $625M in cash and short-term investments were used for share repurchases, dividends and investments in infrastructure in quarter 1 of fiscal year 2020. There were 11.9 million shares repurchased for approximately $995 million in the previous quarter. The Nike Board of Directors approved a four-year $15 billion share repurchase program in June 2018, beginning in 2019. (Nike 10-Q for Q1 2020). This program is returning value to Nike's shareholders, and the company's Net Debt/EBITDA ratio allows it to continue returning value to shareholders without risk of a material credit rating downgrade.

Net Profit Margin

Net Profit Margin is an important profitability metric because it measures how much of each dollar in revenue collected translates into profit. Nike's Net Profit Margin of 10.81% is above the comparable median of 9.37%, which indicates that Nike can earn more profits from sales compared to its competitors. We expect Nike to grow their Net Profit Margin through its expansion in digital solutions using the company's website and app. The company's focus on growing its direct-to-consumer platform will improve margins by eliminating the middlemen and selling directly to consumers.

Ticker	Mkt Cap	EV/TTM EBITDA	P/E FY1	Net Debt/EBITDA	Net Profit Margin
Median	31.41B	15.65	35.02	0.67	9.37%
NKE	145.24B	23.71	31.28	0.51	10.81%
ADDYY	59.17B	15.65	27.28	0.67	7.93%
PUMSY	11.20B	--	38.75	--	4.89%
UAA	7.59B	15.61	52.02	1.63	2.93%
VFC	34.70B	14.46	25.8	1.3	12.12%
LULU	28.13B	26.29	45.3	0.07	15.65%

Source: Bloomberg Terminal[2]

Catalysts for Growth/Change

International Expansion

The developing economies within the Asian and Pacific markets present a growth opportunity for the sportswear industry. The U.S. sportswear market is saturated with numerous brands and similar products, so sportswear companies want to build a consumer foundation in the foreign markets. This growth opportunity is possible due to the emerging middle class with rising disposable income in countries such as China and India. The athletic footwear market in China is expected to grow by 10.3% during 2019-2023 (Trefis research report). As stated earlier, having more disposable income will lead to growing involvement in local sports leagues and clubs. The U.S. sportswear companies need to get involved with smaller-scale sporting events and sponsor them in order to grow a consumer foundation. Nike has already built its consumer base, and it has led to a 27% growth in sales in China in the first quarter of the 2020 fiscal year. (CNBC or 10-Q). We expect the industry leaders who successfully establish a foreign consumer base to gain additional market share.

Direct-to-Consumer (DTC)

People today prefer ordering their sportswear products online rather than ordering at retail stores. According to the Interactive Advertising Bureau research, two-thirds of consumers today expect to be able to connect directly with brands[8]. To capitalize on this trend, major sportswear players Nike, Under Armour and Adidas have emphasized their focus on growing their direct-to-consumer platforms in previous earnings reports. DTC expansion posts margin growth opportunities, and it allows for companies to build brand loyalty through online data collection. Sportswear companies can also assert their premium products by offering limited time products that promote impulse purchases.

Trade War with China

The ongoing trade war with China posts a potential threat to the sportswear industry due to the 15% tariffs on $125 billion consumer goods, which included footwear, on September 1, 2019. The average American consumer could be affected by these tariffs because China produces the majority of imported American footwear products. China accounted for 72% of all footwear imported into the U.S. in 2017 (source), and if U.S. purchasing power decreases, consumers will spend less on discretionary items. Beyond the U.S. consumers, the devaluing of the Chinese Yuan in August 2019 is concerning for American sportswear sales in China. The Chinese Yuan dropped below 7 per U.S. dollar, and a stronger U.S. dollar hurts American exports to China. American sportswear items have become more expensive to import, and Chinese consumers will have less purchasing power for discretionary items.

Porter's Five Forces

Threat of Competition: *High and Increasing*

Nike's market share, premium products and brand image protects itself from market competition, but there are many industry segments where competitors can gain market share. Competitors can find certain areas in Nike's product line that are not as profitable or are weak points for Nike and excel in that niche. Lululemon is experiencing strong growth due to its high-quality product sales in women's wear, an area where Nike has not been as profitable as of recent. Smaller generic brands can also produce similar products with lower prices to compete with Nike. Competitors can enter the sportswear markets and strike in multiple product lines or target consumers, and this can lower Nike's market share.

Threat of New Entrants: *Moderate and Increasing*

While it is not difficult to enter the sportswear industry, it is highly unlikely that new entrants will gain the brand image and brand loyalty to compete directly with the industry giants. Closely imitated products from new entrants could pose a threat to less-established players in the industry but building a consumer base requires large amounts of time and investment. Nike is in a good position to sustain from new entrants because if there was a new trend or niche that Nike is not currently thriving in, the company could use its established brand and resources to compete with new entrants.

Threat of Substitute: *Moderate and Increasing*

The sportswear industry poses a high threat of substitutes for Nike because sportswear products are very customizable. Other companies may produce slightly better products in some sports or trends than others, so substitutes are imminent in the industry. Additionally, wholesale retailers or e-commerce companies like Amazon have added generic sportswear products into their inventory. It would not take much for a consumer to switch to a cheaper alternative with the growth in generic sportswear products. Counterfeit goods have also plagued the industry, so consumers could get almost identical products for less. Nike has cut ties with Amazon and is focusing on its direct-to-consumer initiative in hope of selling its products online without the clutter of generic or counterfeit goods. Continuing to innovate and invest in technology is the way to avoid the threat of substitutes.

Bargaining Power of Suppliers: *Low and Decreasing*

Nike has hundreds of suppliers around the world, and all suppliers located in developing countries produce at low costs. Nike and other large sportswear companies have all the leverage when negotiating with suppliers. Since Nike can easily switch from one supplier to another in the case of one factory not meeting Nike's contractual wishes, the bargaining power of suppliers is very low.

Bargaining Power of Buyers: *Moderate and Increasing*

The competition in the sportswear industry is very high, and this gives consumers many options when deciding between purchasing premium or generic products. Companies in the industry have less power over buyers when there are more substitutes available in the market. However, Nike generates its sales based on its brand image and brand loyalty, so the company can still sell their products at premium prices with little risk of lowering sales.

Key Investment Considerations

Positives

Consumer confidence and purchasing power is very high, so consumers are willing to spend extra on premium products in the sportswear industry. The trend of growing health consciousness in the U.S. also helps solidify constant growth in the industry for the next few years. Beyond the U.S., the Asian and Pacific markets present a key growth opportunity for the sportswear industry. As disposable income increases in those markets, sportswear companies can increase their sales by expanding outside of the U.S.

Negatives

The trade war with China does not appear to be ending within the next year, and this could negatively impact Nike's sales. It is also unclear whether the tariffs will significantly impact the industry due to lack of earnings data. Additionally, sales within this industry depend on consumer preferences and income. Economic shifts and market conditions can create volatile returns for shareholders.

Company Analysis

Overview

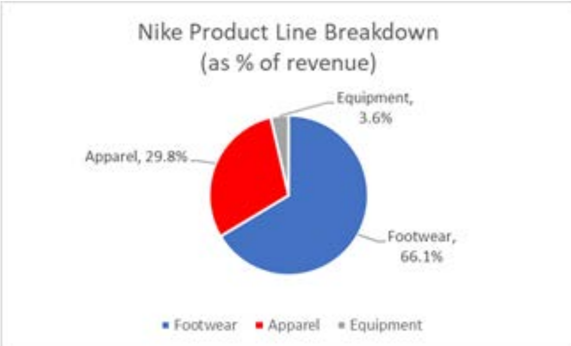
Nike, Inc. designs, develops, markets and sells athletic footwear, apparel, equipment, accessories and services worldwide. They offer a variety of products to athletes throughout the world and they hold the larger share of the market in the footwear industry. Nike is noticed as the key player within the global sportswear industry because of their delivery of products that are a "must-have" by their consumers. We believe that Nike will remain at the top of the sportswear industry because the long-lasting, strong relationships with their consumers will continue to carry their worldwide presence along with the continued efforts in developing improvements for their products.

Corporate Strategy

Over two years ago in June 2017, Nike initiated a new strategy to drive growth through the future, which it called Consumer Direct Offense. The strategy plan consisted of four main pillars: targeting key cities, increasing its innovation pipeline, varying their product catalog, and offering a wider array of its highest performing products and improving their digital efforts with the mobile phone as the primary channel.

Since then, the strategy has driven Nike in the right direction as their stock has risen over 80% and is reaching all-time highs within the current quarter (Q2 FY20). Their revenues have also increased nearly $11 billion in the first quarter, with the digital line of business standing out by growing 42%. With this new strategy, Nike is rising further above its competitors such as Under Armour for example, who saw its sales slip 3.2% last quarter in its direct consumer line of business[7]. The Consumer Direct strategy is emerging Nike into the top retailers such as Foot Locker and Champs where their products take up most of the retail space.

Products and Markets



Source: Nike FY19 10K[14]

Nike's product lines include footwear, apparel, equipment/accessories, and the Converse/Hurley brands. These product lines are Nike's primary source of revenue. The Nike brand product lines are segmented further into six categories: Runnings, NIKE Basketball, Jordan Brand, Football (soccer), Training, and Sportswear. Sportswear, Running and the Jordan Brand are currently Nike's top-selling footwear categories and they are expected to continue to lead in footwear sales. Sportswear, Training and Running are currently Nike's top-selling apparel categories and they are expected to continue to lead in apparel sales[14]. Nike often markets footwear, apparel and accessories in "collections" of similar use or by category. Nike also markets apparel with licensed college and professional team and league logos.

For fiscal 2018, NIKE Brand and Converse sales in the United States accounted for approximately 42% of total revenues, compared to 46% and 47% for fiscal 2017 and fiscal 2016, respectively. Nike sells its own NIKE Brand, Jordan Brand, Hurley and Converse products to thousands of retail accounts in the United States, including a mix of footwear stores, sporting goods stores, athletic specialty stores, department stores, skating, tennis and golf shops and other retail accounts. In the United States, Nike utilizes NIKE sales offices to solicit such sales. During fiscal 2018, Nike's three largest customers accounted for approximately 21% of sales in the United States.

Product Segment Growth	2017	2018	2019
Footwear	6.1%	5.6%	16.2%
Apparel	6.5%	11.2%	8.7%
Equipment	-4.7%	-2.0%	2.3%
Converse	4.5%	-7.6%	-94.4%

Source: Factset[4]

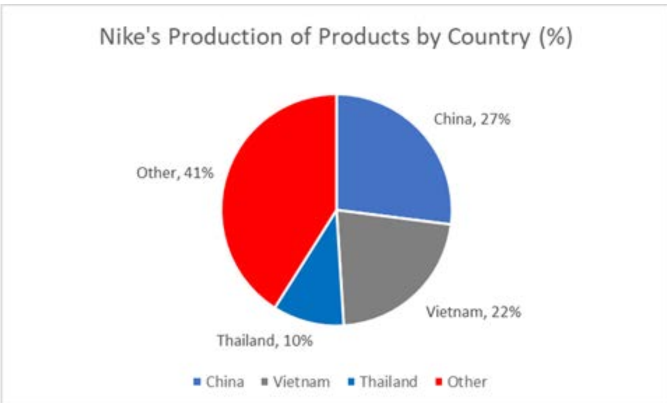
Analysis of Recent Earnings

Nike released its 2020 Q1 earnings on September 24, 2019. Total revenue and earnings reached $10.66B, which beat the consensus expectations of $10.44B. Earnings per share was $0.86, which beat expectations of $0.70. This boost in revenue and earnings was due to momentum during the Women's World Cup. Three of four Nike sponsored teams made the finals, and women's jersey sales surged 200% versus the tournament four years ago [1]. Nike's sales grew 4% in North America and surged by 27% in China. Nike has kept a strong footing in China, and the company also opened its first House of Innovation store, which sells one-of-a-kind merchandise and personalized gear, in Shanghai last year[7]. Nike's gross margins grew to 45.7% from 44.2%, as the company has been selling more items at full price. Part of its strategy, known as "Nike Direct," has been to sell more in its own stores and website versus in discount outlets (Thomas, 2019). Nike exceeding investor expectations led to the stock price increasing by 5% in the market after hours.

Production and Distribution

A significant figure of Nike's production and distribution is its manufacturing processes. Nike is supplied by 124 footwear factories located in 13 countries. The largest single footwear factory accounted for approximately 9% of total fiscal 2018 NIKE Brand footwear production. Virtually all of Nike's footwear is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories.

For fiscal 2018, contract factories in Vietnam, China and Indonesia manufactured approximately 47%, 26% and 21% of total NIKE Brand footwear, respectively. Nike also has manufacturing agreements with independent contract manufacturers in Argentina, India, Brazil, Mexico and Italy to manufacture footwear for sale primarily within those countries[14]. For fiscal 2018, five footwear contract manufacturers each accounted for greater than 10% of footwear production and in the aggregate accounted for approximately 69% of NIKE Brand footwear production.



Source: Nike FY19 10K[14]

Nike is supplied by 328 apparel factories located in 37 countries. The largest single apparel factory accounted for approximately 13% of total fiscal 2018 NIKE Brand apparel production (Nike 10-K Form). Nearly all of Nike's apparel is manufactured outside of the United States by independent contract manufacturers which often operate multiple factories. For fiscal 2018, contract factories in China, Vietnam and Thailand produced approximately 26%, 18% and 10% of total NIKE Brand apparel, respectively. For fiscal 2018, one apparel contract manufacturer accounted for more than 10% of apparel production, and the top five contract manufacturers in the aggregate accounted for approximately 47% of NIKE Brand apparel production.

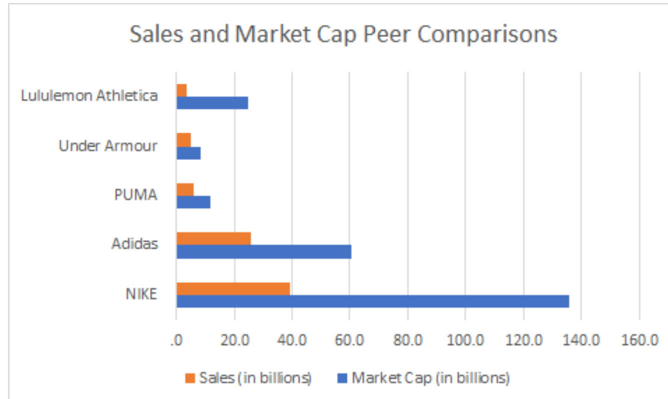
Competition

Competitive Environment

The sportswear industry is extremely competitive due to the significant number of companies that compete internationally in athletic or leisure footwear, apparel and equipment. Nike's comparable companies are Adidas (ADS), Puma (PUM), Under Armour (UAA), Lululemon Athletica (LULU), and V.F. Corporation (VFC).

Comparative Analysis of Competition

In sportswear, Nike leads its competitors in market capitalization with $137.40B. Nike's market cap is significantly larger than the comparable median of $9.93B, and the company has the largest market share of the industry.

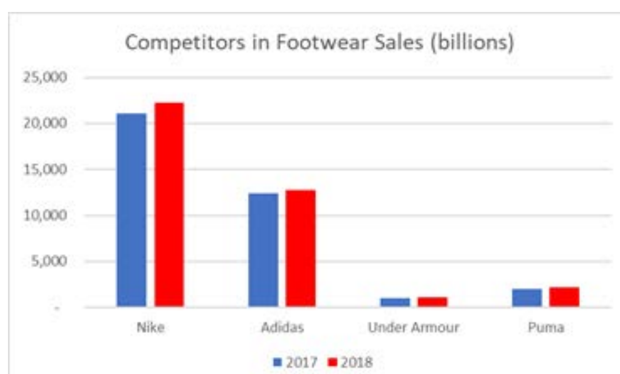


Source: FactSet Top 5 Named Competitors[4]

Nike's P/E ratio is 35.22, which is slightly greater than the comparable median of 32.36. Nike's higher P/E ratio indicates that investors are willing to pay more for a dollar of earnings because they are anticipating growth in the future. However, this could also mean that the company is overvalued.

Nike pays a 1.01% dividend which is the comparable median. This means that Nike is in the middle of the pack in cash earned from dividends compared to comparable companies.

Nike leads in sales ($39.1B) against its direct competitors, however, sales growth is only 7.47%, which is slightly lower than the comparable median of 7.58%. This is due to Nike's struggle to grow sales in the U.S. against competitors Adidas and Lululemon in athleisure (athletic leisure) footwear and clothing.



Source: Factset[4]

Nike's EBITDA Growth percentage is 5.49%, which is substantially less than the comparable median of 23.96%. Nike's EBITDA margin is 14.00%, which is also below the comparable median of 15.18%. These measures mean that Nike's direct competitors are more efficient at generating cash flow.

Nike's operating income margin is 12.51%, which is greater than the comparable median of 10.74%. This is good because it means that Nike can generate more profit on a dollar of sales compared to its direct competitors.

Nike's net income growth percentage is 2.18%, which is substantially lower than the comparable median of 19.56%. However, Nike's net profit margin is 10.30%, which is greater than the comparable median of 8.19%. Nike's net income may not be growing as much as its competitors, but Nike can generate more profits than its competitors.

Nike's return on invested capital is 27.55%, which is substantially greater than the comparable median of 16.59%. This is great because it means that Nike is effectively using its money to generate returns on its investments.

Nike's RoA is 17.42%, which is greater than the comparable median of 9.36%. This is great because it means that Nike can generate more profit from its assets than its competitors.

Nike's RoE is 47.32%, which is significantly greater than the comparable median of 17.29%. This is great because it means that Nike can generate significant returns with the money shareholders have invested.

Nike's net debt to equity ratio is 34.53%, which is significantly greater than the comparable median of -0.75%. This means that Nike encumbered with more debt than its competitors because a negative comparable median indicates that most competitors have more cash on hand to pay off debt. However, an increase in net debt to equity could indicate an investment in growth opportunities.

Total Debt to EBITDA for Nike is 0.64, which is below the comparable median of 0.74. Nike's lower Total Debt to EBITDA ratio indicates that Nike has a good debt load and can pay it off.

Nike's EBITDA to interest expense ratio is 41.81, which is the median of the comparable companies. This means that Nike is average in generating enough cash flow to pay off interest expenses in comparison to its competitors.

Other Topics:

Research and Development

Nike strives for its research, design, and development efforts to be three key factors in its success. Technical innovation in the design and manufacturing process of footwear, apparel, and athletic equipment receive continued emphasis from Nike as it strives to produce products that help strengthen athletic performance, reduce risk of injury, maximize comfort, and to reduce waste[14]. Along with Nike's specialized staff of biomechanics, chemists, exercise physiologists, engineers, industrial designers, sustainability and related fields, the company also utilizes research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists and other professionals who consult with Nike to review its global operations. Many of Nike's products are tested and evaluated by all kinds of athletes around the world.

Foreign Sales and Earnings

For fiscal 2018, all non-U.S. NIKE Brand and Converse sales accounted for approximately 58% of total revenues, compared to 54% and 53% for fiscal 2017 and fiscal 2016, respectively. Nike sells its products to retail accounts, through our own NIKE Direct operations and through a mix of independent distributors, licensees and sales representatives around the world[15]. Nike sells to thousands of retail accounts and ship products from 62 distribution centers outside of the United States. During fiscal 2018, NIKE's three largest customers outside of the United States accounted for approximately 13% of total non-U.S. sales.

Catalysts for Growth and Change

Digital Solutions

Nike has the opportunity to grow within its digital solutions sector due to the acquisition of Celect, Inc. on August 7th, which is a company that helps retailers optimize their inventory portfolios in stores and across the supply chain. The terms of the deal were not released, but Celect undoubtedly provides meaningful value as the company raised $15 million from investors to optimize its predictive analytics services. Celect, Inc. also claims to produce results of a double-digit percentage increase in their clients' revenue[18]. Many of Nike's customers shop through their digital platform, and the company is making an emphasis on having superior technology through their digital commerce platforms to avoid any risk of failure to provide those customers with their digital commerce business. Nike members spend three times the amount that guests do at Nike.com, which is a statistic that helps Nike executives believe that their digital presence is key in retaining their high share of the market. As mentioned in the company's strategy, it is essential for the company to create innovative products through their digital platforms. This acquisition of Celect, Inc. and the continued emphasis on digital solutions will serve well in a growing societal era of technology populism. Along with Celect, Nike also acquired TraceMe Inc to supplement their emphasis on digital solutions through which this company can help them focus on developing a content-driven social platform that offers access to elite celebrities. The acquisition of Intervex in April of 2018 was developed into an extension of the Nike Fit app to allow consumers to use their mobile device to fit their products properly.

Transaction	Target Industry	Date
TraceMe, Inc.	Packaged Software	October 2019
Celect, Inc.	Packaged Software	August 2019
Invertex Ltd.	Packaged Software	April 2018

Source: Factset[4]

In addition to the acquisitions of software companies, Nike also recently decided to cut ties with Amazon by no longer selling through their online retail to strengthen their direct digital relationships with consumers. This is a huge positive because Nike has the size and the brand to sell from its own site. Selling through Amazon was a new thing when they introduced, but the products were low level t-shirts, shoes, and low-priced goods. In 2017, Nike attempted to enforce Amazon to clean up the fake goods on the site. Since Amazon was not yielding desired results in the sales channel, Nike felt the need to emphasize their products through their digital platform. At this rate, we project that a large increase in Nike's revenue decomposition will come from online digital solutions.

Management Change

In late October of 2019, Nike announced that its longtime leader Mark Parker would step down as chief executive. Parker will be replaced by John Donahoe, a former eBay chief executive with a strong background in technology. Donahoe will take the reins in January of 2020 and begin the new era of management for the company. The change in leadership will co-align with Nike's efforts to build its brand in the digital world to continue strong sales records. Parker will help transition Donahoe into the CEO position to ensure a smooth change in the company's processes. In some instances, a change in leadership to someone with a background in a different industry can lead to issues and fallbacks for a company. We project that this management change will not derail the growth of sales and the company will move forward in the same direction due to its continued focus on the same company strategy.

Demand Creation

As Nike remains the leading company in sportswear retail, they will continue to build upon their established brand. Nike is increasing their efforts to create a sense of urgency for their products which ties back to digital solutions. If the consumer sees the shoes now and has an easier way to buy the shoe, it will trigger the consumers to buy their products more quickly. Nike reaches consumers through a multitude of mediums, one of those being endorsements from other teams, athletes, and companies. Nike refers to its expenses coming from endorsement contracts as "Demand creation expense." Nike's fiscal 2018 expense amount in demand creation totaled $3.577[14]. These expenditures lead to mass amounts of brand influence within the world as Nike presents itself as a company to inspire its consumers such as its signature campaign slogan "Just Do It." The brand of Nike is already the most popular compared to its competition, and the money that the company invests in demand creation from year to year will expand the brand furthermore.

S.W.O.T. Analysis

Strengths

Brand Loyalty

Nike relies heavily on brand loyalty to attract consumers. As touched on earlier, Nike has a market cap of around $144 billion compared to Adidas at $53 billion and Under Armour at $8.5 billion. By focusing on innovating a new way to connect with consumers through their digital improvements, they are maintaining the strong historical customer relationship. Over the first quarter of fiscal year 2020, they saw sales in China increase 27% while also growing in North America by 4%. With these growing figures, we project sales to continue to increase for the next three years at an average of 7%. Nike's efforts in innovation will continue to strengthen customer loyalty for years to come.

Extensive Global Reach

Nike's global presence gives the company a significant advantage over its competitors. For fiscal year 2019, non-U.S. NIKE Brand and Converse sales accounted for approximately 59% of total revenues, compared to 58% and 54% for fiscal 2018 and fiscal 2017, respectively. Nike's continuous growth in revenue and earnings in Q1 2020 is credited to Nike's presence in China despite the trade war between the U.S. and China.

Source: Nike FY19 10K[14]

Weaknesses

Lawsuits and Investigations

As mentioned before, Nike draws a great deal of attention to itself being at the top of the market. Recently, Nike's top running coach Alberto Salazar has been banned from heading the Women' Track team for coming under allegations of mistreatment of women athletes. Along with this, there are concerns about Nike's workplace culture and the treatment of women in the professional work environment. The negative light shone upon Nike in the news can severely harm their brand and draw shareholders away from the company.

Independent Contractors and Labor Controversies

Nearly all of Nike's footwear and apparel products are produced by independent contractors outside of the U.S. International contractors can operate outside of Nike's manufacturing standards, and Nike would still face criticism for uncontrolled situations. Nike requires that independent contractors follow its code of conduct and other health and safety standards for the benefit of the workers (Nike 10-K). If independent contractors continue to not follow the companies code or local laws, it can deteriorate the brand's image. Additionally, Nike has been publicized for poor working conditions with international independent contractors. Associating the brand with poor working conditions will also deteriorate the brand image and sales. Overall, Nike has more reputational risk than their competitors because they are at the top of market, which draws more attention to their labor issues.

Opportunities

Technology

With the growth of new technology advancements from the world, Nike has an opportunity to become more appealing to their consumers with products that are more inclined towards technology. As Nike continues to seize new innovative opportunities, they are inventing unique products in sportswear to improve the use for their consumers and the digital landscape to ensure more efficient ordering processes. For example, Nike has introduced basketball adaptive shoes with an embedded technology named "FitAdapt tech" to improve the fit of a shoe as an athlete's foot is studied to expand during play by almost half times the size (Nike Q3, 2019). Innovations like this one are what continues to set Nike apart. Regarding the digital landscape, they are aiming to take advantage of the most direct connection between consumers and products which is the mobile device. Working towards an improved process of demand-sensing technology is what Nike believes to enhance their relationships with consumers even more.

Expansion in Apparel/Clothing

Nike has room for opportunities in apparel as many factors including a global movement towards health, newly offered fresh options, and a shift in the interest of Women's apparel business. The world is leaning towards improving health, which plays side-by-side with apparel as many consumers within the retail industry having growing preferences of Nike for their clothing to wear (Nike Q3, 2019). As Nike works towards advancements in new technology, it also will lead down the path where they can offer new product lines centered around the developments in technology. Across all geographies, the trends for women's clothing such as yoga wear, tights, and sneakers are growing which is enlarging the market for sales growth in their line of women's products.

Threats

Trade War with China

Nike is heavily involved with other countries, specifically China, from manufacturing, revenue growth, and their major operating segments. The tariffs that were placed on consumer goods on September 1, 2019 greatly affect the sportswear industry. 70% of shoes sold in the U.S. come from China, therefore, the consumers will be negatively impacted by the tariffs (Thomas, 2019). Nike in FY18 produced 26% of its goods in China. Additionally, China weakened the Yuan (7.1 USD per Yuan) to try to counter the U.S. imposed tariffs. A weaker Yuan will make it difficult for consumers to afford Nike goods in China. We think that consumer confidence will decrease within the next year, and this will negatively impact the sportswear industry.

Imitation

As the leader in the sportswear industry, Nike is threatened by substitute products from its competitors. The industry is saturated with companies trying to gain market share from each other, and these companies achieve this by producing discount substitutes of Nike's goods. Nike's position against market substitutes is that Nike is a premium brand, and that consumers are willing to pay more for Nike's higher quality products. In order to compete against sportswear substitutes, Nike must be innovative and develop its products based on consumer trends.

Valuation Analysis

Revenue Decomposition

Nike's revenues are decomposed based on their main product lines. We projected that footwear and apparel will have the greatest increase in growth by 9% and 8%, respectively, in fiscal year 2020 due to Nike's investment in its direct-to-consumer initiative and the company's growing consumer base in China. Nike was losing market share to Adidas from 2016-2018 in footwear, but Nike had a resurgence through its success with the Nike app and its website. The growing middle class in China has allowed for Nike to offer its premium products with personalization options, and it led to a 27% boost in sales in China in quarter 1 of fiscal year 2020. We predict sales to decrease beginning in 2021 due to an economic slowdown, but the current momentum with online and Chinese sales leading into the Tokyo Olympics in 2020 will prevent sales from dropping significantly. We forecast Nike's sales in the following years to continue to decrease in sales due to market saturation, and that footwear and apparel sales will decrease to steady rates of 5% and 4%, respectively.

Cost of Sales

Nike's cost of sales is composed of inventory costs, warehousing costs, third-party royalties, and shipping costs. Cost of sales has historically averaged 55% of total sales, and fiscal year 2019's cost of sales dropped down to 55% after decreasing by 83 basis points from the previous fiscal year. This decrease in cost of sales can be attributed to Nike's expansion of its digital solutions and growing direct-to-consumer sales. We expect Nike's cost of sales to stay at 55% until fiscal year 2027. We forecasted Nike's cost of sales as a percentage of total sales because of the company's cost of sales being composed primarily of inventory costs, and the uncertainty of the impact of tariffs on consumer goods from the trade war with China. We believe tying cost of sales to revenue provides a more accurate forecast during this time of uncertainty with China.

Selling and Administrative Expense

Historically, overall selling and administrative expense has remained between 33% and 30% of sales for the last three fiscal years. Selling and administrative expense is composed of demand creation expense and operating overhead expense. Demand creation expense consists of advertising, promotion and endorsement deals. We projected demand creation expense to grow at a constant rate of 8.59% of sales because Nike gains lots of exposure from its athlete endorsements and advertising. Operating overhead expense consists of the remaining general and administrative expenses. We projected for this expense to grow at a constant rate of 17.29% of sales, and this is based off a historical average. We predict that Nike will work to improve its margins through its implementation of its direct-to-consumer platforms.

Capital Expenditures

We calculated growth in property, plant and equipment (PP&E) by multiplying the previous fiscal year's PP&E by our constant growth rate of 7% and subtracting it by a historical average depreciation percentage of sales. We used this assumption because we thought our chosen growth rate and historical depreciate rate would account for the fluctuations of PP&E purchases over the last 10 fiscal years. Nike spent nearly $1.12 billion on capital expenditures in fiscal year 2019. Since production for most of their inventory is outsourced, they do not require heavy investment into new machinery or equipment for production. Almost all their manufacturing costs are outsourced as well, making their fixed replacement costs lower than the industry average.

Weighted Average Cost of Capital (WACC)

We calculated Nike's Weighted Average Cost of Capital of 6.20% to discount the unlevered free cash flows in the Discounted Cash Flow and Economic Profit models. This was determined by multiplying Nike's cost of debt and cost of equity by their respective weights to result in a low WACC.

Cost of Equity

To calculate Nike's cost of equity, we used the Capital Asset Pricing Model (CAPM). We used the current yield on the U.S. 10-year treasury note of 1.84% and we pulled the 5-year weekly raw beta of 0.893 from Bloomberg. We used Damodaran's risk premium of 5.09%, and this is the excess of the average geometric returns of the stock market over the risk-free rate. These inputs created a cost of equity of 6.39%.

Cost of Debt

Nike's debt is classified as investment grade AA- rating from S&P. We used FactSet's 2.46% pre-tax cost of debt because there are not any relevant bonds maturing in our forecasted horizon. We used Nike's marginal tax rate of 15% to calculate the company's 2.09% cost of debt.

Valuation Models

Our discounted cash flows and economic profit models resulted in an intrinsic value of $105.11. We calculated free cash flow into an eight-year term because of Nike's continuous growth of market share in the industry. We forecasted a continuing value period in 2027 to reflect cash flows into perpetuity. We used a 4.00% continuing value growth rate because we believe it projected Nike's growth in the future most accurately. We then discounted the continuing value and the free cash flows by the WACC to bring the continuing value and the free cash flows to present value. After dividing the value of equity by shares outstanding, we had to make a partial year adjustment to reflect the current date. We believe the DCF model is the most accurate because we used our assumptions from our in-depth analysis of Nike's operating segments.

The dividend discount model (DDM) resulted in an intrinsic value of $133.54, but we believe this model does not accurately project Nike's stock price. The P/E multiple for the CV year is higher relative to its comparable companies. The P/E multiple is higher than average due to be driven by CV ROE, which is a ratio that is driven by stock repurchases that are not certain in our forecast horizon. Additionally, the P/E multiple is being driven by CV growth, which is also higher relative to its competitors. Using assumptions from the income statement and the shareholders equity section of the balance sheet makes the DDM significantly less accurate than the DCF.

Sensitivity Analysis

Beta against Market Risk Premium

The assumption we chose for the risk premium is highly correlated to the stock price. We believe that the equity market risk premium is 5.09%, which is the geometric average risk premium from 1928 to 2018. As the risk premium continues to decrease, stock price becomes higher due to a lower cost of capital. We believe testing the risk premium against our beta is interesting because Nike's beta is relatively low compared to its competitors.

		Beta						
	$105.11	0.890	0.891	0.892	0.893	0.894	0.895	0.896
	4.59%	132.08	131.74	131.41	131.08	130.75	130.42	130.09
	4.79%	120.19	119.89	119.60	119.32	119.03	118.74	118.46
	4.89%	114.99	114.72	114.45	114.18	113.91	113.64	113.38
Market Risk Premium	5.09%	105.83	105.59	105.35	105.11	104.87	104.63	104.40
	5.29%	97.99	97.77	97.56	97.34	97.13	96.92	96.71
	5.49%	91.21	91.01	90.82	90.63	90.43	90.24	90.05
	5.69%	85.28	85.11	84.93	84.76	84.58	84.41	84.23

CV Growth Rate against Risk Free Rate

The CV growth rate against the risk-free rate demonstrates the effects of a changing interest rate environment. The Federal Reserve has announced another likely interest rate increase in December 2019 to remain responsive to the current inflation environment. The risk-free rate is in increments of 25 basis points to show how the stock price would react to changing costs of borrowing. The continuing value growth rate reflects the growth rate of the company into perpetuity. We project that the continuing value of the company will be approximately 4.00% because that is the rate at which we expect for continuous economic growth.

		CV Growth Rate						
	$105.11	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%
	1.69%	101.08	104.59	108.43	112.64	117.29	122.43	128.17
	1.74%	99.01	102.36	106.01	110.02	114.42	119.29	124.70
	1.79%	97.01	100.21	103.70	107.51	111.69	116.30	121.41
Risk Free Rate	1.84%	95.09	98.15	101.48	105.11	109.08	113.45	118.29
	1.89%	93.25	96.17	99.35	102.81	106.59	110.74	115.32
	1.94%	91.47	94.27	97.31	100.60	104.21	108.15	112.49
	1.99%	89.76	92.44	95.34	98.49	101.92	105.68	109.80

CV ROIC against Pre-Tax Cost of Debt

We also compared how continuing value (CV) return on invested capital (ROIC) and the pre-tax cost of debt can affect the price by testing these variables. Pre-tax cost of debt is a key factor of Nike's WACC and the CV ROIC is crucial to the growth of the firm's valuation. We adjusted CV ROIC by 0.50% and the pre-tax cost of det by 0.25% to test the fluctuation of different price scenarios shown in the table.

		CV ROIC						
	$105.11	21.75%	22.25%	22.75%	23.25%	23.75%	24.25%	24.75%
	1.46%	105.15	105.62	106.08	106.52	106.94	107.34	107.72
	1.96%	104.44	104.91	105.37	105.80	106.21	106.61	106.99
	2.21%	104.10	104.57	105.02	105.45	105.86	106.26	106.64
Pre-Tax Cost of Debt	2.46%	103.76	104.23	104.67	105.11	105.51	105.91	106.29
	2.71%	103.42	103.89	104.34	104.77	105.17	105.57	105.94
	2.96%	103.09	103.56	104.00	104.43	104.84	105.23	105.60
	3.21%	102.77	103.23	103.68	104.10	104.51	104.90	105.27

Marginal Tax Rate against Accounts Payable

As apart of our valuation models, marginal tax rate and accounts payable were two variables that flowed through the model. Accounts payable was measured as a percentage of sales. We implemented a 0.50% change for marginal tax rate and accounts payable to measure equal changes in the rates. The price fluctuated slightly and the results are shown in the table displayed.

		Marginal Tax Rate						
	$105.11	13.50%	14.00%	14.50%	15.00%	15.50%	16.00%	16.50%
	5.03%	103.82	103.84	103.86	103.88	103.90	103.92	103.94
	5.53%	104.23	104.25	104.27	104.29	104.31	104.33	104.35
	6.03%	104.64	104.66	104.68	104.70	104.72	104.74	104.76
Accounts Payable	6.53%	105.05	105.07	105.09	105.11	105.13	105.15	105.17
	7.03%	105.46	105.48	105.50	105.52	105.54	105.56	105.58
	7.53%	105.87	105.89	105.91	105.93	105.95	105.97	105.99
	8.03%	106.28	106.30	106.32	106.34	106.36	106.38	106.40

Revenue Growth of Footwear against the WACC

Revenue growth of footwear against the WACC captures the effect of two independent variables on Nike's share price. Revenue is an operational measure of product sales for footwear which is the highest selling line of business, achieving growth from higher selling prices and unit sales. The weighted average cost of capital (WACC) is a measure of a company's capital structure, demonstrating uses of debt and equity to raise capital. Revenue growth and the WACC demonstrate how Nike's share price changes based on operational and capital structure differences.

		Revenue Growth of Footwear						
	$105.11	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
	5.90%	121.62	121.74	121.86	121.99	122.11	122.23	122.36
	6.00%	115.36	115.47	115.59	115.71	115.82	115.94	116.06
	6.10%	109.70	109.81	109.92	110.03	110.14	110.25	110.36
WACC	6.20%	104.80	104.90	105.01	105.11	105.22	105.32	105.43
	6.30%	99.85	99.95	100.05	100.15	100.25	100.35	100.45
	6.40%	95.55	95.64	95.74	95.83	95.93	96.02	96.11
	6.50%	91.59	91.68	91.77	91.86	91.95	92.04	92.13

Important Disclaimer

This report was created by students enrolled in the Security Analysis (Applied Equity Valuation FIN:4250) class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Nike, Inc.
Revenue Decomposition
(in Millions)

Fiscal Years Ending May. 31	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
Sales											
Total	**34,275**	**36,371**	**39,124**	**42,493**	**45,699**	**48,695**	**51,421**	**54,302**	**57,347**	**60,565**	**63,381**
Footwear	21,081	22,268	25,880	28,209	30,466	32,599	34,554	36,628	38,825	41,155	43,213
Apparel	9,654	10,733	11,668	12,601	13,484	14,293	15,007	15,758	16,545	17,373	18,068
Equipment	1,425	1,396	1,428	1,528	1,589	1,637	1,686	1,736	1,789	1,842	1,897
Converse	2,042	1,886	106	110	115	119	124	129	134	139	145
Global Brand Divisions	73	88	42	44	46	48	50	52	54	56	58
Percent of Total (%)											
Total	**100.00%**	**100.00%**	**100.00%**	**100%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Footwear	61.51%	61.22%	66.15%	66.39%	66.67%	66.94%	67.20%	67.45%	67.70%	67.95%	68.18%
Apparel	28.17%	29.51%	29.82%	29.66%	29.51%	29.35%	29.18%	29.02%	28.85%	28.68%	28.51%
Equipment	4.16%	3.84%	3.65%	3.60%	3.48%	3.36%	3.28%	3.20%	3.12%	3.04%	2.99%
Converse	5.96%	5.19%	0.27%	0.26%	0.25%	0.24%	0.24%	0.24%	0.23%	0.23%	0.23%
Global Brand Divisions	0.21%	0.24%	0.11%	0.10%	0.10%	0.10%	0.10%	0.10%	0.09%	0.09%	0.09%
Growth (%)											
Total	**5.58%**	**6.12%**	**7.57%**	**7.93%**	**7.02%**	**6.15%**	**5.30%**	**5.31%**	**5.31%**	**5.31%**	**4.44%**
Footwear	**6.09%**	**5.63%**	**16.22%**	9%	8%	7%	6%	6%	6%	6%	5%
Apparel	**6.47%**	**11.18%**	**8.71%**	8%	7%	6%	5%	5%	5%	5%	4%
Equipment	**-4.75%**	**-2.04%**	**2.29%**	7%	4%	3%	3%	3%	3%	3%	3%
Converse	**4.45%**	**-7.64%**	**-94.38%**	4%	4%	4%	4%	4%	4%	4%	4%
Global Brand Divisions	**0.00%**	**20.55%**	**-52.27%**	5%	4%	4%	4%	4%	4%	4%	4%

Nike, Inc.
Income Statement
(in Millions)

Fiscal Years Ending May. 31	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
Revenues	**34,350**	**36,397**	**39,117**	**42,493**	**45,699**	**48,695**	**51,421**	**54,302**	**57,347**	**60,565**	**63,381**
Cost of sales	(19,038)	(20,441)	(21,643)	(23,418)	(25,185)	(26,836)	(28,338)	(29,926)	(31,604)	(33,378)	(34,929)
Gross profit	15,312	15,956	17,474	19,075	20,515	21,798	22,981	24,332	25,760	27,214	28,419
Expenses:											
Demand creation expense	(3,341)	(3,577)	(3,753)	(3,650)	(3,926)	(4,183)	(4,417)	(4,665)	(4,926)	(5,203)	(5,444)
Operating overhead expense	(7,222)	(7,934)	(8,949)	(7,347)	(7,901)	(8,418)	(8,890)	(9,388)	(9,914)	(10,471)	(10,957)
Depreciation Expense	706	747	705	(899)	(955)	(1,017)	(1,084)	(1,156)	(1,235)	(1,319)	(1,409)
Amortization Expense	10	27	15	(15)	(14)	(13)	(13)	(12)	(11)	(11)	(10)
Total selling and administrative expense	**(10,563)**	**(11,511)**	**(12,702)**	(13,521)	(14,530)	(15,417)	(16,261)	(17,213)	(18,228)	(19,265)	(20,131)
Other Income (Expense)											
Interest expense / income, net	(59)	(54)	(49)	(28)	(30)	(32)	(34)	(35)	(37)	(40)	(41)
Other income / expense, net	196	(66)	78	60	65	69	73	77	81	86	90
Income before income taxes	**4,886**	**4,325**	**4,801**	**5,587**	**6,019**	**6,418**	**6,759**	**7,161**	**7,576**	**7,995**	**8,337**
Income tax expense	(646)	(2,392)	(772)	(600)	(645)	(686)	(723)	(766)	(810)	(856)	(894)
Net income from continuing operations	4,240	1,933	4,029	4,987	5,374	5,732	6,036	6,395	6,765	7,139	7,443
Net income (loss) from Discontinued Operations	-	-	-	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Net income	**4,240**	**1,933**	**4,029**	**4,987**	**5,374**	**5,732**	**6,036**	**6,395**	**6,765**	**7,139**	**7,443**
Basic EPS	**$ 2.56**	**$ 1.19**	**$ 2.55**	$ 3.16	$ 3.49	$ 3.77	$ 4.00	$ 4.27	$ 4.54	$ 4.82	$ 5.04
Weight Average Shares Outstanding	1,658	1,624	1,580	1,539	1,522	1,509	1,498	1,489	1,482	1,477	1,473
Dividends Declared Per Common Share	$ 0.70	$ 0.78	$ 0.86	$ 1.13	$ 1.25	$ 1.34	$ 1.43	$ 1.52	$ 1.62	$ 1.72	$ 1.80

Nike, Inc.

Balance Sheet

(in Millions)

Fiscal Years Ending May. 31	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
Total assets	**23,259**	**22,536**	**23,717**	**23,197**	**24,662**	**26,311**	**28,598**	**30,156**	**33,491**	**35,109**	**37,833**
Total current assets	**16,061**	**15,134**	**16,525**	**15,560**	**16,483**	**17,485**	**19,014**	**19,694**	**22,024**	**22,499**	**23,933**
Cash and equivalents	3,808	4,249	4,466	2,893	2,862	2,970	3,683	3,500	4,918	4,430	5,016
Short-term investments	2,371	996	197	211	226	241	258	276	296	316	338
Accounts receivable, net	3,677	3,498	4,272	4,560	4,904	5,225	5,518	5,827	6,154	6,499	6,801
Inventories	5,055	5,261	5,622	6,160	6,625	7,059	7,455	7,872	8,314	8,780	9,188
Deferred income taxes											
Prepaid expenses and other current assets	1,150	1,130	1,968	1,736	1,867	1,989	2,101	2,218	2,343	2,474	2,589
Property, plant and equipment, net	**3,989**	**4,454**	**4,744**	**5,043**	**5,425**	**5,898**	**6,466**	**7,137**	**7,918**	**8,816**	**9,840**
Identifiable intangible assets, net	283	285	283	268	254	241	228	216	205	194	184
Goodwill	139	154	154	154	154	154	154	154	154	154	154
Deferred income taxes and other assets	2,787	2,509	2,011	2,172	2,346	2,533	2,736	2,955	3,191	3,447	3,722
Total liabilities and shareholders' equity	**23,259**	**22,536**	**23,717**	**23,197**	**24,662**	**26,311**	**28,598**	**30,156**	**33,491**	**35,109**	**37,833**
Total liabilities	**10,852**	**12,724**	**14,677**	**13,619**	**14,323**	**14,982**	**16,087**	**16,233**	**17,921**	**17,654**	**18,299**
Total current liabilities	**5,474**	**6,040**	**7,866**	**7,514**	**8,077**	**8,603**	**9,585**	**9,594**	**11,132**	**10,701**	**11,198**
Current portion of long-term debt	6	6	6	6	3	-	500	-	1,000	-	-
Notes payable	325	336	9	163	176	187	198	209	221	233	244
Accounts payable	2,048	2,279	2,612	2,773	2,983	3,178	3,356	3,544	3,743	3,953	4,137
Current portion of operating lease liabilities	-	-	-	-	-	-	-	-	-	-	-
Accrued liabilities	3,011	3,269	5,010	4,491	4,830	5,147	5,435	5,739	6,061	6,401	6,699
Income taxes payable	84	150	229	80	86	91	96	102	108	114	119
Liabilities of discontinued operations	-	-	-	-	-	-	-	-	-	-	-
Long-term debt	3,471	3,468	3,464	2,825	3,031	3,229	3,415	3,613	3,824	4,047	4,253
Deferred income taxes and other liabilities	1,907	3,216	3,347	3,280	3,214	3,150	3,087	3,025	2,965	2,906	2,848
Redeemable preferred stock	-	-	-	-	-	-	-	-	-	-	-
Shareholders' equity	**12,407**	**9,812**	**9,040**	**9,578**	**10,339**	**11,329**	**12,511**	**13,923**	**15,570**	**17,456**	**19,534**
Common Stock	8,638	6,384	7,166	7,949	8,732	9,515	10,297	11,080	11,863	12,646	13,429
Accumulated other comprehensive income / loss	(213)	(92)	231	231	231	231	231	231	231	231	231
Retained earnings	3,979	3,517	1,643	1,398	1,376	1,583	1,983	2,612	3,476	4,579	5,874

Nike, Inc.
Cash Flow Statement
(in Millions)

Fiscal Years Ending May. 31	2,017	2,018	2,019
Cash provided by operations	**3,640**	**4,955**	**5,903**
Net income	4,240	1,933	4,029
Adjustments to reconcile net income to net cash provided by operations	**(600)**	**3,022**	**1,874**
Depreciation	706	747	705
Deferred income taxes	(273)	647	34
Stock-based compensation	215	218	325
Impairment of goodwill, intangibles and other assets	-	-	-
Amortization and other	10	27	15
Net foreign currency adjustments	(117)	(99)	233
Net gain / loss on divestitures	-	-	-
Income tax benefit from exercise of stock options	-	-	-
Changes in certain working capital components and other assets and liabilities	**(1,141)**	**1,482**	**562**
Increase / decrease in accounts receivable	(426)	187	(270)
Increase / decrease in inventories	(231)	(255)	(490)
Increase / decrease in prepaid expenses and other current assets	(120)	35	(203)
Increase / decrease in accounts payable, accrued liabilities and income taxes payable	(364)	1,515	1,525
Cash used / provided by investing activities	**(1,008)**	**276**	**(264)**
Purchases of short-term investments	(5,928)	(4,783)	(2,937)
Maturities and sales of short-term investments	6,046	6,109	3,787
Maturities of short-term investments	3,623	3,613	1,715
Sales of short-term investments	2,423	2,496	2,072
Investments in reverse repurchase agreements	0	0	-
Additions to property, plant and equipment	(1,105)	(1,028)	(1,119)
Disposals of property, plant and equipment	13	3	5
Proceeds from divestitures	-	-	-
Increase / decrease in other assets, net of other liabilities	(34)	(25)	0
Settlement of net investment hedges	-	-	-
Acquisition of subsidiary, net of cash acquired	-	-	-
Cash used by financing activities	**(1,942)**	**(4,835)**	**(5,293)**
Net proceeds from long-term debt issuance	1,482	0	0
Long-term debt payments, including current portion	(44)	(6)	(6)
Decrease / increase in notes payable	327	13	(325)
Payments on capital lease obligations	(17)	(23)	(27)
Proceeds from exercise of stock options and other stock issuances	489	733	700
Excess tax benefits from share-based payment arrangements	177	-	-
Repurchase of common stock	(3,223)	(4,254)	(4,286)
Dividends — common and preferred	(1,133)	(1,243)	(1,332)
Tax payments for net share settlement of equity awards	-	(55)	(17)
Effect of exchange rate changes on cash and equivalents	(20)	45	(129)
Net decrease / increase in cash and equivalents	670	441	217
Cash and equivalents, beginning of period	3,138	3,808	4,249
Cash and equivalents, end of period	**3,808**	**4,249**	**4,466**

Nike, Inc.

Cash Flow Statement

(in Millions)

Fiscal Years Ending May. 31	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
Cash provided by operations	**4,572**	**5,718**	**6,150**	**6,539**	**6,937**	**7,348**	**7,767**	**8,189**
Net income	4,987	5,374	5,732	6,036	6,395	6,765	7,139	7,443
Adjustments to reconcile net income to net cash provided by operations	**686**	**730**	**778**	**831**	**888**	**949**	**1,015**	**1,086**
Depreciation	899	955	1,017	1,084	1,156	1,235	1,319	1,409
Deferred income taxes	(228)	(239)	(252)	(266)	(281)	(297)	(315)	(334)
Amortization of non-goodwill intangibles	15	14	13	13	12	11	11	10
Changes in certain working capital components and other assets and liabilities	**(1,101)**	**(386)**	**(361)**	**(328)**	**(346)**	**(366)**	**(387)**	**(339)**
Change in accounts receivable	(288)	(344)	(321)	(293)	(309)	(327)	(345)	(302)
Change in inventories	(538)	(465)	(434)	(395)	(418)	(441)	(467)	(408)
Change in prepaid expenses and other current assets	232	(131)	(122)	(111)	(118)	(124)	(131)	(115)
Change in accounts payable, accrued liabilities and income taxes payable	(507)	554	518	471	498	527	556	486
Cash used / provided by investing activities	**(1,211)**	**(1,352)**	**(1,505)**	**(1,669)**	**(1,845)**	**(2,035)**	**(2,238)**	**(2,456)**
Purchases of short-term investments	(14)	(15)	(16)	(17)	(18)	(19)	(21)	(22)
Purchase of intangible assets	-	-	-	-	-	-	-	-
Purchase of property, plant and equipment	(1,197)	(1,338)	(1,489)	(1,652)	(1,827)	(2,015)	(2,217)	(2,434)
Cash used by financing activities	**(4,933)**	**(4,397)**	**(4,536)**	**(4,156)**	**(5,274)**	**(3,896)**	**(6,017)**	**(5,147)**
Change in short-term debt	154	9	9	511	(489)	1,012	(988)	11
Change in long-term debt	(639)	206	198	186	198	210	224	206
Purchases of treasury stock	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)	(3,500)
Issuance of common stock	783	783	783	783	783	783	783	783
Dividends paid	(1,731)	(1,896)	(2,025)	(2,136)	(2,266)	(2,401)	(2,536)	(2,647)
Change in accumulated other comprehensive income	0	0	0	0	0	0	0	0
Net decrease / increase in cash and equivalents	(1,573)	(32)	109	713	(183)	1,418	(488)	586
Cash and equivalents, beginning of period	4,466	2,893	2,862	2,970	3,683	3,500	4,918	4,430
Cash and equivalents, end of period	**2,893**	**2,862**	**2,970**	**3,683**	**3,500**	**4,918**	**4,430**	**5,016**

Nike, Inc.

Common Size Income Statement (%)

(in Millions)

Fiscal Years Ending May. 31	2009	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
Revenues	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Cost of sales	-55.13%	-55.42%	-56.16%	-55.33%	**-55.11%**	**-55.11%**	**-55.11%**	**-55.11%**	**-55.11%**	**-55.11%**	**-55.11%**	**-55.11%**
Gross profit	44.87%	44.58%	43.84%	44.67%	**44.89%**	**44.89%**	**44.76%**	**44.69%**	**44.81%**	**44.92%**	**44.93%**	**44.84%**
Expenses:												
Demand creation expense	0.00%	-9.73%	-9.83%	-9.59%	**-8.59%**	**-8.59%**	**-8.59%**	**-8.59%**	**-8.59%**	**-8.59%**	**-8.59%**	**-8.59%**
Operating overhead expense	0.00%	-21.02%	-21.80%	-22.88%	**-17.29%**	**-17.29%**	**-17.29%**	**-17.29%**	**-17.29%**	**-17.29%**	**-17.29%**	**-17.29%**
Depreciation Expense	1.75%	2.06%	2.05%	1.80%	-2.11%	-2.09%	-2.09%	-2.11%	-2.13%	-2.15%	-2.18%	-2.22%
Amortization Expense	0.25%	0.03%	0.07%	0.04%	-0.04%	-0.03%	-0.03%	-0.02%	-0.02%	-0.02%	-0.02%	-0.02%
Total selling and administrative expense	**-32.07%**	**-30.75%**	**-31.63%**	**-32.47%**	**-31.82%**	**-31.80%**	**-31.66%**	**-31.62%**	**-31.70%**	**-31.79%**	**-31.81%**	**-31.76%**
Other Income (Expense)												
Interest expense / income, net	0.05%	-0.17%	-0.15%	-0.13%	**-0.07%**	**-0.07%**	**-0.07%**	**-0.07%**	**-0.07%**	**-0.07%**	**-0.07%**	**-0.07%**
Other income / expense, net	0.46%	0.57%	-0.18%	0.20%	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%
Income before income taxes	**10.20%**	**14.22%**	**11.88%**	**12.27%**	**12.86%**	**12.86%**	**12.86%**	**12.86%**	**12.86%**	**12.86%**	**12.86%**	**12.86%**
Income tax expense	-2.45%	-1.88%	-6.57%	-1.97%	**-3.15%**	**-3.15%**	**-3.15%**	**-3.15%**	**-3.15%**	**-3.15%**	**-3.15%**	**-3.15%**
Net income from continuing operations	7.75%	12.34%	5.31%	10.30%	**9.72%**	**9.72%**	**9.72%**	**9.72%**	**9.72%**	**9.72%**	**9.72%**	**9.72%**
Net income (loss) from Discontinued Operatio	0.00%	0.00%	0.00%	0.00%	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**
Net income	**7.75%**	**12.34%**	**5.31%**	**10.30%**	9.73%	9.73%	9.73%	9.73%	9.73%	9.73%	9.73%	**9.73%**

Nike, Inc.

Common Size Balance Sheet (%)

(in Millions)

Fiscal Years Ending May. 31	2009	2010	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
Total assets	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Total current assets	**73.47%**	**76.00%**	**69.05%**	**67.15%**	**69.68%**	**67.08%**	**66.84%**	**66.46%**	**66.49%**	**65.31%**	**65.76%**	**64.08%**	**63.26%**
Cash and equivalents	17.29%	21.35%	16.37%	18.85%	18.83%	12.47%	11.60%	11.29%	12.88%	11.61%	14.69%	12.62%	13.26%
Short-term investments	8.79%	14.33%	10.19%	4.42%	0.83%	0.91%	0.91%	0.92%	0.90%	0.92%	0.88%	0.90%	0.89%
Accounts receivable, net	21.77%	18.38%	15.81%	15.52%	18.01%	19.66%	19.88%	19.86%	19.29%	19.32%	18.37%	18.51%	17.98%
Inventories	17.79%	14.15%	21.73%	23.34%	23.70%	26.56%	26.86%	26.83%	26.07%	26.11%	24.82%	25.01%	24.29%
Deferred income taxes	2.06%	1.73%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Prepaid expenses and other current assets	5.78%	6.06%	4.94%	5.01%	8.30%	7.48%	7.57%	7.56%	7.35%	7.36%	6.99%	7.05%	6.84%
Property, plant and equipment, net	**14.78%**	**13.40%**	**17.15%**	**19.76%**	**20.00%**	**21.74%**	**22.00%**	**22.42%**	**22.61%**	**23.67%**	**23.64%**	**25.11%**	**26.01%**
Identifiable intangible assets, net	3.53%	3.24%	1.22%	1.26%	1.19%	1.16%	1.03%	0.91%	0.80%	0.72%	0.61%	0.55%	0.49%
Goodwill	1.46%	1.30%	0.60%	0.68%	0.65%	0.66%	0.62%	0.59%	0.54%	0.51%	0.46%	0.44%	0.41%
Deferred income taxes and other assets	6.77%	6.06%	11.98%	11.13%	8.48%	9.36%	9.51%	9.63%	9.57%	9.80%	9.53%	9.82%	9.84%
Total liabilities and shareholders' equity	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**
Total current liabilities	**24.73%**	**23.33%**	**23.53%**	**26.80%**	**33.17%**	**32.39%**	**32.75%**	**32.70%**	**33.51%**	**31.82%**	**33.24%**	**30.48%**	**29.60%**
Current portion of long-term debt	0.24%	0.05%	0.03%	0.03%	0.03%	**0.03%**	**0.01%**	**0.00%**	**1.75%**	**0.00%**	**2.99%**	**0.00%**	**0.00%**
Notes payable	2.59%	0.96%	1.40%	1.49%	0.04%	**0.70%**	**0.71%**	**0.71%**	**0.69%**	**0.69%**	**0.66%**	**0.66%**	**0.65%**
Accounts payable	7.79%	8.70%	8.81%	10.11%	11.01%	**11.96%**	**12.09%**	**12.08%**	**11.73%**	**11.75%**	**11.18%**	**11.26%**	**10.93%**
Current portion of operating lease liabilities	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Accrued liabilities	13.46%	13.21%	12.95%	14.51%	21.12%	**19.36%**	**19.59%**	**19.56%**	**19.00%**	**19.03%**	**18.10%**	**18.23%**	**17.71%**
Income taxes payable	0.65%	0.41%	0.36%	0.67%	0.97%	**0.34%**	**0.35%**	**0.35%**	**0.34%**	**0.34%**	**0.32%**	**0.32%**	**0.31%**
Liabilities of discontinued operations	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Long-term debt	3.30%	3.09%	14.92%	15.39%	14.61%	**12.18%**	**12.29%**	**12.27%**	**11.94%**	**11.98%**	**11.42%**	**11.53%**	**11.24%**
Deferred income taxes and other liabilities	6.35%	5.93%	8.20%	14.27%	14.11%	**14.14%**	**13.03%**	**11.97%**	**10.79%**	**10.03%**	**8.85%**	**8.28%**	**7.53%**
Redeemable preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
Shareholders' equity	**65.61%**	**67.64%**	**53.34%**	**43.54%**	**38.12%**	**41.29%**	**41.92%**	**43.06%**	**43.75%**	**46.17%**	**46.49%**	**49.72%**	**51.63%**
Common Stock	21.67%	23.86%	37.14%	28.33%	30.20%	**34.27%**	**35.41%**	**36.16%**	**36.01%**	**36.74%**	**35.42%**	**36.02%**	**35.50%**
Accumulated other comprehensive income / loss	2.77%	1.49%	-0.92%	-0.41%	0.97%	**1.00%**	**0.94%**	**0.88%**	**0.81%**	**0.77%**	**0.69%**	**0.66%**	**0.61%**
Retained earnings	41.14%	42.27%	17.11%	15.61%	6.93%	**6.03%**	**5.58%**	**6.02%**	**6.93%**	**8.66%**	**10.38%**	**13.04%**	**15.53%**

Nike, Inc.

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity	
Risk Free Rate	1.84%
Risk Premium	5.09%
Beta	0.893
Cost of Equity	6.39%
Cost of Debt	
Pre-Tax Cost of Debt	2.46%
Marginal Tax Rate	15.00%
After-tax Cost of Debt	2.09%
Value of Equity	
Share Price	93.04
Shares Outstanding	1,580
Value of Equity	146,975
Value of Debt	
BV of Short-term debt	15
BV of Long-term debt	3,464
PV of Operating leases	3335
Value of Debt	6,814
Weights	
Equity	95.57%
Debt	4.43%
WACC Calculation	
Cost Equity	6.39%
Weight of Equity	95.57%
After-tax Cost of Debt	2.09%
Weight of Debt	4.43%
WACC	6.20%

Nike, Inc.

Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models

Key Inputs:	
CV Growth	4.00%
CV ROIC	23.25%
WACC	6.20%
Cost of Equity	6.39%

DCF Model

Fiscal Years Ending May 31	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
NOPLAT	4,052	4,382	4,732	4,992	5,188	5,379	5,594	5,852
Less: Change in Invested Capital	1,640	954	1,018	1,080	1,207	1,344	1,489	1,562
Free Cash Flow	**2,413**	**3,428**	**3,713**	**3,912**	**3,981**	**4,035**	**4,105**	**4,290**
Continuing Value (CV)								**220,753**
PV of CF	**2,272**	**3,040**	**3,101**	**3,076**	**2,948**	**2,813**	**2,695**	**144,936**

Value of Operating Assets		**164,881**
Add: Excess Cash		3,738
Add: Marketable Securities		4,466
Less: Debt		(3,479)
Less: PV of Operating Leases		(3,335)
Less: Underfunded Pension Liabilities		(73)
Less: ESOP		(4,111)
Value of Equity		**162,087**
Shares Outstanding		1,580
Price		$102.61
Partial Year Adjustment		$1.02
Intrinsic Value of Stock	$	**105.11**

EP Model

Fiscal Years Ending May 31	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
NOPLAT	4,052	4,382	4,732	4,992	5,188	5,379	5,594	5,852
Beginning Invested Capital	16,435	18,075	19,030	20,048	21,128	22,335	23,678	25,168
ROIC	25%	24%	25%	25%	25%	24%	24%	23%
WACC	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
EP	**3,034**	**3,263**	**3,553**	**3,750**	**3,880**	**3,995**	**4,127**	**4,293**
Continuing Value (CV)								**195,586**
PV of EP	**2,857**	**2,893**	**2,966**	**2,949**	**2,872**	**2,785**	**2,710**	**128,412**

PV (Economic Profit)		148,445
Beginning Invested Capital		16,435
Value of Operating Assets		**164,881**
Add: Excess Cash		3,738
Add: Marketable Securities		4,466
Less: Debt		(3,479)
Less: PV of Operating Leases		(3,335)
Less: Underfunded Pension Liabilities		(73)
Less: ESOP		(4,111)
Value of Equity		**162,087**
Shares Outstanding		1,580
Price	$	102.61
Partial Year Adjustment		1.02
Intrinsic Value of Stock		**105.11**

Nike, Inc.

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending May 31	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Key Assumptions								
CV growth	4.00%							
CV ROE	38.10%							
Cost of Equity	6.39%							
EPS	$ 3.16	$ 3.49	$ 3.77	$ 4.00	$ 4.27	$ 4.54	$ 4.82	$ 5.04
Future Cash Flows								
P/E Multiple (CV Year)								37.521062
EPS (CV Year)								$ 5.04
Future Stock Price								$ 189.13
Dividends Per Share	$ 1.13	$ 1.25	$ 1.34	$ 1.43	$ 1.52	$ 1.62	$ 1.72	
Future Cash Flows	$ 1.13	$ 1.25	$ 1.34	$ 1.43	$ 1.52	$ 1.62	$ 1.72	$ 189.13
Discount Rate	1.064	1.132	1.204	1.281	1.363	1.450	1.542	1.542
Discounted Cash Flows	$ 1.06	$ 1.10	$ 1.11	$ 1.11	$ 1.12	$ 1.12	$ 1.11	$ 122.62
Price	$ 130.36							
Partial Year Adjustment	$ 1.02							
Intrinsic Value	$ 133.54							

Nike, Inc.

Relative Valuation Models

Ticker	Company	Price	EPS 2019E	EPS 2020E	P/E 19	P/E 20
ADS	Adidas	$312.75	$9.75	$11.03	32.08	28.35
PUM	Puma	$75.95	$1.73	$2.11	43.90	36.00
UAA	Under Armour A	$21.14	$0.34	$0.49	62.18	43.14
LULU	Lululemon Athletica	$200.69	$4.74	$5.62	42.34	35.71
VFC	VF Corporation	$82.89	$3.37	$3.86	24.60	21.47
				Average	**41.02**	**32.94**
NKE	Nike, Inc.	$93.04	$ 3.16	$ 3.49	29.5	26.6

Implied Relative Value:

P/E (EPS19)	**$ 129.48**
P/E (EPS20)	**$ 115.04**

Nike, Inc.
Key Management Ratios

Fiscal Years Ending May 31	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E
Liquidity Ratios											
Current Ratio	2.14	1.77	1.62	1.70	1.72	1.76	1.78	1.86	1.87	1.99	2.07
Quick Ratio	1.80	1.45	1.14	1.02	0.99	0.98	0.99	1.00	1.02	1.05	1.09
Cash Ratio	0.70	0.70	0.57	0.39	0.35	0.35	0.38	0.36	0.44	0.41	0.45
Activity or Asset-Management Ratios											
Fixed Asset Turnover	8.61	8.17	8.25	8.43	8.42	8.26	7.95	7.61	7.24	6.87	6.44
Inventory Turnover	3.92	3.95	3.99	5.72	5.66	5.51	5.39	5.31	5.23	5.18	5.10
Accounts Receivable Turnover	6.64	6.83	7.08	7.47	7.82	8.11	8.35	8.59	8.84	9.11	9.32
Financial Leverage Ratios											
Debt Ratio	0.47	0.56	0.62	0.59	0.58	0.57	0.56	0.54	0.54	0.50	0.48
Debt to Equity Ratio	0.87	1.30	1.62	1.42	1.39	1.32	1.29	1.17	1.15	1.01	0.94
Equity Ratio	0.53	0.44	0.38	0.41	0.42	0.43	0.44	0.46	0.46	0.50	0.52
Profitability Ratios											
Gross Margin	44.58%	43.84%	44.67%	44.89%	44.89%	44.76%	44.69%	44.81%	44.92%	44.93%	44.84%
Profit Margin	12.34%	5.31%	10.30%	11.74%	11.76%	11.77%	11.74%	11.78%	11.80%	11.79%	11.74%
Return on Asset	18.23%	8.58%	16.99%	21.50%	21.79%	21.79%	21.11%	21.21%	20.20%	20.33%	19.67%
Return on Equity	34.17%	19.70%	44.57%	52.06%	51.98%	50.60%	48.24%	45.93%	43.45%	40.90%	38.10%
Payout Policy Ratios											
Dividend Payout Ratio	27.34%	65.55%	33.73%	35.65%	35.65%	35.65%	35.65%	35.65%	35.65%	35.65%	35.65%
Total Payout Ratio	45%	105%	52%	50%	50%	49%	48%	48%	47%	46%	46%

Definitions
Current Ratio = Total assets/total liabilities
Quick Ratio = cash + accounts receivable + ST Investments / Total Current Liabilities
Cash Ratio = Cash / Total Current Liabilities
Fixed Asset Turnover = Total Revenue / PPE
Inventory Turnover = COGS / Average Inventory
Accounts Receivable Turnover = Revenue / Average Accounts Receivable
Debt Ratio = Total Liabilities / Total Assets
Debt to Equity = Total Liabilities / Total Equity
Equity Ratio = Total Equity / Total Assets
Gross Margin = (Revenue-Restaurant Operating Costs) / Revenue
Profit Margin = Net Income / Total Revenue
Return on Assets = Net Income / Total Assets
Return on Equity = Net Income / Total Equity
Dividend Payout Ratio = Total Dividends Declared / EPS
Total Payout Ratio = (Dividends + Issuance of Common Stock) / Net Income

Nike, Inc.

Sensitivity Analysis

		CV Growth Rate						
	$ 105.11	3.70%	3.80%	3.90%	4.00%	4.10%	4.20%	4.30%
Risk Free Rate	1.69%	101.08	104.59	108.43	112.64	117.29	122.43	128.17
	1.74%	99.01	102.36	106.01	110.02	114.42	119.29	124.70
	1.79%	97.01	100.21	103.70	107.51	111.69	116.30	121.41
	1.84%	95.09	98.15	101.48	105.11	109.08	113.45	118.29
	1.89%	93.25	96.17	99.35	102.81	106.59	110.74	115.32
	1.94%	91.47	94.27	97.31	100.60	104.21	108.15	112.49
	1.99%	89.76	92.44	95.34	98.49	101.92	105.68	109.80

		Revenue Growth of Footwear						
	$ 105.11	4.70%	4.80%	4.90%	5.00%	5.10%	5.20%	5.30%
WACC	5.90%	121.62	121.74	121.86	121.99	122.11	122.23	122.36
	6.00%	115.36	115.47	115.59	115.71	115.82	115.94	116.06
	6.10%	109.70	109.81	109.92	110.03	110.14	110.25	110.36
	6.20%	104.80	104.90	105.01	105.11	105.22	105.32	105.43
	6.30%	99.85	99.95	100.05	100.15	100.25	100.35	100.45
	6.40%	95.55	95.64	95.74	95.83	95.93	96.02	96.11
	6.50%	91.59	91.68	91.77	91.86	91.95	92.04	92.13

		Marginal Tax Rate						
	$ 105.11	13.50%	14.00%	14.50%	15.00%	15.50%	16.00%	16.50%
Accounts Payable	5.03%	103.82	103.84	103.86	103.88	103.90	103.92	103.94
	5.53%	104.23	104.25	104.27	104.29	104.31	104.33	104.35
	6.03%	104.64	104.66	104.68	104.70	104.72	104.74	104.76
	6.53%	105.05	105.07	105.09	105.11	105.13	105.15	105.17
	7.03%	105.46	105.48	105.50	105.52	105.54	105.56	105.58
	7.53%	105.87	105.89	105.91	105.93	105.95	105.97	105.99
	8.03%	106.28	106.30	106.32	106.34	106.36	106.38	106.40

		Beta						
	$ 105.11	0.890	0.891	0.892	0.893	0.894	0.895	0.896
Market Risk Premium	4.59%	132.08	131.74	131.41	131.08	130.75	130.42	130.09
	4.79%	120.19	119.89	119.60	119.32	119.03	118.74	118.46
	4.89%	114.99	114.72	114.45	114.18	113.91	113.64	113.38
	5.09%	105.83	105.59	105.35	105.11	104.87	104.63	104.40
	5.29%	97.99	97.77	97.56	97.34	97.13	96.92	96.71
	5.49%	91.21	91.01	90.82	90.63	90.43	90.24	90.05
	5.69%	85.28	85.11	84.93	84.76	84.58	84.41	84.23

		CV ROIC						
	$ 105.11	21.75%	22.25%	22.75%	23.25%	23.75%	24.25%	24.75%
Pre-Tax Cost of Debt	1.46%	105.15	105.62	106.08	106.52	106.94	107.34	107.72
	1.96%	104.44	104.91	105.37	105.80	106.21	106.61	106.99
	2.21%	104.10	104.57	105.02	105.45	105.86	106.26	106.64
	2.46%	103.76	104.23	104.67	105.11	105.51	105.91	106.29
	2.71%	103.42	103.89	104.34	104.77	105.17	105.57	105.94
	2.96%	103.09	103.56	104.00	104.43	104.84	105.23	105.60
	3.21%	102.77	103.23	103.68	104.10	104.51	104.90	105.27

Nike, Inc.
Value Driver Estimation
(in Millions)

Fiscal Years Ending May. 31	2017	2018	2019	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027CV
NOPLAT											
Sales	**34,350**	**36,397**	**39,117**	**42,493**	**45,699**	**48,695**	**51,421**	**54,302**	**57,347**	**60,565**	**63,381**
Cost of sales	(19,038)	(20,441)	(21,643)	(23,418)	(25,185)	(26,836)	(28,338)	(29,926)	(31,604)	(33,378)	(34,929)
SGA	(10,563)	(11,511)	(12,702)	(13,521)	(14,530)	(15,417)	(16,261)	(17,213)	(18,228)	(19,265)	(20,131)
Depreciation	706	747	705	899	955	1,017	1,084	1,156	1,235	1,319	1,409
Amortization	10	27	15	15	14	13	13	12	11	11	10
Implied interest on operating leases	85	87	82	84	85	87	89	91	92	94	96
EBITA	**4,118**	**3,758**	**4,134**	**4,725**	**5,100**	**5,498**	**5,814**	**6,086**	**6,361**	**6,687**	**6,997**
Adjusted Taxes											
Income Tax Provision	(646)	(2,392)	(772)	597	644	694	751	827	914	1,026	1,079
Add: Tax Shield on Interest Expense (Income)	(9)	(8)	(7)	(4)	(4)	(5)	(5)	(5)	(6)	(6)	(6)
Add: Tax Shield on Interest on Operating Lease	13	13	12	13	13	13	13	14	14	14	14
Less: Adjusted Taxes	**650**	**2,397**	**777**	**605**	**652**	**703**	**759**	**835**	**922**	**1,034**	**1,087**
Deferred Taxes											
Deferred Tax Liability	1,907	3,216	3,347	3,280	3,214	3,150	3,087	3,025	2,965	2,906	2,848
Less: Previous year deferred tax liability	1,770	1,907	3,216	3,347	3,280	3,214	3,150	3,087	3,025	2,965	2,906
Plus: Change in Deferred Taxes	137	1,309	131	(67)	(66)	(64)	(63)	(62)	(61)	(59)	(58)
NOPLAT	**3,605**	**2,670**	**3,488**	**4,052**	**4,382**	**4,732**	**4,992**	**5,188**	**5,379**	**5,594**	**5,852**
Invested Capital											
Operating Current Assets:	**10,530**	**10,576**	**12,590**	**13,306**	**14,310**	**15,248**	**16,101**	**17,003**	**17,957**	**18,964**	**19,846**
Normal Cash	648	687	728	850	914	974	1,028	1,086	1,147	1,211	1,268
Accounts Receivable	3,677	3,498	4,272	4,560	4,904	5,225	5,518	5,827	6,154	6,499	6,801
Inventories	5,055	5,261	5,622	6,160	6,625	7,059	7,455	7,872	8,314	8,780	9,188
Prepaid Expenses & Other Current Assets	1,150	1,130	1,968	1,736	1,867	1,989	2,101	2,218	2,343	2,474	2,589
Operating Current Liabilities:	**5,143**	**5,698**	**7,851**	**7,344**	**7,898**	**8,416**	**8,887**	**9,385**	**9,912**	**10,468**	**10,954**
Accounts Payable	2,048	2,279	2,612	2,773	2,983	3,178	3,356	3,544	3,743	3,953	4,137
Income taxes Payable	84	150	229	80	86	91	96	102	108	114	119
Accrued Liabilities	3,011	3,269	5,010	4,491	4,830	5,147	5,435	5,739	6,061	6,401	6,699
Net Operating Working Capital	**5,387**	**4,878**	**4,739**	**5,961**	**6,411**	**6,832**	**7,214**	**7,618**	**8,045**	**8,497**	**8,892**
Plus: Net PPE	3,989	4,454	4,744	5,043	5,425	5,898	6,466	7,137	7,918	8,816	9,840
Plus: Net Other Operating Assets	3,752	3,824	3,618	3,670	3,723	3,780	3,838	3,898	3,960	4,024	4,091
PV of Operating Leases	3,469	3,539	3,335	3,401	3,469	3,539	3,610	3,682	3,755	3,831	3,907
Intangible Assets	283	285	283	268	254	241	228	216	205	194	184
Less: Other Long-Term Operating Liabilities	-	-	-	-	-	-	-	-	-	-	-
Invested Capital	**16,597**	**16,694**	**16,435**	**18,075**	**19,030**	**20,048**	**21,128**	**22,335**	**23,678**	**25,168**	**26,730**
FCF											
NOPLAT	3,605	2,670	3,488	4,052	4,382	4,732	4,992	5,188	5,379	5,594	5,852
Less: Change in Invested Capital	(387)	97	(259)	1,640	954	1,018	1,080	1,207	1,344	1,489	1,562
Free Cash Flow (FCF)	**3,992**	**2,573**	**3,747**	**2,413**	**3,428**	**3,713**	**3,912**	**3,981**	**4,035**	**4,105**	**4,290**
ROIC											
NOPLAT	3,605	2,670	3,488	4,052	4,382	4,732	4,992	5,188	5,379	5,594	5,852
Beginning Invested Capital	16,984	16,597	16,694	16,435	18,075	19,030	20,048	21,128	22,335	23,678	25,168
Return on Invested Capital (ROIC)	**21.23%**	**16.09%**	**20.89%**	**24.66%**	**24.25%**	**24.86%**	**24.90%**	**24.56%**	**24.08%**	**23.63%**	**23.25%**
EP											
Beginning Invested Capital	16,984	16,597	16,694	16,435	18,075	19,030	20,048	21,128	22,335	23,678	25,168
ROIC	21.23%	16.09%	20.89%	24.66%	24.25%	24.86%	24.90%	24.56%	24.08%	23.63%	23.25%
WACC	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%	6.20%
Economic Profit (EP)	**2,553**	**1,642**	**2,454**	**3,034**	**3,263**	**3,553**	**3,750**	**3,880**	**3,995**	**4,127**	**4,293**

Nike, Inc.
Operating Leases

Present Value of Operating Lease Obligations (2019)

31	Operating Leases
2020	553
2021	513
2022	441
2023	386
2024	345
Thereafter	1494
Total Minimum Payments	3732
Less: Interest	397
PV of Minimum Payments	3335

Present Value of Operating Lease Obligations (2018)

Fiscal Years Ending May 31	Operating Leases
2019	589
2020	523
2021	472
2022	412
2023	361
Thereafter	1608
Total Minimum Payments	3965
Less: Interest	426
PV of Minimum Payments	3539

Present Value of Operating Lease Obligations (2017)

Fiscal Years Ending May. 31	Operating Leases
2018	537
2019	509
2020	438
2021	399
2022	350
Thereafter	1672
Total Minimum Payments	3905
Less: Interest	436
PV of Minimum Payments	3469

Capitalization of Operating Leases

Pre-Tax Cost of Debt	2.46%
Number Years Implied by Year 6 Payment	4.3

Year	Lease Commitment	PV Lease Payment
1	553	539.7
2	513	488.7
3	441	410.0
4	386	350.2
5	345	305.5
6 & beyond	345	1240.6
PV of Minimum Payments		3334.8

Capitalization of Operating Leases

Pre-Tax Cost of Debt	2.46%
Number Years Implied by Year 6 Payment	4.5

Year	Lease Commitment	PV Lease Payment
1	589	574.9
2	523	498.2
3	472	438.8
4	412	373.8
5	361	319.7
6 & beyond	361	1333.3
PV of Minimum Payments		3538.7

Capitalization of Operating Leases

Pre-Tax Cost of Debt	2.46%
Number Years Implied by Year 6 Payment	4.8

Year	Lease Commitment	PV Lease Payment
1	537	524.1
2	509	484.9
3	438	407.2
4	399	362.0
5	350	310.0
6 & beyond	350	1381.1
PV of Minimum Payments		3469.2

Effects of ESOP Exercise and Share Repurchases on Common Stock Balance Sheet Account and Number of Shares Outstanding

Number of Options Outstanding (shares):	91
Average Time to Maturity (years):	5.90
Expected Annual Number of Options Exercised:	15
Current Average Strike Price:	$ 50.59
Cost of Equity:	9.00%
Current Stock Price:	$93.04

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E
Increase in Shares Outstanding:	15	15	15	15	15	15	15	15	15	15
Average Strike Price:	$ 50.59	$ 50.59	$ 50.59	$ 50.59	$ 50.59	$ 50.59	$ 50.59	$ 50.59	$ 50.59	$ 50.59
Increase in Common Stock Account:	**783**	**783**	**783**	**783**	**783**	**783**	**783**	**783**	**783**	**783**
Change in Treasury Stock	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Expected Price of Repurchased Shares:	$ 93.04	$ 101.41	$ 110.54	$ 120.49	$ 131.33	$ 143.15	$ 156.04	$ 170.08	$ 185.39	$ 202.07
Number of Shares Repurchased:	**38**	**35**	**32**	**29**	**27**	**24**	**22**	**21**	**19**	**17**
Shares Outstanding (beginning of the year)	1,580	1,558	1,539	1,522	1,509	1,498	1,489	1,482	1,477	1,473
Plus: Shares Issued Through ESOP	15	15	15	15	15	15	15	15	15	15
Less: Shares Repurchased in Treasury	38	35	32	29	27	24	22	21	19	17
Shares Outstanding (end of the year)	**1,558**	**1,539**	**1,522**	**1,509**	**1,498**	**1,489**	**1,482**	**1,477**	**1,473**	**1,471**

VALUATION OF OPTIONS GRANTED IN ESOP

Ticker Symbol	NKE
Current Stock Price	$93.04
Risk Free Rate	1.84%
Current Dividend Yield	1.00%
Annualized St. Dev. of Stock Returns	25.23%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Range 1	91	50.59	5.90	$ 45.03	$ 4,111
Total	91	$ 50.59	5.90	$ 49.91	**$ 4,111**