
# Equity Valuation of Nike, Inc.

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Dissertation written under the supervision of Professor José Carlos Tudela Martins.

Dissertation submitted in partial fulfilment of requirements for the MSc in Finance at the Universidade Católica Portuguesa, 19th of March 2024.

**Abstract**

Nike, Inc., a prominent player in the sportswear industry, has consistently maintained its position as a market leader. As such, the primary objective of this master's thesis is to establish a target price for Nike, Inc. by the end of the fiscal year 2024 (31/05/2024) and subsequently offer an investment recommendation based on selected valuation methodologies. This thesis employs a comprehensive analysis of Nike's competitive positioning within the industry, historical performance, and the prevailing global macroeconomic landscape.

Through a meticulous application of valuation techniques and assumptions, our analysis culminated in the determination of a target price of $104,45 per share for Nike, Inc. as of 31/05/2024, utilizing the Weighted Average Cost of Capital (WACC)-based Discounted Cash Flow (DCF) approach. This represents a 5,3% upside potential from the current price of $99,16 per share.

In light of these findings, we advocate a prudent stance of HOLD for Nike, Inc. Given its robust track record, coupled with the macroeconomic outlook and the calculated target price, we propose monitoring the company's performance closely in the immediate future. This recommendation provides investors with a cautious yet optimistic approach, allowing for continued assessment of Nike's trajectory amidst dynamic market conditions.

Title: Equity Valuation of Nike, Inc.

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Keywords: Nike, Equity Valuation, DCF, Multiples, Sportswear.

**Resumo**

A Nike, Inc., uma empresa proeminente na indústria do sportswear, tem mantido consistentemente a sua posição como líder de mercado. Como tal, o principal objetivo desta tese de mestrado é estabelecer um preço-alvo para a Nike, Inc. até ao final do ano fiscal de 2024 (31/05/2024) e, posteriormente, oferecer uma recomendação de investimento com base em metodologias de avaliação selecionadas. Esta tese emprega uma análise abrangente da posição competitiva da Nike na indústria, do desempenho histórico e do atual panorama macroeconómico global.

Através de uma aplicação meticulosa de técnicas de avaliação e pressupostos, a nossa análise culminou na determinação de um preço-alvo de $104.45 por ação para a Nike, Inc. até 31/05/2024, utilizando a abordagem do Fluxo de Caixa Descontado (DCF) baseada no Custo Médio Ponderado de Capital (WACC). Isso representa um potencial de valorização de 5,3% em relação ao preço atual de $99.16 por ação.

À luz destes resultados, defendemos uma posição prudente de MANUTENÇÃO para a Nike, Inc. Dada a sua sólida trajetória, aliada à perspetiva macroeconómica e ao preço-alvo calculado, propomos monitorizar de perto o desempenho da empresa no futuro imediato. Esta recomendação oferece aos investidores uma abordagem cautelosa, mas otimista, permitindo uma avaliação contínua da trajetória da Nike em meio a condições de mercado dinâmicas.

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Palavras-chave: Nike, Avaliação do Capital Próprio, DCF, Múltiplos, Sportswear.

**Acknowledgments**

If there is a one lesson I've learned in life, it's that significant achievements are seldom accomplished alone. Therefore, I want to express my heartfelt gratitude to those who have been instrumental in both my academic journey and my life.

First, I extend my deepest appreciation to Professor Tudela Martins for his invaluable guidance and support throughout the completion of this Master's Thesis. I am also immensely grateful to all the other professors and staff in the Executive Master's in Finance program for their unwavering dedication and assistance.

Next, I want to extend my thanks to my colleagues at BNP Paribas who graciously covered for me on numerous occasions, without whom this endeavor would have been considerably more challenging.

To my parents, and my brother and sister, Manel and Joaninha, I owe an immeasurable debt of gratitude. Without your support and encouragement, none of this would have been possible. Manel, thank you for opening your home to me during my extended stays in London and for your invaluable assistance in the completion of this thesis. I promise to make time for some enjoyable activities during my visits henceforth.

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# 1. Introduction

Valuations are essential instruments to understand the future value of companies. They are crucial information providers for thousands of finance professionals, investors, or those interested in investing in a stock they deem interesting. Most think performing these valuation models is too complex or requires the indispensable skill sets. However, understanding how much an asset is worth becomes a key instrument in everyday life to better invest and understand companies' future.

The main goal of this master's project final thesis is to conduct a deep dive analysis and valuation of NIKE, INC, aiming to provide a fair value and investment recommendation of the company's shares as of the 31st of May 2024.

With this document, we aim to combine the theoretical background with the Nike business model analysis, create projections for Nike's future cash flows, and generate a fair value for the company's future price.

We will be starting with the literature review (in chapter 2); in this chapter, we aim to understand the current state of the art of the valuation theory, and we will be finishing the chapter with a debate on what valuation methods will be used in the context of NIKE, INC. In Chapter 3 we will perform a company overview, analyzing Nike's story as well as revenue history. Chapter 4 will examine the past macroeconomic situation, which will help us in the upcoming chapters. In Chapter 5 we conduct a detailed analysis of Nike's competion and industry; this will be important as we decide which companies we will use for Nike's peer group in the multiples valuation methodology. In Chapter 6, we will conduct a financial analysis of Nike's financial results; and in Chapter 7, we present the forecasts that we will be using. In chapter 8, we will perform and analyze a valuation with the estimates and assumptions we have done previously.

Finally, the valuation resulting from the dissertation will be compared against other equity reports from investment banks, and we will conclude with an investment recommendation regarding the company's shares, traded on the NYSE on May 31, 2024.

# 2. Literature review

## 2.1.Valuation

> *"The guiding principle of business value creation is a refreshingly simple construct: companies grow and earn a return on capital that exceeds their cost of capital create value"* (Koller et al., 2020)

Valuation is a necessary procedure used by financial experts such as investors, analysts, and investment bankers to determine the market value of a specific firm, business, or stock. Its importance is highlighted by its use as a tool for conducting mergers and acquisitions, offering investment advice, and making other financial decisions. Given the importance of valuation approaches in economic decision-making, there is a heated debate about which techniques to use. According to widespread knowledge, using similar underlying assumptions should result in comparable final valuations.

The advancement of new instruments and technical innovations has led to increasingly intricate models and approaches. However, increasing complexity only sometimes implies higher accuracy. Damodaran, A. (1995), in Investment Valuation: Tools and Techniques for Determining the Value of Any Asset, states that as models become more complicated, i.e., the number of inputs increases, the risk of input errors also increases. Damodaran, therefore, proposes three guiding concepts to overcome this issue.

First, there is the notion of parsimony, which advocates for using only necessary inputs. Second, one must recognize the trade-off between increasing the level of information and complexity and increasing the likelihood of inaccuracy. Finally, it is essential to realize that models are simplifications of reality, unable to distinguish relevant from irrelevant information and, therefore, unable to evaluate businesses fully. Our responsibility is to be critical and filter what is relevant from what is not.

The subsequent literature review aims to comprehensively examine the current state-of-the-art valuation, including various intrinsic and relative valuation methodologies.

## 2.2. Valuation Methods

### 2.2.1. Discounted Cash Flow (DCF)

*"Overall, the DCF model is the best model, which is based on the future cash flow and the risk associated with the cash flow."* (Wang, 2022)

The Discounted Cash Flow (DCF) approach is a popular financial valuation tool for determining the intrinsic value of any business, stock, or project based on expected future cash flows. This approach has two variants: the Free Cash Flow to Firm (FCFF) and the Free Cash Flow to Equity (FCFE) methods. These provide insights into the value available to all shareholders and equity holders.

The DCF method's core idea is based on the recognition that the present value of any asset is defined by the total of its predicted future cash flows, which are then effectively discounted at a predetermined rate.

***Formula 1: Discounted cash-flow method***

$$\boldsymbol{Present\ Value} = \sum_{t=1}^{t=n} \frac{\boldsymbol{CF_n}}{(\boldsymbol{1}+\boldsymbol{r})^t} + \frac{\boldsymbol{TV_n}}{(\boldsymbol{1}+\boldsymbol{r})^n}$$

$$\textbf{where } \boldsymbol{TV_t} = \frac{\boldsymbol{CF_n(1+g)}}{\boldsymbol{r-g}}$$

Where n = Life of the asset

$CF_n$ = Cash flow in period t

r = Discounted rate used

g = Long-term growth rate

### 2.2.2. Free Cash-Flows

In the preceding discussion, we identified the two approaches for determining the value of a firm using Free Cash Flows: The Free Cash Flow to Equity (FCFE) and the Free Cash Flow to Firm (FCFF) methodologies. Damodaran, A. (1995) distinguishes these two valuation methodologies by referring to them as Equity and Firm valuations, respectively. In the next

subchapters, we will go further into these two approaches, studying their complexities and details in greater depth.

#### 2.2.2.1. Free Cash Flow to Equity

This technique focuses on the valuation of the equity element of the firm. The cash flows included in this method are produced from the assets after debt payments and the allocation of reinvestments required for the company's future growth. Following that, these cash flows are discounted using the cost of equity as the discount rate, representing the expected return for an investor on an equity investment; in other words, it means the cost involved in raising equity for a company. If the product of this valuation is positive, the value can be transformed into a dividend. (Damodaran, 2012).

***Formula 2: FCFE***

$$\textbf{FCFE = Net Income – (Capital Expenditures – D\&A) - } \triangle \textbf{NWC + Net Borrowings}$$

***Formula 3: Cost of Equity according to CAPM***

$$\boldsymbol{K_e = R_f + \beta(R_m - R_f)}$$

$\boldsymbol{K_e}$, Represents the cost of equity, previously mentioned as the required return equity investors expect to receive. Unlike the cost of debt, which will be discussed later in this chapter, the cost of equity is not readily available in the market. As such, analysts must utilize models to estimate it; the most widely utilized model for this estimation is the CAPM (Capital Asset Pricing Model) for its balance between simplicity and accuracy.

The CAPM was first introduced by Sharpe (1964) and Lintner (1965), based on Markowitz's (1959) mean-variance model and the existence of a theoretical market portfolio. According to the model, the expected return of any asset must be the sum of the risk-free rate and a premium for bearing the stock's market risk. This model is based on three fundamental premises. Firstly, markets are efficient, meaning all relevant information is available, and all investors can access it. This assumption implies that all stock prices have all the information priced in. Secondly, it

assumes that investors are rational and aim to maximize their risk-adjusted returns by maximizing and minimizing risk. Lastly, the CAPM is based on the premise that unsystematic can be eliminated through a well-diversified portfolio, meaning that as the market is perfectly efficient and investors are rational, all asset prices must be a function of the risk-free rate and the market portfolio. The CAPM calls this systematic risk and is represented by the beta ($\beta$). (Koller et all, 2020)

Hence, the components of the are:

$\boldsymbol{R_f}$, It is the Risk-free rate; it represents the expected rate of return obtained by investing in a risk-free asset. As a general rule, the maturity of the instrument used as the risk-free asset should be similar to that of the investment or project subject to the valuation.

**Market Risk Premium ($\boldsymbol{R_m - R_f}$ *or* $\boldsymbol{mrp}$),** The market risk premium is the additional return investors expect to earn when we are investing in the market portfolio over the risk-free rate.

**Beta $\boldsymbol{\beta}$**, as mentioned above, is a measure of systematic risk. This is usually obtained by measuring the covariance of the rate of return on companies' stock and the overall market return. It represents the sensitivity of a given asset return to fluctuations in the market portfolio returns. This task is performed by regressing the stock's historical returns against the market's returns (Damodaran, 2012).

#### 2.2.2.2.Free Cash Flow to Firm

Free Cash Flow to Firm (FCFF) is a financial metric used to evaluate the amount of cash generated by a company that is available to all stakeholders, including equity and debt holders. It measures the cash flow available to investors and creditors after all operating expenses, taxes, and necessary capital expenditures (CAPEX) have been accounted for.

FCFF provides insights into the company's ability to generate cash flow from its core operations, which can be used for various purposes such as debt repayment, dividend distributions, reinvestment in the business, or other value-creating opportunities. It is an essential indicator for assessing a company's financial health and value.

These FCFFs are then discounted at the Weighted Average Cost of Capital (WACC), which estimates the average cost of financing the company's operations and investments by considering the proportion of various sources of capital used. As we will see later in this chapter, this method depends on the company's capital structure and ability to raise capital through debt or equity.

***Formula 3: FCFF***

**FCFF = Operating Income (EBIT) - Taxes + Depreciation and Amortization - Changes in Working Capital - Capital Expenditures**

***Formula 4: WACC***

$$\boldsymbol{WACC = \frac{D}{E+D} \times K_d(1+T) + \frac{E}{E+D} \times K_e}$$

Where,

T, tax rate, is the effective tax rate.

$K_d$, cost of debt, represents the interest charged by debt holders. For companies with publicly traded debt, the easiest way to obtain this rate is by finding the weighted average yield of publicly available debt securities.

E, the Market Value of Equity, is obtained by multiplying the number of outstanding shares by the current stock price.

D, Market Value of Debt.

### 2.2.3. Terminal Value

One of the areas for improvement of the simple DCF model is that it requires the estimation of future cashflows indefinitely. This is impractical and impossible; two widely accepted methods exist to overcome this shortcoming: the Exit Multiple and perpetuity growth methods.

#### 2.2.3.1. Exit Multiple Method

The Exit Multiple Method calculates the remaining value of a company's future cash flow based on the multiple of last year's projection of EBITDA.

***Formula 5:***

$$\boldsymbol{TV_t = EBITDA_n \; X \; Exit \; Multiple}$$

#### 2.2.3.2.Perpetuity Growth Method

The Perpetuity Growth Method computes the terminal value by considering the last year of FCF as a perpetuity growing at a predetermined growth rate. Considering the formula below, this method uses the WACC calculated previously and requires the analyst to make assumptions regarding the company's long-term growth. The perpetuity is usually based on the industry's growth rate.

***Formula 6:***

$$\boldsymbol{TV_t = \frac{CF_n(1+g)}{r-g}}$$

### 2.3.Relative Valuation

Even though the discount cash flow method is considered the most accurate and flexible method for reaching a fair and more precise valuation, using a relative valuation or multiples as a complementary method can help you summarize and test the results obtained in the discounted cash flow method. (Koller et all, 2020).

The basic idea of this methodology is that similar assets should sell for similar prices, independently of the type of asset. The most common benchmark is the price-to-earnings ratio, which is the equity value divided by its net income. In sum, companies in the same industry and with similar performance should trade at similar multiples (Koller et al., 2020).

According to Koller et al. (2005), there are four basic principles for applying multiple valuations correctly, which we will enumerate below.

1. Using the correct peer group is a prerequisite for accuracy in multiple valuations. Most of the time, analysts use peer groups created by databases like Bloomberg and Reuters. To create a good peer group, the analyst needs to find companies that operate in the same industry and have similar prospects for ROIC (Return on Invested Capital) and growth.

2. Using forward-looking statistics is the most accurate way to use multiples to use forward multiples. If this is impossible, the most recently available data should be used.

3. Using enterprise-value multiples, price-to-equity multiples have two significant problems: They are based on earnings, which include non-operating, and they are systematically affected by the capital structure.

4. Adjust the enterprise-value-to-EBITA multiple for nonoperating items. Failing to do so may generate misleading results. Some items that may need adjustment are Excess cash and nonoperating assets, Operating leases, Employee stock options, and pensions.

## 2.4.Other Valuation Models

### 2.4.1. Adjustment Present Value (APV) Model

The APV separates the value of a company into two essential components: the company's value if the company were all-equity finance based and the value tax shields that come from debt financing. The model follows Modigliani and Miller's proposition, who proposed that the company's choice of financial structure in a market without taxes does not affect the value of its economic assets. This will only be affected by market imperfections such as taxes and distress costs. (Koller et all, 2010)

According to Damodaran (2012), the main advantage of the APV model is that it separates debt into different components, allowing different discount rates for each component. In addition, unlike the cost-of-capital approach, this model does not assume that the capital structure remains constant.

However, this model also presents challenges, such as difficulty predicting the default probability and the bankruptcy costs. These cannot be ignored as if there were no bankruptcy costs, the maximization of tax shield benefits arising from debt financing would result in an optimal level of debt of 100 percent.

Damodaran (2012) presents the formula below:

***Formula 7:***

**Current Firm Value = Value of the Unlevered Firm + PV of Tax Benefits - Expected Bankruptcy costs**

The first step is to calculate the value of the unleveled company if it were fully funded by equity financing, i.e., its capital structure has no debt. After that, we can use the cost of equity to discount the expected future cash flows.

***Formula 8:***

$$\textbf{\textit{Value of the Unvelered Company}} = \frac{\boldsymbol{FCFF_0}}{\boldsymbol{K_e}}$$

The FCFF represents the operational cash flow after paying taxes, and the cap K sub e is the cost of the cost of capital, which can be calculated using CAPM.

The tax shield is calculated based on the company's effective tax rate. The value of tax benefits can, therefore, be represented as follows:

***Formula 9:***

**Value of Tax Benefits = (Tax Rate) (Debt)**

Lastly, we need to calculate the expected costs of bankruptcy.

***Formula 10:***

**PV of the Expected Bankruptcy cost = (Probability of Bankruptcy) (PV of the Bankruptcy Cost)**

The Expected Bankruptcy Costs are the most challenging part of the model to estimate. The challenges arise from the fact that bankruptcy costs can be highly subjective, even though we can estimate the probability of bankruptcy through debt rating agency ratings or credit default Swap prices, both readily available information in the market.

### 2.4.2. Dividend Discounting Model

According to John Williams' (1983) approach, the total of all future cash flows determines the investor's return after purchasing shares. It implies that the enterprise value is equal to the present value of all future dividends throughout the holding period, discounted using the following formula:

***Formula 11:***

$$\mathbf{PV}=\sum \frac{E(DPS)_t}{(1+r)^t} + \frac{E(P)_n}{(1+r)^n}$$

**Where:**

$E(DPS)_t$ – Expected dividends per stock at the end of period t.
$E(P)_n$ – Expected price per stock at the end of period n.

The dividend discount model, which only requires two essential inputs—the cost of equity and projected dividends—is renowned for its logical simplicity. Assumptions on future growth rates and payout ratios are necessary to estimate predicted dividends. The level of risk associated with the stock determines the needed rate of return, and techniques such as the Capital Asset Pricing Model (CAPM) may be used to assess this parameter (Damodaran, 2012). However, most corporations' decisions to issue dividends are frequently determined more by political factors than sound financial reasoning. As a result, businesses usually keep dividends constant and guarantee stable growth. When a large amount of money comes in one year, they may pay an exceptional dividend. Additionally, firms are increasingly using a mix of dividends and share buybacks. To use this model efficiently, it is necessary to consider the various methods by which a business distributes returns to its investors.

### 2.5.Conclusion

After much consideration, we decided to use the FCFF methodology. This cashflow-based methodology provides a direct measure of the business's cash generation. It focuses on the actual cash available to all capital providers, both equity and debt holders.

The FCFF also separates operating performance from financing decisions, making analyzing the business's core operations easier. This method will also allow the use of the WACC method to calculate the cost of capital, which provides a theoretically sound approach to the valuation and will be able to use the terminal value methodology, which is particularly important to Nike's case as we expect long-term growth to be significantly crucial to the company as it is a well-established large-cap company.

In cost capital representation, WACC considers both the cost of debt and equity. In the case of a company with a stable capital structure, the debt-to-equity ratio is maintained relatively constant. In some cases, the WACC accurately represents the company's overall cost of capital. We will show this in the following chapters.

We will also use the relative valuation method. This methodology provides multiples based on market comparisons, meaning that if companies operate within the same industry, they should be priced at around the same price. Also, these metrics, like the price-to-earnings ratio and enterprise value to EBITDA, are widely available.

This technique also provides us with market and industry trends, which are challenging to get in intrinsic valuations.

# 3. Company Overview

## 3.1.Brief History

In 1964, Bill Bowerman and Phil Knight launched Blue Ribbon Sports (BRS), an internationally famous firm in the sports and athletic sector; the company began as a wholesaler for Onitsuka Tiger before becoming a separate brand (Nike) in 1971. In 1972, Nike introduced the Nike Cortez, widely regarded as the key to Nike's popularity and success, followed by the groundbreaking Air technology in 1978.

In the 1980s, Nike signed a landmark endorsement deal with basketball player Michael Jordan, culminating in the launch of the iconic Air Jordan brand. Nike rose to prominence as a result, and the company expanded into apparel and athletic items. The brand targeted international expansion, establishing a solid presence in other markets through sponsorships and collaborations; it introduced innovative products like Nike Shox and Nike Free. The firm also addressed sustainability through efforts such as the Nike Considered Design program.

In the 2000s, Nike embraced digital change, investing in e-commerce and engaging with designers and celebrities. Acquisitions such as Converse and Hurley International increased the brand's portfolio.

Nike maintained their focus on innovation, sustainability, and direct-to-consumer sales as of my knowledge cutoff in September 2021. Through campaigns like "Equality" and waste-reduction programs, the company displayed its dedication to social problems. To this day, the company shows commitment to innovation and sustainability, as well as strategic partnerships, worldwide expansion, and diversification, as the fundamental cornerstones for the future of the Nike brand.

Figure 1: Nike's Logo

### 3.2.Nike Inc brands

Nike stands today as the leading global seller of athletic footwear and apparel. Its distribution channels include Nike-owned stores and digital platforms known as "Nike Brand Digital," catering to retail accounts, independent contractors, licensees, and sales representatives across nearly all countries. Footwear production mainly occurs outside the United States through independent contractors, while apparel is manufactured both domestically and internationally.

The Nike brand designs, produces, and markets products for men, women, and children. Additionally, they extend their product range to the Jordan Brand and Converse. As a consumer products company, Nike's success is influenced by the popularity of various sports, fitness trends, and evolving design preferences. The brand's adaptability to the sports industry and fashion shifts is crucial to maintaining sales volume and profitability. It needs to be able to promptly modify its current offerings and introduce new products and styles, as well as show an active participation in shaping sports and fitness trends through marketing efforts.

Nike has become the 54$^{th}$ most valuable brand globally, valued at $31,307 million, according to the 2023 Brand Finance report. The iconic "Swoosh" logo and the slogan "Just Do It" are among the most recognizable worldwide, contributing to Nike's brand identity and global prominence.

Nike encompasses three primary brands:

The Nike Brand: primarily designed for sportswear, where the brand invests substantially in the development, innovation, and production of high-performance technology. A significant proportion of Nike's sportswear is also worn as casual wear due to its cutting-edge technology and fashion.

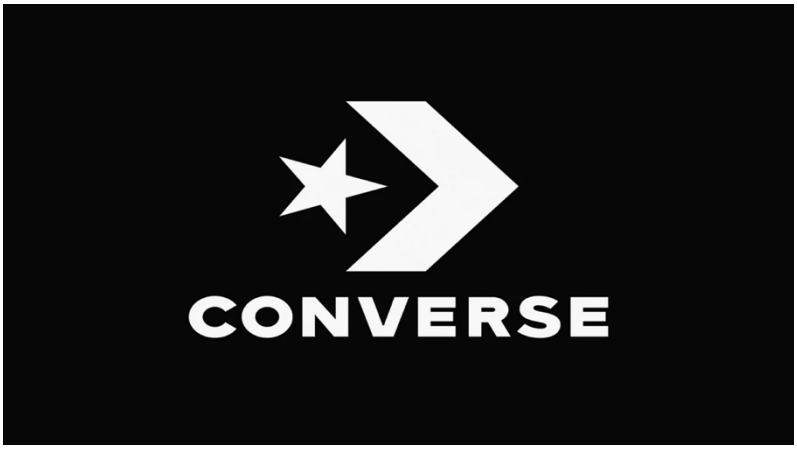
Jordan Brand: The inception of the Jordan brand in 1984 resulted from the collaboration between Nike and Michael Jordan. Specializing in the design, marketing, and licensing of athletic and casual footwear, apparel, and accessories with a focus on basketball performance, the brand is distinguished by the iconic "Jumpman" trademark; the cultural influence of the Air

Jordan brand surpassed all expectations since its inception, giving rise to a vibrant collector's scene and cultivating a substantial and devoted following.

Figure 2: Jordan Brand's logo


Converse: Acquired by Nike in 2023 after Converse filed for Bankruptcy. Acquired for $315 Million, this brand was initially founded in 1908, and it is a historical brand for Basketball sneakers with headquarters in Boston, Massachusetts. The brand is responsible for designing, distributing, and licensing casual sneakers, apparel, and accessories under Converse, Chuck Taylor, All-Star, One Star, Star Chevron, and Jack Purcell trademarks. Operating results of the Converse brand are reported on a stand-alone basis.

Figure 3: Converse's logo



### 3.3.Operating Segments

Nike reports their revenues by region. In the section below, we will analyze the revenues of these different regions and Converse over the last five years. Nike's revenue is divided into three departments: footwear, apparel, and equipment.

#### 3.3.1. North America

North America is the Nike brand's most prominent market, contributing approximately 40% to its overall sales, reaching its peak percentage in 2021. Over the cumulative period from 2019 to 2023, revenues witnessed a substantial growth of 35.8%, partly attributed to strategic investments in digital sales and the Nike Direct platform.

In 2019, the North American division accounted for 42.7% of Nike's leading brand revenues, amounting to $15.9 billion. During this fiscal year, sales marked a 7% increase, driven primarily by growth in all categories, notably through Nike Direct. Nike Direct sales represented 31.61% in 2019, with the remaining share from wholesale customers.

The year 2020 witnessed an 8.9% revenue decline, which was attributed to the global impact of the COVID-19 pandemic. Despite the challenging environment, Nike Direct managed to grow by 2%. North America's total revenue in 2020 amounted to $14.84 billion.

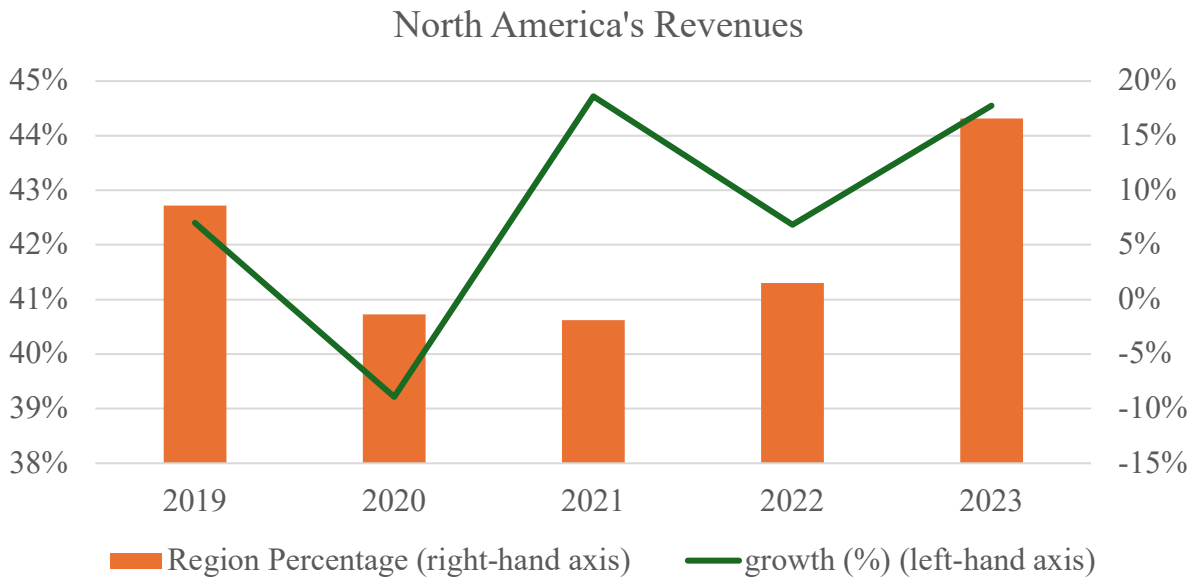
Fiscal year 2021 saw a remarkable 19% growth in revenues, recovering from the pandemic, with the Nike Direct channel experiencing a substantial 37% increase. In 2021, Nike Direct accounted for 41% of total sales, underlining its growing significance.

By 2022, sales in the North American region reached $18.353 billion, reflecting a 7% increase compared to 2021. The Nike Direct channel continued its growth trajectory, expanding by 25% and constituting 47.5% of total sales. Conversely, sales via the Wholesale channel decreased by 6%, indicating a shift toward direct-to-consumer sales.

In 2023, all key segments, including Footwear and Equipment, experienced robust growth of 22% and 21%, respectively. The direct-to-consumer channel continued to thrive, representing

47.8% and surpassing the $10 billion mark. Overall, total sales for 2023 reached $21.608 billion, demonstrating an 18% growth compared to 2022.

Figure 4: North America Revenues and Growth (Nike and own analysis)




### 3.3.2. EMEA

EMEA emerges as Nike Inc.'s second-strongest geographical division, contributing approximately 27% to the company's total sales. The region achieved its peak contribution in 2022, reaching 28.1% and generating $12.479 billion in sales.

In 2019, the EMEA region accounted for 26.5% of Nike Inc.'s sales, totaling $9.812 billion and exhibiting a 6% growth compared to 2018. The primary driver of this increase was the Footwear segment. Like North America, the Direct-to-Consumer channel played a pivotal role, constituting 27.8% of sales in the EMEA region.

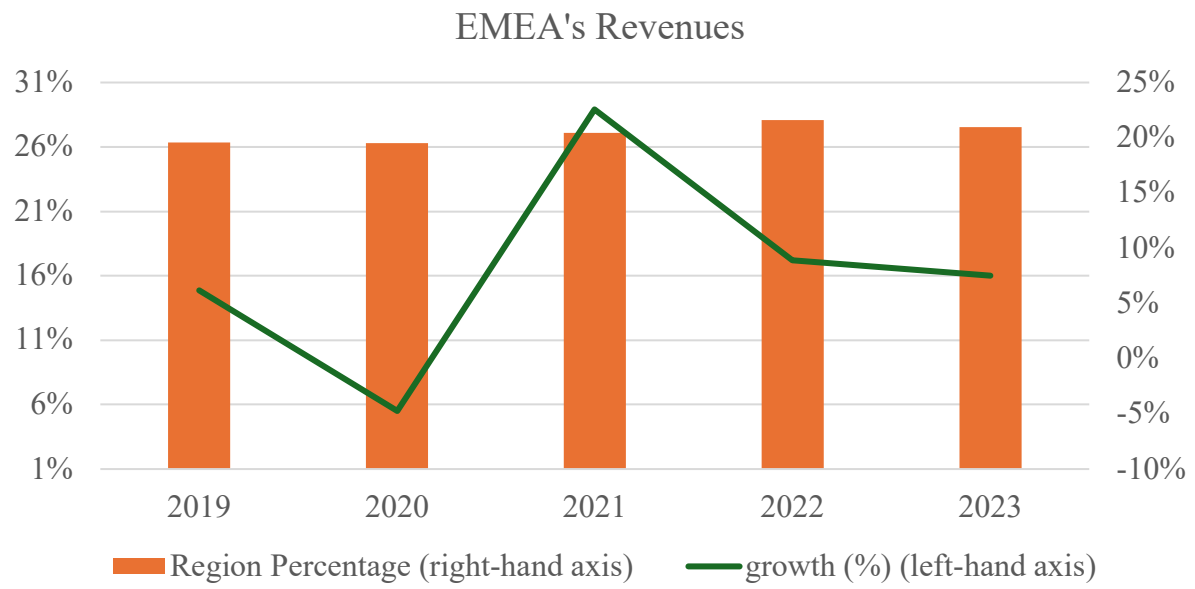
The year 2020, marked by the COVID-19 pandemic, which significantly impacted Northern Europe and Southern Europe, saw an 8% decline in sales. This was partially offset by a 5% growth in the UK and Ireland. Overall, the region experienced a 5% regression in sales, with Nike Direct representing 29.6% of total sales.

In 2021, the region witnessed a recovery of revenues across all areas, mainly led by the UK, Ireland, and Central Europe, growing by 34% and 20%, respectively. The overall region achieved a 23% growth, contributing $11.456 billion in sales. Nike Direct represented 31.8% of total sales.

In the fiscal year 2022, the EMEA region reached its highest share of sales in Nike Inc.'s results at 28.1%. This achievement was attributed to the improvement in foot traffic following the pandemic and enhanced sales in digital channels. Sales grew by 9%, reaching $12.479 billion, with digital sales representing 32.9%.

In 2023, sales continued to improve across all segments, with a notable emphasis on a 12% growth in Footwear. Digital sales further solidified their importance for the brand, reaching 36.4% of total sales in the region. In summary, sales grew by 8%, resulting in a sales figure of $13.418 billion.

Figure 5: EMEA's Revenues and Growth (Nike and own analysis)




### 3.3.3. Greater China

Greater China is the third largest revenue contributor, typically contributing between 15% and 20% to Nike Inc.'s total sales. Its peak significance was observed in 2021, representing 20% of the overall sales.

In 2019, the first year under analysis, revenues surged by 21% compared to 2018, with a notable emphasis on the footwear and apparel segments, resulting in a total sales volume of $6.208 billion. Nike Direct experienced remarkable growth, surging by 29% and representing 39.9% of sales in the region.

The fiscal year 2020 has proved challenging again due to the COVID-19 pandemic, with revenues growing by only 8% compared to 2019. Nevertheless, the digital market continued to thrive, showing a significant improvement of 16%.

In 2021, they have marked substantial improvement across all categories, with sales increasing by 24% in Footwear, 24% in Apparel, and 32% in Equipment. As anticipated, the direct-to-consumer market continued its upward trajectory, growing by 31% compared to total sales in the region and representing 45.56% of the overall sales. Overall, sales grew by 24%, reaching $8.290 billion.

In contrast to other regions, Greater China experienced ongoing COVID-19 lockdowns in the fiscal year 2022, resulting in a significant decrease in sales across all categories and channels. Total sales declined by 9%, concluding the year at $7.547 billion.
Lastly, in 2023, there was a continued decrease across all categories and channels, concluding the year with total revenues of $7.248 billion, representing a 4% decline in sales.

Figure 6: Greater China's Revenues and Growth (Nike and own analysis)

### 3.3.4. Asia Pacific & Latin America

The Asia Pacific & Latin America, the final regional division under examination, represented between 12.6% and 14.1% of Nike Inc.'s total sales.

In 2019, revenues increased by 2%, driven by significant contributions from Argentina, Uruguay, Chile (SOCO), Korea, and Japan, which saw growth rates of 19%, 16%, and 11%, respectively. Nike's digital platform represented 28.7% of total sales, resulting in an overall sales increase of 2%, reaching $5.254 billion.

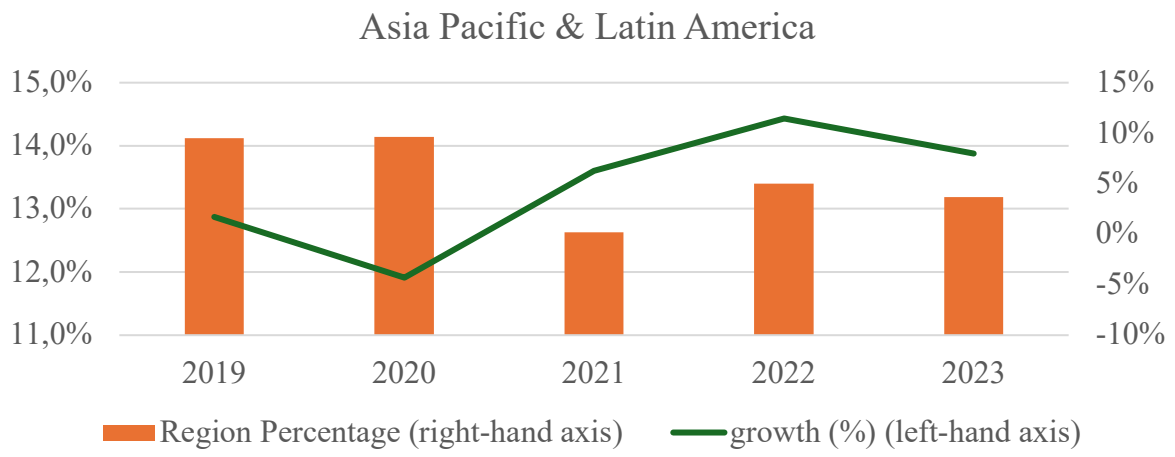
Similarly, 2020 posed considerable challenges for this region due to the COVID-19 pandemic, leading to a 4% decrease in sales.

In 2021, sales rebounded, attributed to increased sales in Japan and the Pacific regions (including Australia and New Zealand), although Latin American distributors experienced a 48% decline. Despite these setbacks, Nike achieved a 6% increase in sales, reaching $5.343 billion.

Results surged for the fiscal year 2022, experiencing an 11% increase across all territories, partially influenced by improved physical retail traffic. Digital sales reached 40.7% of the region's total sales.

Finally, in 2023, sales continued to grow, mainly driven by Southeast Asia, India, Korea, and Japan. This resulted in an 8% increase and total sales reaching $6.431 billion.

Figure 6: Asia Pacific & Latin America's Revenues and Growth (Nike and own analysis)




### 3.3.5. Global Brand Divisions

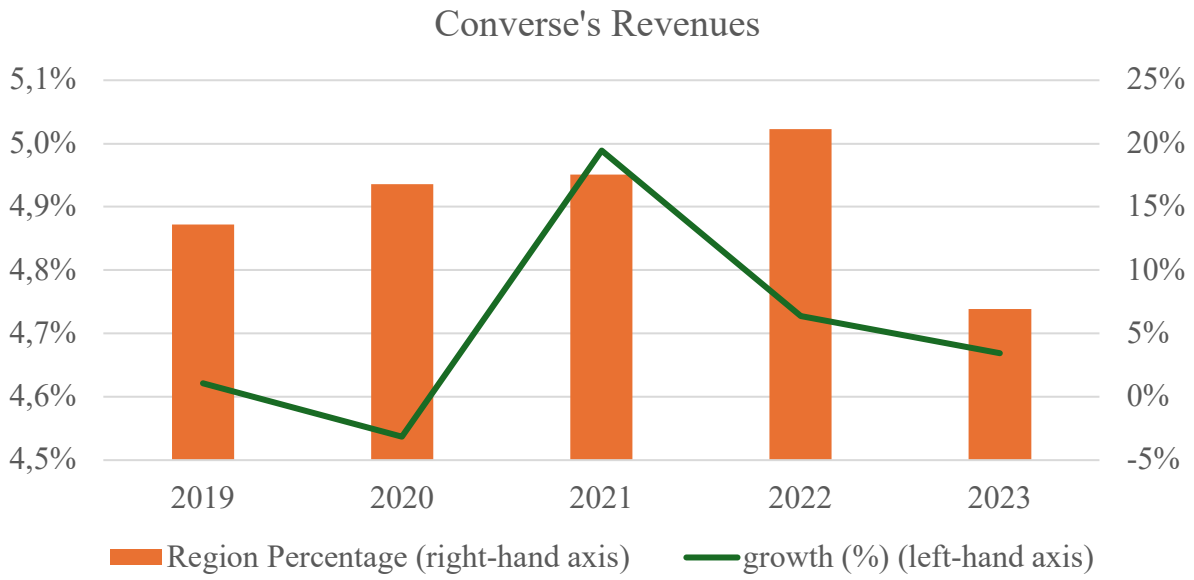
The Global Brand Divisions predominantly encompass demand creation and operating overhead expenses. This includes centrally managed product creation and design expenses for the NIKE Brand and costs related to NIKE Direct's global digital operations and enterprise technology. Revenues generated by Global Brand Divisions comprise NIKE Brand licensing and other miscellaneous revenues not attributed to any specific geographic operating segment.

Figure 7: Global Brand Division's Revenues and Growth (Nike and own analysis)

### 3.3.6. Converse

As previously stated, Converse operates as an independent entity within the Nike umbrella, directly consolidating its outcomes with the parent company. This consistently delivers stable results, contributing to the group's 4.74% and 5.02% sales.

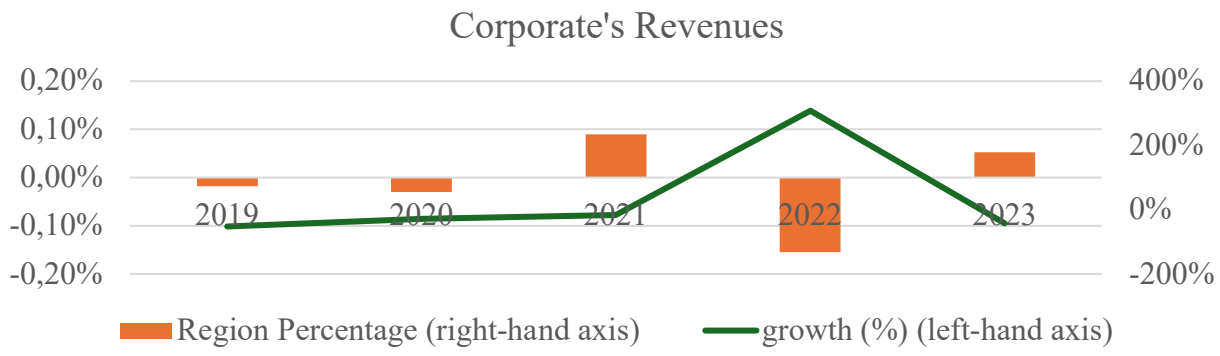
Figure 8: Converse's Revenues and Growth (Nike and own analysis)




### 3.3.7. Corporate

Corporate revenues mainly involve gains and losses from foreign currency hedges linked to revenues produced by entities within the NIKE Brand geographic operating segments and Converse. Nike's foreign exchange risk management program centrally manages these financial transactions.

Figure 9: Corporate's Revenues and Growth (Nike and own analysis)

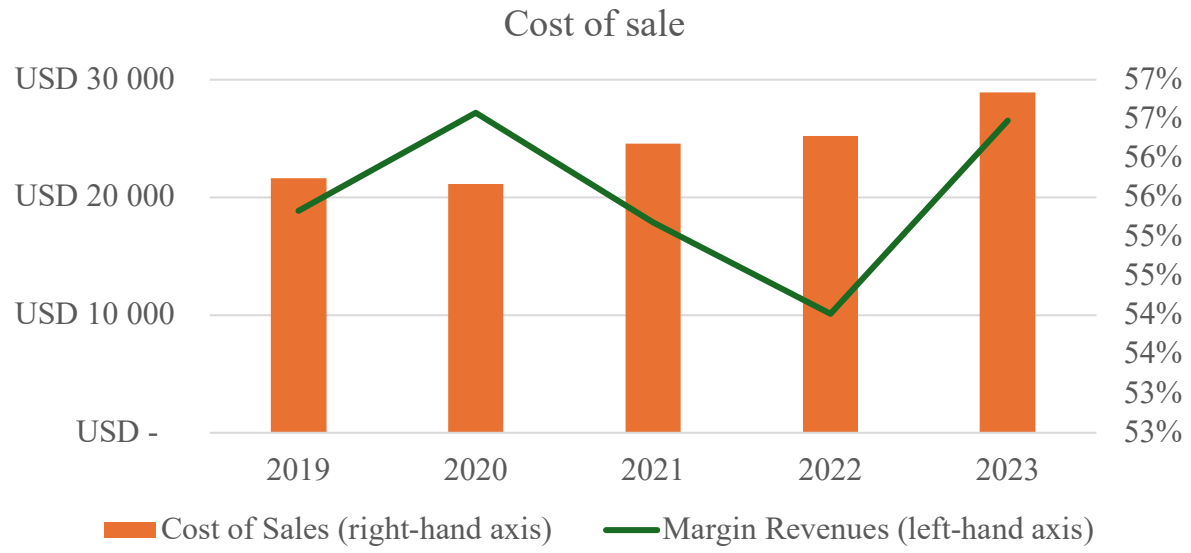


### 3.4.Costs of Sales

The cost of sales mainly includes inventory-related expenses, comprising warehousing costs like warehouse labor, third-party royalties, specific gains and losses from foreign currency hedges, and product design expenses. Shipping and handling costs are recognized upon occurrence and are integrated into the overall cost of sales. This component is crucial for comprehension as it constitutes the primary expenditure.

The cost of sales consistently represents a significant percentage of revenue, fluctuating between 54% and 57%. This consistency is attributed to the fact that nearly all products are manufactured by independent contractors outside the US, as the report outlines.

Figure 10: Cost of Sales Revenue and Growth (Nike and own analysis). In billions of USD.



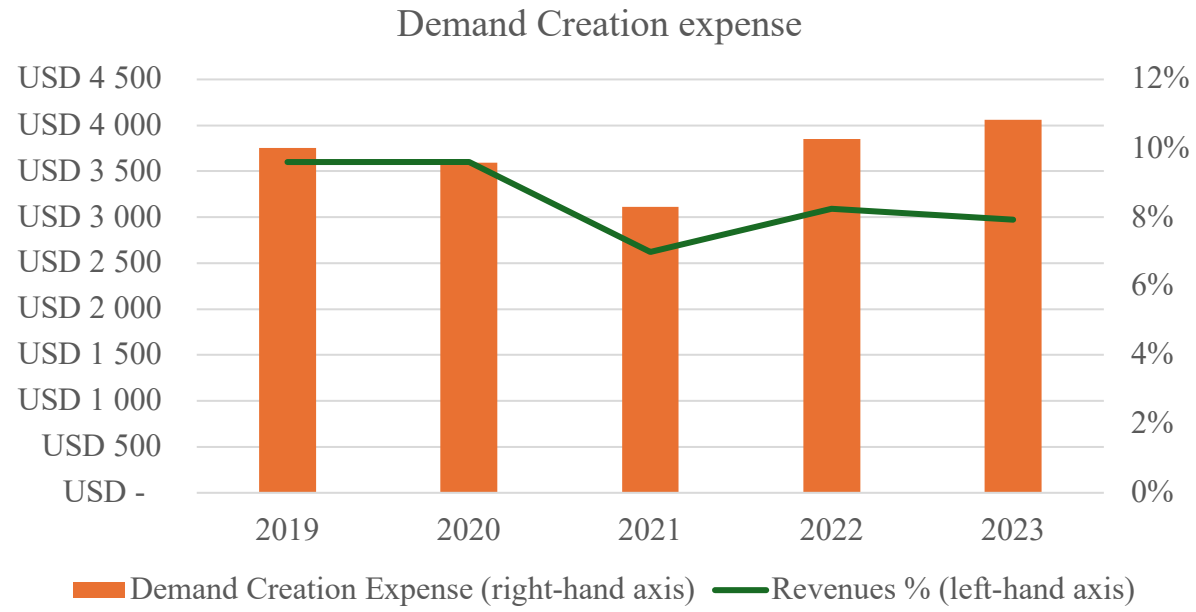

### 3.5.Demand Creation Expense

The demand creation expense encompasses costs related to advertising and promotion, such as endorsement contracts, complimentary products, television, digital and print advertising, media expenses, brand events, and the brand's presentation in retail.

This aspect holds substantial importance in Nike's business, which primarily concentrates on marketing and promoting its products. Like the cost of sale items, demand creation consistently represents a percentage of revenues, ranging between 7% and 10% over the past five years.

However, demand expenses have increased 24% since 2022 compared with 2021. This was caused by the Covid-19 pandemic and ongoing investments in digital marketing to meet the demand for creating a new digital channel. In 2023, Nike continued the investment in line with its goals to increase its digital market.

Figure 11: Demand Creation Expense's and as a percentage of revenues (Nike and own analysis). In billions of USD.



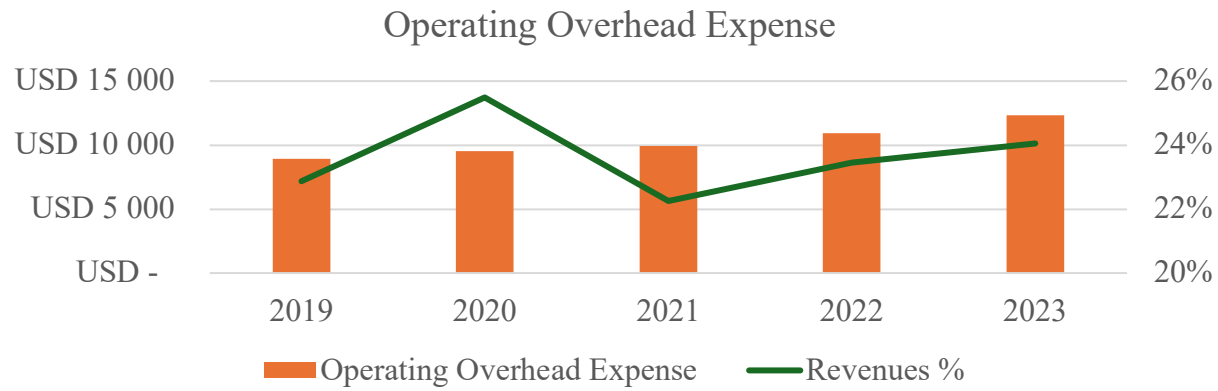

### 3.6. Operating Overhead Expense

Operating overhead expenses primarily cover costs associated with wages and benefits, research and development, bad debt, and administrative fees. These administrative expenses include rent, depreciation, amortization, professional services, specific technology investments, and costs related to meetings and travel.

Like other expenditures, the operating overhead expenses are maintained at a consistent percentage of revenues. They have fluctuated between 22.3% and 24% of total revenues.

As seen below, this has also been met with a growth tendency. This rise results from the new technology investments and variable costs derived from Nike Direct's business.

Figure 12: Demand Creation Expense's and as a percentage of revenues (Nike and own analysis)




### 3.7. Corporate Structure

According to the Annual report on May 31, 2023, Nike had 1.551.600.000 shares outstanding, and trading on the New York Stock Exchange.

Nike, Inc. stock is divided into two classes: Class A and Class B. Both classes have the same voting rights; however, the Class A stockholders vote on a separate class when electing directors for the board.

Class A of Common Stock is not publicly traded and is convertible to Class B on a 1-to-1 ratio. Class A stockholders are entitled to elect nine out of 12 directors to the board.

Class B shareholders elect the remaining 3 of the 12 board members. The most significant shareholders are BlackRock, Vanguard, and Statestreet.

Table 1: Nike's Top shareholders (Nike)

| Shareholders | Title Class | Number of Shares Owned | Percentage per Class |
|---|---|---|---|
| **Sojitz Corporation of America** | Preferred | 300,000 | 100,00% |
| **Philip Knight** | Class A | 21,404,487 | 7,00% |
| | Class B | 29,740,174 | 2,40% |
| **Swoosh, LLC** | Class A | 233,500,000 | 76,60% |
| | Class B | 233,500,000 | 16,00% |
| **Travis A. Knight 2009 Irrevocable Trust II** | Class A | 41,006,369 | 13,50% |
| | Class B | 41,006,369 | |
| **The Vanguard Group** | Class B | 109,698,806 | 3,20% |
| **BlackRock, Inc.** | Class B | 85,497,266 | 6,80% |
| **All directors and executive officers as a group (18 persons)** | Class B | 6,022,698 | 0,50% |

# 4. Macroeconomic Overview

Nike manufactures non-essential consumer goods, catering to desires rather than necessities. Consequently, the demand for these products is subject to economic cycles. Nike's revenues may decrease if disposable income in the regions where the company operates significantly decreases, and vice-versa.

It is crucial to grasp the macroeconomic landscape, considering factors like Gross Domestic Product, Inflation, Exchange rates, and price of raw materials, as they play a pivotal role in determining Nike's future revenue trends.

## 4.1. Inflation

Inflation indicates the overall direction of price fluctuations based on changes in a predetermined basket of goods and services.

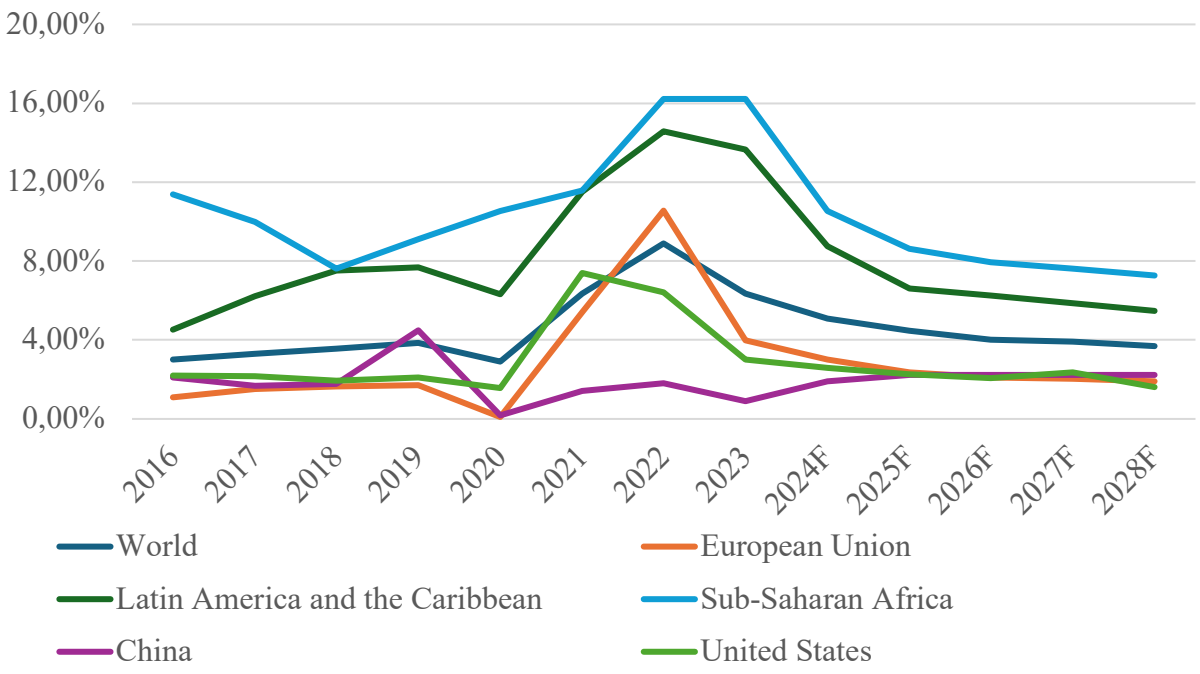
Between 2021 and 2022, there was a substantial surge in inflation, with a notable increase of 6.34% in 2021 and 8.90% in 2022 worldwide. This surge is widely attributed to the aftermath of the COVID-19 pandemic, marked by successive lockdowns causing disruptions in the supply chain and product shortages. The increased demand from those still employed and extensive government assistance programs supporting individuals without job security and stimulating the economy contributed to this upward inflationary trend.

On February 24, 2022, Russia's invasion of Ukraine caused the global economy to face another setback. This impacted energy and food prices and further intensified inflationary pressures. Europe, a major importer of oil and gas from Russia, mainly felt the repercussions. Additionally, Ukraine and Russia played crucial roles in grain and fertilizer production, exacerbating the impact of the conflict. In the Euro Area, inflation rose from 5.41% in 2021 to 10.56% in 2022 (ECB, 2023).

As inflation continued to rise, central banks, notably the European Central Bank and the Federal Reserve System (FED), responded by increasing the reference interest rates and ceasing asset buying programs such as QE, to slow consumption and limit access to credit, as the Euro area and the United States surpassed the 2% inflation target set by these banking

systems. These inflation control measures had two adverse effects on Nike's revenues: first, by reducing household income due to limited access to credit, and second, by increasing Nike's borrowing costs.

Figure 13: Inflation Forecast IMF




### 4.2.Gross Domestic Product

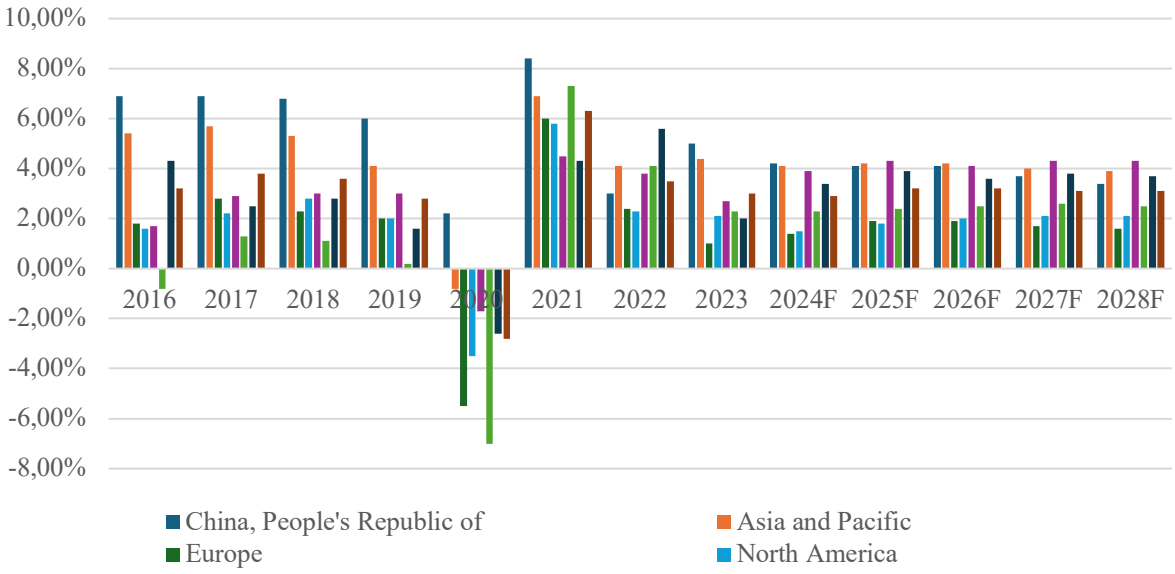
As mentioned earlier, Nike specializes in consumer discretionary products, indicating that their items are non-essential for consumers. Therefore, the willingness to purchase such products relies heavily on household income, and Gross Domestic Product (GDP) is a significant indicator of such a metric.

After a substantial global GDP decline in 2020 due to the COVID-19 pandemic, 2021 marked a recovery period. Vaccination efforts led to the lifting of lockdowns, and robust fiscal policies empowered countries to bolster their welfare systems. Countries with higher fiscal flexibility continued to support those most impacted by the pandemic. On the monetary front, central banks overlooked inflation concerns and maintained low interest rates, a trend reflected in Nike's financials, with a -4.4 % performance in fiscal 2020 followed by a 19.1% increase in 2021.

However, in 2022, global geopolitical events such as Russia's invasion of Ukraine and challenges in China, including a resurgence of COVID-19 and supply chain disruptions from successive lockdowns, posed significant challenges. China experienced its most challenging year since 2001, excluding the 2008 financial crisis, leading to new inflationary pressures and economic slowdown. Nike bore the brunt of these challenges, facing disruptions in distribution centers, contract manufacturing, and increased operating costs.

By 2023, monetary policies began to tighten, cooling demand and inflation. Following three years of economic turbulence and widespread inflation, central banks initiated interest rate hikes, impacting GDP growth. This effect was particularly pronounced in advanced economies, which constitute Nike's primary source of revenue.

Figure 14: Real GDP Forecast IMF




### 4.3.Exchange rates

As outlined in its annual report, a substantial portion of Nike's manufacturing and sales operations occurs outside the United States. Consequently, to present results in a consistent currency, typically in US dollars, the company is susceptible to the fluctuations of currency exchange rates, exposing it to market volatility and the broader global economic environment, including factors such as inflation and currency values.

The graph below illustrates a notable weakening of the Chinese Yuan, Vietnamese Dong, and Indonesian Rupiah against the US dollar.

Given Nike's extensive international footprint, revenues and expenses are frequently denominated in foreign currencies. Consequently, currency fluctuations wield a considerable influence on the reported financial outcomes. The consolidated results are initially presented in local currencies and converted into US dollars. This process impacts Nike's financials as local currencies depreciate relative to the US dollar, reducing revenues. Significantly, these depreciations also affect the cost of raw materials, resulting in increased production costs, potentially diminishing profit margins, or rendering certain products financially unviable. (Nike Annual Report, 2022). This effect can be seen in the table below. There was an appreciating impact for the EMEA and APLA region and a depreciation impact in the greater China region in 2022.

Figures 15: Exchange Rates vs USD since February 2022 (Eikon)

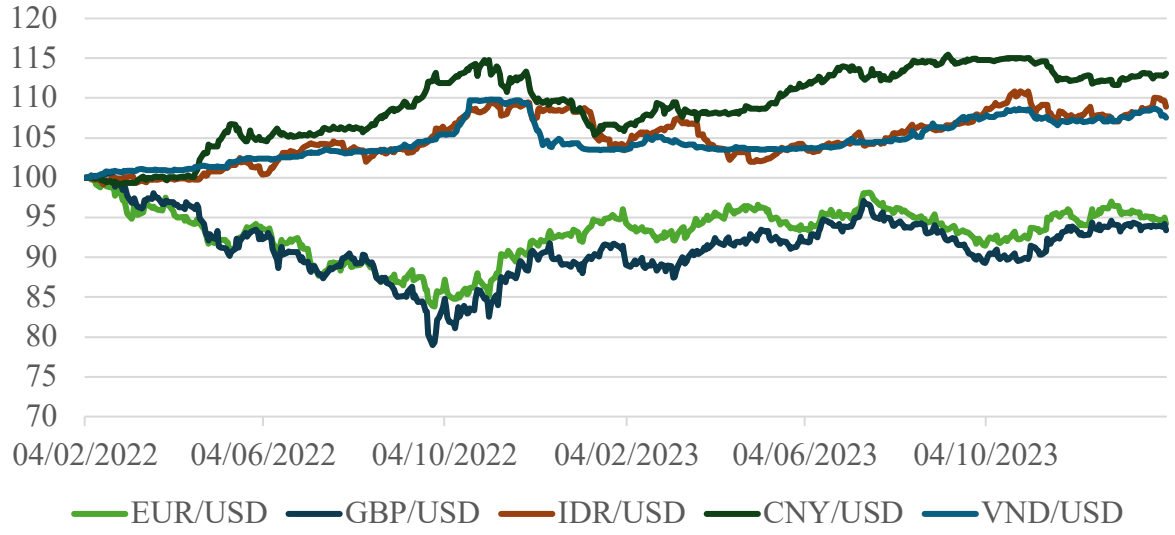



Table 2: Currency exchange difference

| (In millions, except per share data) | 2021 | 2022 | 2023 |
|---|---|---|---|
| Europe, Middle East & Africa | 11456 | 12479 | 13418 |
| Change % | | 8% | 9% |
| Change excluding currency changes % | | 21% | 12% |
| Greater China | 8290 | 7547 | 7248 |
| Change % | | -9% | -4% |
| Change excluding currency changes % | | -13% | 4% |
| Asia Pacific & Latin America | 5343 | 5955 | 6431 |
| Change % | | 11% | 8% |
| Change excluding currency changes % | | 16% | 17% |

# 5. Industry Analysis

## 5.1.Sporting goods industry

2022 was an excellent year for the sporting industry; consumer sentiment was improving month-to-month, reflecting the looser measures on COVID-19 restrictions. This made companies in the sector place orders sooner than usual as they would like to avoid the supply chain issues seen in 2021. This addition to this new normal came with widely positive results in the first half of the year. (Mckinsey, 2023)

In 2023, however, the world's economy was uneven, and the sporting goods industry continued to face challenges similar to those it had faced before. Economic uncertainty, inflation, and regional conflicts diminished consumer confidence, and the companies in the sector continued to face issues with inventory and overstocking material as an increase in demand was expected. As said, the industry showed resolve and grew 6% compared to 2022. (Mckinsey, 2024)

## 5.2.Industry Trends

McKinsey's annual report for the sporting industry selects four themes that are likely to be on top of sporting goods companies in the next year. These themes are Brand Relevance, Sustainability, Nearshoring, and the potential appearance of private investors in the sector.

Brand relevance is always essential for consumption products, especially in the case of a recessionary market in which consumers tend to rely more on the brands they rely on—the consumer journey changes before potential clients are attracted by functionality, design, and price. In addition to that, clients are also driven to a brand, which nowadays makes leading brands characterized by high levels of brand equity and following. Adding to this, the sporting industry is not just about sport but also about lifestyle, making its journey similar to fashion brands. This creates the need to create channels for direct-to-consumer, Nike Direct in Nike's case, collaborations with other brands, and community marketing. (Mckinsey, 2023)

Sustainability is now one of the main subjects in any industry, and the Sporting industry is no different. Mckinsey highlights the need to finally "deliver promises." To achieve this, brands

must clearly state their plan to achieve net zero CO2 emissions, define emission abatement curves, prioritize decarbonization levers, and enter circular economy businesses. Brands can suffer particularly early with this in the future if they do not come through with their promises; as described in the previous chapter, brand loyalty is critical in today's market, and once the client is lost, it can be challenging them back. (McKinsey, 2023).

Nearshoring is also one of the new trends Mckinsey has raised, given the backlash of the COVID-19 pandemic's problem with delayed deliveries and excess inventories. Mckinsey points out that international sporting brands should reduce their exposure to supply chain shocks, reduce delivery times, and diminish costs. To achieve this, sporting goods companies must ensure that the chosen country meets the requirements for materials and components, offers a skilled workforce, and offers an excellent financial impact and feasibility. (Mckinsey, 2023)

Lastly, with the rising interest of private investors in the sporting goods industry, with the rising health awareness, and with such a significant part of the population still not adhering to it, private investors see the sporting goods industry as an industry for the future. Adding to this, the sporting goods industry is prosperous in competitors with companies with extensive favorable backgrounds, such as Nike, Puma, and Adidas, to name a few. (Mckinsey,2023)

### 5.3.ESG

ESG stands for environmental, Social, And Governance; as mentioned before, this is one of the hottest topics in every company's management, and Nike and its industry are no different. This new business practice is also called sustainability. These new practices aim to change management style from an old practice of only profit-maximizing to a more holistic practice that looks more inclusive and environmentally friendly.

Nike created an ESG report called Impact Report every year, made public on 23 March 2023. This report focuses on the representation of women in the workforce and new policies to become too low carbon emissions. The three points raised by Nike are People, Play, and Planet, and we will describe them briefly below.

Women made up 51% of Nike's corporate workforce worldwide in FY22, and the company has industry-leading initiatives that actively support women's progress from various backgrounds. The business supports fair compensation and representation because it understands how these things may benefit communities. Nike ensured that female employees received 1:1 pay equity everywhere it operated, including for racial and ethnic minorities in the US. At the same time, the company worked to increase the diversity of its leadership ranks. Nike has shown its commitment to diversity by providing $777 million to help diverse suppliers, including multiple companies run by women, over the last two fiscal years. (Nike Impact Report)

Nike's collaborations and initiatives in the field of play have been crucial in promoting positive change for girls and their communities. Over 17,000 instructors now have the tools to provide more inclusive experiences for kids, and over 375,000 girls have access to play and sports through various programs. The business made global community investments totaling $149 million, or 2.24 percent of its pre-tax income from the previous year, focusing on supporting women, girls, and the Black Community Commitment (BCC). (Nike Impact Report)

Nike's teams made significant progress in FY22 towards environmental sustainability, securing the human race's common playground and influencing the direction of sports. Creative projects like Nike Forward—a material platform and production technique—were introduced to cut carbon emissions in the clothing industry. Through power purchase agreements, renewable energy credits, and wind and solar programs, Nike has effectively built on years of commitment to renewable energy by reducing greenhouse gas (GHG) emissions from owned or controlled facilities by over 40% from FY21 to FY22. Currently, electricity from renewable sources powers 93% of these facilities. Furthermore, the business took a proactive stance towards sustainability by using 39% ecologically friendly components in its goods, which cut the company's greenhouse gas emissions by nearly 182,000 metric tonnes. (Nike Impact Report)

Nike’s commitment to management change is visible in the table below. Even though there is still work to be done, Nike is at the forefront of ESG change, as shown in the table below. Nike currently ranks fourth among the companies it considers its competitors.

Table 3: ESG Score (Eikon)

| Company Name | HQ | Industry Group | Mkt. Cap (M) | ESG Score |
|---|---|---|---|---|
| Adidas AG | DE | Textiles & Apparel | $36,363 | 89,40 |
| Puma SE | DE | Textiles & Apparel | $6,840 | 85,15 |
| Asics Corp | JP | Textiles & Apparel | $8,085 | 73,91 |
| **Nike Inc** | **US** | **Textiles & Apparel** | **$154,361** | **71,78** |
| ANTA Sports Products Ltd | CN | Textiles & Apparel | $27,553 | 62,63 |
| VF Corp | US | Textiles & Apparel | $6,314 | 59,00 |
| Lululemon Athletica Inc | CA | Textiles & Apparel | $55,513 | 57,32 |
| Li Ning Co Ltd | CN | Textiles & Apparel | $6,619 | 44,54 |
| Under Armour Inc | US | Textiles & Apparel | $3,787 | 39,54 |

### 5.4.Competition

Nike, Inc., is a player in the apparel and footwear industry. Its annual report identifies Adidas, Anta, ASICS, Li Ning, Lululemon Athletica, New Balance, Puma, Under Armour, and V.F. Corporation as its primary competitors. In this segment, we explore Nike's competition and the broader industry.

Adidas AG, headquartered in Germany, specializes in designing, developing, producing, and marketing athletic and sports lifestyle products. The company's diverse segments encompass Europe, North America, Asia-Pacific, Russia/CIS, Latin America, Emerging Markets, Adidas Golf, Runtastic, and Other centrally managed businesses. Each segment involves wholesale, retail, and e-commerce activities for distributing and selling Adidas-branded products globally, including over 2,500 own-retail stores and an extensive e-commerce channel. (Eikon, 2024)

ANTA Sports Products Limited, based in Mainland China, is primarily involved in manufacturing and trading sporting goods, including footwear, apparel, and accessories. Focusing on the sportswear market in China, the company boasts a brand portfolio that includes ANTA, ANTA KIDS, FILA, FILA KIDS, and NBA. ANTA also manufactures shoe soles through its subsidiaries, such as Anta Enterprise Group Limited, Motive Force Sports Products Limited, and REEDO Sports Products Limited. (Eikon, 2024)

ASICS Corporation, a Japan-based company, mainly manufactures and sells sports products like sports shoes, sportswear, and sports equipment. The company operates through six business segments, including Japan, Americas, Europe, Oceania/Southeast and South Asia, East Asia, and Others (focused on HAGLOFS brand outdoor products). (Eikon, 2024)

Li Ning Company Limited, primarily operating in the People's Republic of China (PRC), is involved in the brand development, design, manufacture, and sale of sport-related footwear, apparel, equipment, and accessories. The company also manages other sports product brands, including Double Happiness (table tennis), AIGLE (outdoor sports), and Lotto (sports fashion). Li Ning also provides information technology services through its subsidiaries. (Eikon, 2024)

Lululemon Athletica Inc. designs, distributes, and retails technical athletic apparel, footwear, and accessories. The company's segments include company-operated stores and direct-to-consumer channels. Lululemon offers a diverse apparel assortment for a healthy lifestyle, catering to activities like yoga, running, training, and more. Their products are sold through company-operated stores, e-commerce, outlets, wholesale accounts, license and supply arrangements, recommence, and temporary locations. Additionally, Lululemon offers in-home connected fitness and associated content subscriptions through Lululemon Studio. (Eikon, 2024)

New Balance Athletic Inc. manufactures, markets, and sells shoes, apparel, and accessories for men, women, and children. The product portfolio includes various categories such as running shoes, walking shoes, work shoes, sandals, sports shoes, shirts, jackets, hoodies, shorts, pants, and fashion accessories. New Balance markets its products under brand names like New Balance, Brine, and Warrior through various retail channels, including specialty retailers, retail and factory stores, department stores, and online e-commerce portals. (Global Data, 2024)

PUMA SE, a Germany-based company, designs, develops, sells, and markets sports footwear, apparel, and accessories. The company operates across segments such as Europe, the Middle East and Africa (EMEA), the Americas, and Asia/Pacific. PUMA offers performance and sport-style products through six business units and sells products through wholesale and retail trade, retail stores, and online channels across approximately 120 countries. (Eikon, 2024)

Under Armour, Inc. is a marketer and distributor of branded athletic performance apparel, footwear, and accessories. The company operates in four geographic segments: North America, Europe, the Middle East and Africa, Asia-Pacific, and Latin America. Under Armour sells its products through various channels, including wholesale, direct-to-consumer, and e-commerce, catering to men, women, and youth across different regions. (Eikon, 2024)

V.F. Corporation, an apparel, footwear, and accessories company, owns a diverse portfolio of brands in outerwear, footwear, apparel, backpacks, luggage, and accessories categories. Its brands include Vans, The North Face, Timberland, and Dickies. The company operates through three segments: Outdoor, Active, and Work, each offering different product lines and targeting specific consumer needs. V.F. Corporation's direct-to-consumer business includes retail stores, brand e-commerce sites, concession retail locations, and digital platforms. (Eikon, 2024)

Nike mentions in its report the companies they think are competition; however, according to the literature review and Koller et al. (2005), one way to narrow the peer group is to compare the return on invested capital (ROIC).

Table 4: ROIC of competitors (Eikon)

| **Company Name** | **FY 2023** | **FY 2022** | **FY 2021** | **FY 2020** | **Average of the las 4 years** |
|---|---|---|---|---|---|
| Lululemon Athletica Inc | 22,30% | 28,50% | 19,80% | 30,40% | 25,25% |
| Li Ning Co Ltd | | 16,60% | 25,00% | 19,50% | 20,37% |
| ANTA Sports Products Ltd | | 19,70% | 20,00% | 16,80% | 18,83% |
| **Nike Inc** | **17,50%** | **21,00%** | **22,40%** | **13,10%** | **18,50%** |
| Puma SE | 9,10% | 11,50% | 12,00% | 4,40% | 9,25% |
| Adidas AG | | 2,20% | 12,00% | 3,90% | 6,03% |
| VF Corp | 0,20% | 11,30% | 3,60% | 6,80% | 5,48% |
| Asics Corp | 12,00% | 7,50% | 3,80% | -6,90% | 4,10% |
| Under Armour Inc | 11,70% | | 10,00% | -15,80% | 1,97% |

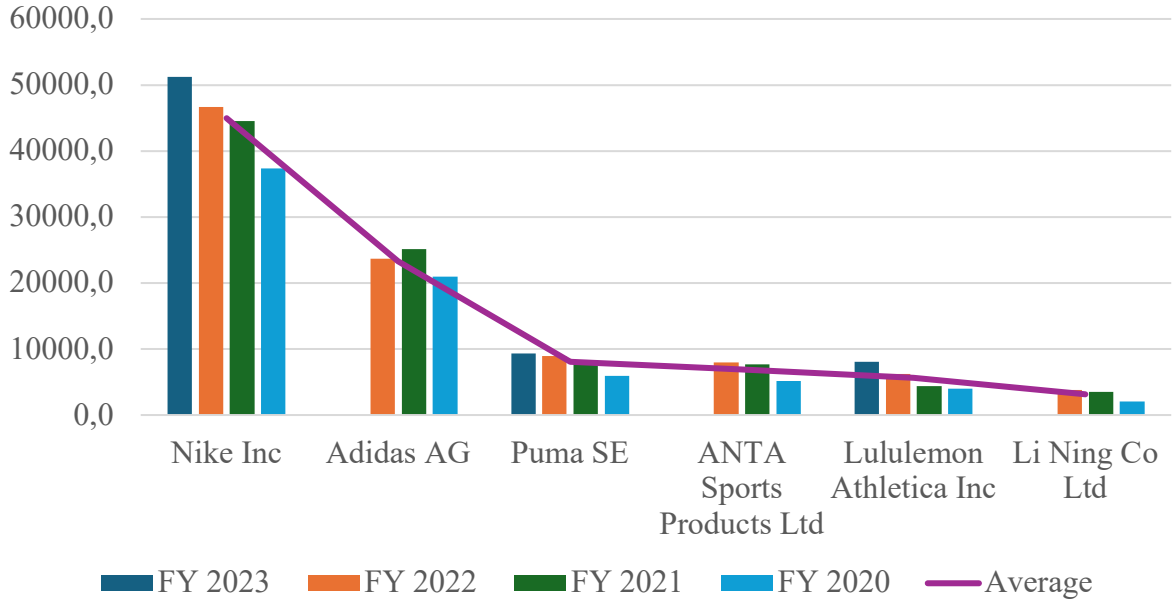
Given the table above, we will select Lululemon Athletica Inc, Li Ning Co Ltd, ANTA Sports Products Ltd, Puma SE, and Adidas AG as the per group for the multiples valuation.

As mentioned, these companies operate in the discretionary consumer products industry, so they are highly subject to the revenues they obtain. That said, revenues are the ultimate comparison tool in this industry.

Comparing the revenues for the last four fiscal years:
As we can see in the table below, Nike outranks any other competitor in revenue terms. In comparison with the second largest revenue generator, Adidas; Nike revenues are on average 67,4% larger and more than 4 times larger than the second largest competitor.

In addition, Nike is the most significant player in its industry, surpassing any other major competitor. This will influence our results in the multiples valuation, as there is no competitor like Nike.

Figure 16: Revenue Comparison versus Competitors (Eikon)



## 6. Financial Analysis

Table 5: Nike's Income Statement (Nike)

| (In millions of dollars) | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|
| Income from continuing operations: | | | | |
| Revenues | 37403 | 44538 | 46710 | 51217 |
| Total Nike Brand | 35568 | 42293 | 44436 | 48763 |
| Converse | 1 846 | 2 205 | 2346 | 2 427 |
| Corporate | -11 | 40 | -72 | 27 |
| Cost of Sales | 21162 | 24576 | 25231 | 28925 |
| Gross Profit | 16241 | 19962 | 21479 | 22292 |
| Gross Margin | 43% | 45% | 46% | 44% |
| Demand Creation Expense | 3592 | 3114 | 3850 | 4060 |
| Operating Overhead Expense | 9534 | 9911 | 10954 | 12317 |
| Total Selling and administrative expenses | 13126 | 13025 | 14804 | 16377 |
| Interest Expense | 89 | 262 | 205 | -6 |
| Other (income) Expense | 139 | 14 | -181 | -280 |
| Income before income taxes | 2887 | 6661 | 6651 | 6201 |
| Income tax expense | 348 | 934 | 605 | 1131 |
| **NET INCOME** | **2539** | **5727** | **6046** | **5070** |

Nike, Inc.'s revenues increased to $51.2 billion in the fiscal year 2023, representing an increase of 10% compared to fiscal year 2022. This growth comes from the rise in Nike's central regions, North America, Middle East and Africa, Asia Pacific and Latin America, and greater China, which increased by 7%, 6%, 2%, and 1% of the increase, respectively. (Nike, 2023)

Overall, Nike's brand revenues represent over 90% of Nike, Inc.'s revenues, which increased by 10% compared to the fiscal year 2022. This is primarily the result of the increased revenues in the men's, Jordan Brand, women's, and kids, which grew 17%, 35%, 11%, and 10%, respectively. (Nike, 2023)

Nike brand's footwear increases resulted partly from a rise of 13% in unit sales; at the same time, a higher average selling price also increased footwear revenue growth by 7% per pair on average. The higher average selling price results from higher full-price selling prices, net of discounts, and an increase in sales in Nike Direct's business, which is offset by its lower selling price. (Nike, 2023)

Nike Brand apparel unit revenues increased by 8% compared to fiscal year 2022, mainly driven by Men's sales, which grew 4%, enhanced by a higher full-price average sales price and growth of the Nike direct side of the business. (Nike, 2023)

Nike Direct's revenue increased 14% from $18.7 billion in fiscal year 2022 to $21.3 billion in fiscal year 2023. The main driver of this revenue growth is overall sales, which grew 24%; this result is comparable with in-store growth, which grew 14%. Nike's digital sales were $12.6 billion in 2023 compared with $10.7 billion in fiscal year 2022. (Nike,2023)

In this chapter, we will analyze Nike's financial statements to understand its current financial situation better.

### 6.1.Capital Structure

Table 6: Nike's Debt tp Equity Ratio (Eikon)

| Capital Structure | 2020 | 2021 | 2022 | 2023 | Industry Median |
|---|---|---|---|---|---|
| Debt to Equity | 1.20 | 0,74 | 0,62 | 0,64 | 0,46 |

Nike's capital structure analysis was focused on the last four years, as before, it did not report any financial debt as it does now; this happened due to a change in Accounting Reporting Standards in Fiscal year 2020, impacting the Debt-to-Equity figures. This difference comes from the fact that it now needs to report its operating leases, which affects the debt-equity ratio. This figure is obtained by dividing total debt by common equity. As we can see above, there was a significant increase in retained earnings from 2020 to 2021, and 2020 is the year where Nike was most affected by the COVID-19 pandemic, as we discussed earlier.

Nike funds its domestic and foreign capital needs mainly using capital generated by its operations. However, it uses cash reserves, short-term investments, and external sources.

Due to Nike's substantial excess cash, management expects to increase shareholder value by returning invested capital through dividends and share repurchases. Nike is also entering attractive investment opportunities, such as Nike Direct.

In conclusion, Nike INC's capital structure is very stable, as we can see above, only changing shifts due to the COVID-19 bond issue.

### 6.2.Liquidity

This sub-chapter will look at Nike's liquidity. Liquidity ratios are essential to assess the company's ability to meet its short-term obligation with its liquid assets. These ratios are important in understanding the company's ability to maintain short-term financial health and cover immediate liabilities.

The quick ratio or Acid-test ratio goal assesses Nike's liquidity and ability to meet its financial obligation without selling inventory. This is a more conservative measure than the current ratio. Nike's ratios are significantly higher than the industry's, and it can cover all the current liabilities with its current assets, less its inventory.

The current ratio has a similar goal as the quick ratio but is less conservative. It only measures the ability of the current asset to cover the current liability. As shown in the table below, Nike can almost cover it three times. Compared with the rest of the industry, it is, as expected, much higher.

The interest coverage ratio, called times interest earned, evaluates how well a business can use its operating income to pay its interest. A higher ratio denotes a lower level of financial risk and a better ability to pay interest.

The period a business takes to turn its inventory investment into cash is known as the cash cycle. It accounts for the time needed to pay payables, collect receivables, and sell inventory. A shorter cash cycle is preferable since it shows better-working capital management.

Nike surpasses the industry median compared to its peers, showing its financial wealth.

Table 7: Nike's Liquidity Ratio (Eikon)

| Liquidity | 2023 | 2022 | 2021 | 2020 | Industry Median |
|---|---|---|---|---|---|
| Quick Ratio | 1,81 | 1,84 | 2,01 | 1,59 | 1.13 |
| Current Ratio | 2,72 | 2,63 | 2,72 | 2,48 | 2.20 |
| Times Interest Earned | 20,30 | 22,30 | 24,30 | 20,60 | 9.9 |
| Cash Cycle (Days) | 98,80 | 101,60 | 97,80 | 104,60 | 126.0 |

# 7. Financial Statement Forecast

## 7.1.Revenues

Mckinsey's 2024 report "Sporting goods 2024: Time to move" provides a forecast for the industry growth per region up to the year 2027, as can be seen in appendix 4. These figures were used as a proxy for revenue growth of Nike in the upcoming years, the year 2028 is assumed to experience the same growth as that of 2027.

When we compare the past data from Mckinsey with Nike's aggregate world revenue, we can see close proximity between the two. The two data sets are 94,5% correlated.

Figure 17: Mckinsey's Assumptions vs Nike Revenue Growth (McKinsey and Nike)

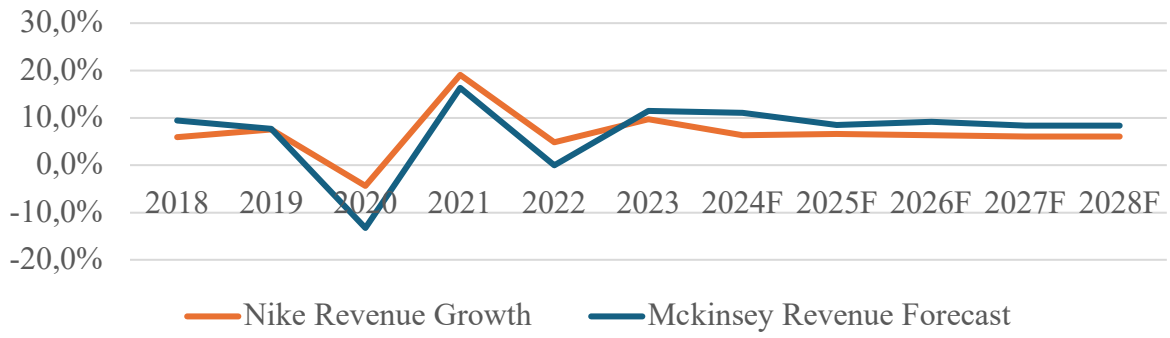



Table 8: Assumptions vs Nike Revenue Growth (McKinsey and Nike)

| | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Nike Revenue Growth | 6,3% | 6,6% | 6,3% | 6,0% | 6,0% |
| Mckinsey World Sporting Revenue Data | 7,1% | 7,1% | 6,9% | 6,4% | 6,4% |

According to the report, we expect revenue growth in North America to decrease after a significant uptick of 17,7% in 2023 and stabilize around 6,5% after that.

The slowdown in growth is expected, given the recent surges in inflation and the significant hikes in reference interest rates across the major geographies in which Nike is present, as discussed in chapter 4. The report also highlights the importance of inflation in consunption and the importance of disposable income for the industry; In the report, consumers in the United States of America put inflation and ability to make ends meet as their main concern, see

appendix 5. Despite this, we expect North America to remain the most crucial region for Nike's revenues.

Table 9: Revenue Growth Assumption for North America (McKinsey)

| | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| North America's Revenues Growth | 7,1% | 6,2% | 5,8% | 5,8% | 7,1% |

Similar to the North America region, in EMEA we expect revenues to continue to grow at a lower pace given the current situation in Europe with a regional conflict in Ukraine still ongoing. According to Mckinsey's report, consumers in Europe select as their main sources of concern, Inflation, Climate Change and International conflicts. After FY 2024, Mckinsey expects the region to return to higher numbers and to continue growth at the 4% region.

Table 10: Revenue Growth Assumption for EMEA (McKinsey)

| | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| EMEA's Revenues Growth | 2,9% | 4,2% | 4,1% | 3,9% | 3,9% |

For the regions Greater China, Asia Pacific, and Latin America we decide to aggregate the results from the three regions. Although we lose some granularity in the results, we gain more reliable data to perform these forecasts.

In the case of Greater China, which typically represents around 15%-17% of the total revenues for Nike brand, the demographic segmentation offers a promising opportunity for sporting goods brands. Although current marketing strategies predominantly target younger demographics, featuring campaigns tailored towards women, teen models, and vibrant product assortments, there remains an underexplored market among the older generation. As individuals sustain their interest in sports well into their 50s, it becomes imperative for companies to innovate and devise strategies that can captivate this potentially lucrative demographic, thus stimulating brand excitement and market growth. (Mckinsey, 2024).

In addition to that, the report also adds that the regions showing the greatest potential in the near future are Latin America and Southeast Asia, mirroring recent upward growth patterns. These areas begin from a comparatively lower starting point than more established markets and stand to gain from the rising pace of wealth generation, resulting in increased disposable income levels. Aligning with worldwide trends, both regions are witnessing a growing emphasis among consumers on adopting healthier lifestyles. (Mckinsey, 2024)

For this reason, we believe it makes sense to aggregate these regions as they look to become more profitable and a cluster of emerging markets. A sensitivity analysis to the valuation has been performed, in appendix 6, for variations in growth in both Greater China, Asia Pacific and Latin America.

Table 11: Revenue Growth Assumption for the aggregated region (McKinsey)

| | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Revenues Growth Forecast for the aggregated region | 11,02% | 8,51% | 9,15% | 8,38% | 8,38% |

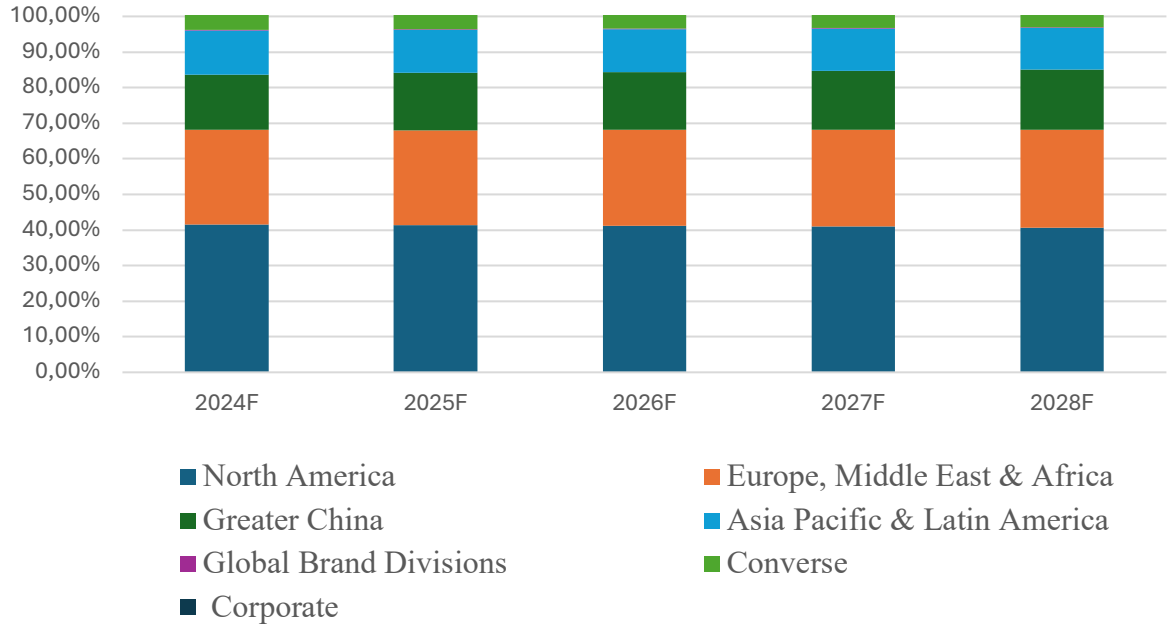
We will assume that the remaining divisions will remain constant as they represent a relatively small percentage of Nike's overall revenues.

Table 12: Revenue Growth Assumption for the remainder divisions. (Own)

| | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Global Brand Divisions's Revenues Growth | 0,1% | 0,1% | 0,1% | 0,1% | 0,1% |
| Converse's Revenues Growth | 4,9% | 4,9% | 4,9% | 4,9% | 4,9% |
| Corporate's Revenues Growth | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |

Overall, we expect that the total level of each division and region to remain relatively the same in the next 5 years, as seen in the graph below.

Figure 18: Revenue distribution for the forecasted years (Own)



### 7.2.Operational Costs

Operational costs have historically been a stable share of Nike's revenue. However, we expect the gross margin to increase, given Nike's new bet on the direct-to-consumer channel. Nike is expected to keep the Cost of Sales high, given the current market situation in the next year, and then, according to Nike's management, to decrease and help reach a Gross Margin in the high 40s. To achieve this, we introduced a reduction in the rolling average cost of sales of 1,5% for the fiscal year 2025, in 2026 a reduction of 1%, and then incremental reductions of 0,5% in the remaining years. To better evaluation the robustness of our results we included a sensitity analysis in appendix 7.

We assume demand creation expenses and operating overhead expenses to be around the same percentage of Nike's revenues. Nike is expected to keep these expenses as a function of revenues as it actively invests in new channels to reach its clients better (currently investing in the Nike Direct channel).

Table 13: Operational Costs Forecast (Own)

| (In millions, except per share data) | 2023 | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|
| Cost of Sales | 28925 | 30064 | 31174 | 32536 | 34155 | 35862 |
| %Revenues | 56,5% | 55,2% | 53,7% | 52,7% | 52,2% | 51,7% |
| Demand Creation Expense | 4203 | 4479 | 4763 | 5048 | 5351 | 4203 |
| %Revenues | 7,7% | 7,7% | 7,7% | 7,7% | 7,7% | 7,7% |
| Operating Overhead Expense | 12658 | 13488 | 14344 | 15202 | 16116 | 12658 |
| %Revenues | 23,3% | 23,3% | 23,3% | 23,3% | 23,3% | 23,3% |
| Gross Margin | 44% | 45% | 46% | 47% | 48% | 48% |

### 7.3.Net Working Capital

We calculated the day's sales outstanding ratio on accounts receivable, which measures the average number of days it has taken for Nike to collect payment for its products for the last ten years. Based on our estimates, we assumed this ratio to be a rolling average over the previous three years.

For Inventories, we calculated the days' inventory outstanding ratio, which measures the number of days a company holds its products before selling; we will also be using a rolling average of the last three years on our estimates for inventory.

Prepaid expenses are also kept at around 4% of revenues, the same as in previous years.

Deferred income taxes and other assets are also kept at 7,5% of revenues in all forecasted years.

For accounts payable, we calculated Days Payments Outstanding, a ratio that estimates the days it takes a company to make its payments; we will also use a rolling average of DSO over the last three years to forecast accounts payable.

We kept income taxes payable at 0,5% of revenues as it has been constant at the same level for the last few years.

Lastly, for Deferred income taxes and other liabilities, we will use a rolling average of the percentage of revenues in the last three years for the forecasted years.

Table 14: Net Working Capital Forecast (Own)

| **(In millions)** | **2023** | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** |
|---|---|---|---|---|---|---|
| -Accounts receivable | 4131 | 5095 | 5301 | 5463 | 5961 | 6264 |
| -Inventories | 8454 | 9068 | 9639 | 9794 | 10382 | 10928 |
| -Prepaid expenses and other current assets | 1942 | 2226 | 2370 | 2423 | 2597 | 2769 |
| -Deferred income taxes and other assets | 3770 | 4010 | 4430 | 4599 | 4894 | 5216 |
| -Accounts Payable | 2862 | 3482 | 3615 | 3587 | 3894 | 4067 |
| -Income taxes payable | 240 | 279 | 311 | 307 | 329 | 355 |
| -Defered income taxes and other liabilities | 2558 | 2558 | 3158 | 3327 | 3613 | 3780 |
| **NWC** | **12 637** | **14 081** | **14 657** | **15 058** | **15 999** | **16 975** |
| **Changes in NWC** | **(207,0)** | **1 444** | **576,1** | **400,9** | **940,9** | **976,4** |

### 7.4.Capex and D&A

Nike will continue to invest in digitalizing its business, and as such, we predict the continued increase of Capex; see the table below. This digitalization of Nike's business will require creating better platforms to dispatch packages and accelerate the direct-to-consumer strategy Nike has been developing.

We assume a constant growth of around 10% PPE Capex to face the current investment that Nike is making. This affects the PPE capex as we measure it as a percentage of PPE. This leads to stable growth in all the forecasted years, showing Nike's commitment to its investments.

Table 15: Capex and D&A Forecast (Own)

| (In millions, except per share data) | 2023 | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|
| PPE Capex | 990 | 810 | 814 | 816 | 829 | 836 |
| %PPE | 12,4% | 10,0% | 10,0% | 9,9% | 10,0% | 9,9% |
| Depreciation | 703 | 730 | 733 | 734 | 747 | 753 |
| %PPE | 8,8% | 9,1% | 9,1% | 9,0% | 9,1% | 9,0% |
| Intangibles Capex | 144 | 153 | 165 | 174 | 184 | 195 |
| %intangible Assests | 52,6% | 48,2% | 49,3% | 49,9% | 48,8% | 49,2% |
| Amortization | 156 | 109 | 148 | 160 | 156 | 175 |
| %Intangibles Assets | 56,9% | 39,9% | 46,6% | 47,8% | 44,8% | 46,4% |
| Total Capex | 987 | 810 | 814 | 816 | 829 | 836 |
| Total D&A | 859 | 839 | 881 | 894 | 903 | 927 |

### 7.5.Debt and Interest Expenses

Due to the pandemic, Nike issued 6 billion dollars in bonds, reaching a new high in total debt. Nike is currently rated AA-/A1 by the S&P and Moody's

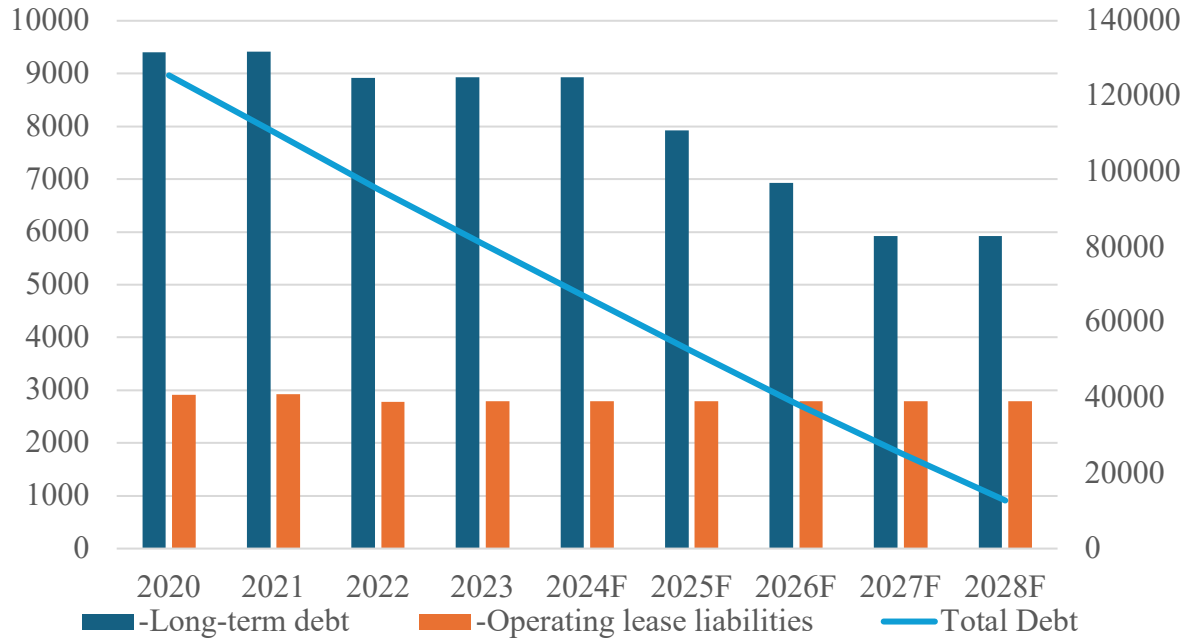
Nike will have to pay three of its outstanding bonds maturing in 2025, 2026, and 2027, all with a 1-billion-dollar face value, and we expect a reduction of the overall debt.
We assumed lease liabilities to be a constant percentage of revenues, which aligns with the past few years.

Due to Nike's high credit rating, we assumed its interest expense would be 4.6%, which would be the same as the cost of debt.

We expect Nike to decrease its total debt in the next three years, with long-term debt leading to this decrease. This will bring the debt-to-equity ratios back in line with the typical values for Nike over the last ten years.

The chart below shows the book value of debt evolution for the forecasted years.

Figure 19: Total debt forecast (Own, Nike)




### 7.6.Shareholder's Equity

In June 2022, Nike's management approved a $18 billion share repurchase for company class B stocks. Therefore, we expect the share repurchase to be performed as an average of the last three years of stock repurchasing.

We expect the dividend policy to remain the same, with around 18% of the EBIT distributed annually. We will use a rolling average of the last three years.

The remainder of the assumptions as well full Balance Sheet, Cashflow Statement, and Income statement can be found in appendix 1, 2, and 3.

# 8. Valuation

## 8.1.Cost of Capital

To reach the cost of capital via the weighted average cost of capital method, we will need to make some assumptions, which we will explain in the next chapter. These assumptions will consider the company's capital structure, current market conditions, and effective tax rates.

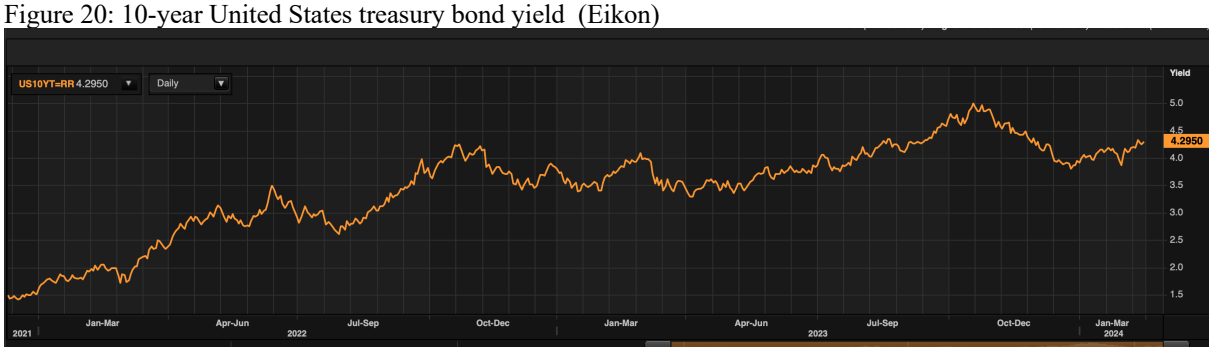
This chapter will forecast Nike's share price as of May 31st, 2024.

### 8.1.1. Risk-free Rate

The proxy for the theoretical risk-free rate is the 10-year United States treasury bond yield, at 3.47%. We decided on this maturity and credit due to Nike's outstanding debt's average maturity on May 31st, 2023 (12,85 years), the company's high exposure to the U.S. market, and the liquidity of this treasury security.

In addition, US government debt is considered to have a near-zero default risk, and Nike is a US company with the most sales in the country. So, using the 10-year United States treasury bond yield as a risk-free rate in the valuation is reasonable.

Figure 20: 10-year United States treasury bond yield (Eikon)




### 8.1.2. Cost of debt

The cost of debt was computed using the amount outstanding weighted average yield of all publicly traded Nike debt; in addition, we included the operational lease liabilities (which are not publicly traded) at a market value based on Nike's current ability to raise debt at similar maturities, using the publicly available debt information. In practical terms, this does not

change the cost of debt calculation, as the outstanding amount of the operational lease is a relatively small percentage of Nike's total debt financing.

### 8.1.3. Cost of equity

For the Cost of equity, we followed the CAPM method. See the formula below. As stated earlier, we will use the 10-year U.S. government bond yield.

To reach the $\boldsymbol{\beta}$, we computed the covariance of the 5-year monthly returns of the S&P 500 and Nike's monthly returns divided by the variance of the S&P 500. We chose the S&P 500 because Nike is a large-cap US company and a constituent in the S&P 500.
The beta that will be used is 1,1, which aligns with Eikon's 5y beta of 1,11.

To compute the, We calculated the annualized 5-year return of the S&P 500. Like other U.S. stocks in the S&P 500, Nike's products compete in the world economy and are subject to World economic conditions. Nike's stock competes among other US stocks that have a worldwide presence.
The S&P 500 annualized return over the discussed period is 8,68%.

The Market Risk Premium, $(R_m - R_f)$ is, therefore, 5,21%, considering the above values.

As a result of these assumptions, our Cost of equity is 9,2%.

### 8.1.4. Weighted Average Cost of Capital Calculation

To calculate the WACC, we still need three parts of the equation above: the tax rate, T, the market value of debt, D, and the market value of Equity, E.

Regarding the effective tax rate, we will use a median of the past three years of 14%. Therefore, Nike has a global presence and is subject to fiscal laws across the globe, depending on Nike's revenues in each country every year. However, because of its global presence and high exposure to developed markets, this tax rate has been relatively constant over the past five years.

We used two methods to determine the debt's market value. Nike has long-term debt, which is constituted by publicly traded bonds. For this type of debt, we calculated the outstanding amount weighted average yield across all these bonds, which was 4.6%.

For the non-publicly traded part of Nike's debt (constituted by the operating leases), we used the publicly traded debt as a proxy for the company's financing abilities in similar maturities to that of the operating leases. Using a yield of 4,35% and the book value of debt as of May 31, 2023, we get the estimates below for Nike's debt market value.

Table 16: Market Value of Debt (Own)

| **Market Value of Debt** | |
|---|---|
| **Market Value of Long-Term Debt** | **8459209000** |
| Book Value of Remaining Debt | 3217 |
| Avg maturity | 7,5 |
| YTM | 4,348% |
| **Leases Market Value** | **2337948036** |
| **Total Debt Market Value** | **10797157036** |

Lastly, as Nike is a publicly traded company on the New York Stock Exchange, the market value of equity using the market capitalization as of May 31, 2023.

The WACC estimation result is as follows:

Table 17: WACC Estimation (Own)

| **WACC Estimation** | |
|---|---|
| Cost of Equity | 9,20% |
| Cost of Debt | 4,600% |
| Market value of Equity | 185 814 570 420 |
| Share Price (31/03/2023) | 120,1 |
| Shares outstanding | 1515122068 |
| Market Value of Debt | 10 797 157 036 |
| MV(E)+MV(D) | 196 611 727 456 |
| Effective Tax rate | 14% |
| **WACC** | **8,92%** |

### 8.2.Long-Term Growth Rate

Damodaran (2003) states that the forecast of a stable long-term growth rate should never be higher than the economy is inserted in since Nike is leading an international company with sales and stores across the world and the fact that, as we saw previously, its total revenue growth is significantly correlated with the world's Real GDP growth. We decided to use the average World real GDP growth forecast as the long-term growth rate.

The Long-term growth will be 3.1% after the five years of forecasted cashflows.

### 8.3.Free Cashflows to the Firm Calculation

In the table below, we computed the Free cash Flows to the firm and discounted this cash flow at the WACC rate calculated above. Please note that the final cash flow includes the terminal value calculated with the Long-Term rate above.

Table 18: FCFF Estimation (Own)

| | **2024F** | **2025F** | **2026F** | **2027F** | **2028F** |
|---|---|---|---|---|---|
| EBIT | 7316 | 8670 | 9924 | 10910 | 11941 |
| Taxes | 1024 | 1214 | 1389 | 1527 | 1672 |
| Depretiation & Amortizarion | 730 | 733 | 734 | 747 | 753 |
| Diferences in Networking capital | -1444 | -576 | -401 | -941 | -976 |
| Capex | 810 | 814 | 816 | 829 | 836 |
| **FCFF** | **7655** | **7952** | **8854** | **10241** | **11163** |
| **Discounted FCFF** | **7029** | **6703** | **6853** | **7278** | **129120** |

### 8.4.Share Price Calculated via Intrinsic Value

Table 19: Share Price Estimation (Own)

| **Valuation Date** | **31/05/2023** |
|---|---|
| Entreprise Value | 156982 |
| (+) Cash & Equivalents | 8634 |
| (+) Short-term Investments | 3438 |
| (-) Market Value of Debt | 10797 |
| | |
| Equity Value | 158257 |
| Shares Outstanding | 1515,122 |
| **Share Price** | **104,451** |

### 8.5.Sensitivity Analysis

In order to assess if the share price value changes with variations of both the WACC and Long-term growth rates, we conducted the sensitivity analysis of these two items. We conducted an analysis where the values for both the WACC and the Long-term growth rate suffer a variation of 0,4%.

As per the table below, these variations would lead to a maximum share price of $ 120,44 and a minimum of $ 92,33.

Table 20: Sensitivity analysis of WACC and Terminal Value (Own)

| | | WACC | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | 8,52% | 8,62% | 8,72% | 8,82% | **8,92%** | 9,02% | 9,12% | 9,22% | 9,32% |
| Terminal Value | 2,7% | 105,87 | 103,97 | 102,14 | 100,37 | 98,66 | 97,00 | 95,39 | 93,84 | 92,33 |
| | 2,8% | 107,47 | 105,51 | 103,62 | 101,80 | 100,04 | 98,33 | 96,68 | 95,08 | 93,53 |
| | 2,9% | 109,12 | 107,10 | 105,16 | 103,28 | 101,46 | 99,70 | 98,00 | 96,36 | 94,76 |
| | 3,0% | 110,84 | 108,75 | 106,74 | 104,80 | 102,93 | 101,12 | 99,37 | 97,67 | 96,04 |
| | **3,1%** | 112,62 | 110,46 | 108,39 | 106,38 | 104,45 | 102,58 | 100,78 | 99,04 | 97,35 |
| | 3,2% | 114,46 | 112,24 | 110,09 | 108,02 | 106,03 | 104,10 | 102,24 | 100,44 | 98,71 |
| | 3,3% | 116,38 | 114,07 | 111,86 | 109,72 | 107,66 | 105,67 | 103,75 | 101,90 | 100,11 |
| | 3,4% | 118,37 | 115,98 | 113,69 | 111,48 | 109,35 | 107,30 | 105,32 | 103,41 | 101,56 |
| | 3,5% | 120,44 | 117,97 | 115,59 | 113,30 | 111,10 | 108,98 | 106,94 | 104,96 | 103,06 |

### 8.6.Relative Valuation

In the previous chapters, we have tried to estimate Nike's intrinsic value by studying its operations and macroeconomic environment. However, we can also examine and compare Nike's financial statements with those of its peers. For this, we have chosen Nike's competitors in the sportswear market below and used publicly available forward-looking multiples.

The peer group was chosen according to the methodology used by Koller et al. (2005), which we have mentioned in Chapter 2, the literature review, and that has been chosen in Chapter 5.4 Competition. We will be using 1-year forward multiples to conduct this value.

According to the multiple analysis calculation, similar businesses should have similar pricing (on a relative basis), as the operational risks and macroeconomic exposure are the same. That being said, every company is slightly different and faces its challenges; as such, we will be calculating a set of industry multiples based on the average ratio across companies (excluding Nike).

As shown below, Adidas leads with the highest ratios in the market; this is expected, as Adidas is the largest company on this set of peers and Nike's most prominent competitor across segments. Adidas is, however, based in Europe, which is also its largest region by revenue; as such, we will also be using other sports apparel companies with higher presence, on a relative basis, in the US to estimate the industry's multiples better.

Table 21: Multiples Estimation (Own)

| | EV/EBITDA | EV/EBIT | PE |
|---|---|---|---|
| Adidas AG | 24,75 | 45,75 | 38,4 |
| ANTA Sports Products Ltd | 10,86 | 13,45 | 20,61 |
| Li Ning Co Ltd | 7,97 | 10,63 | 14,22 |
| Lululemon Athletica Inc | 20,82 | 24,23 | 36,06 |
| Puma SE | 7,84 | 12,41 | 20,09 |

| | EV/EBITDA | EV/EBIT | PE |
|---|---|---|---|
| Weighted Average | 17,99 | 29,47 | 30,55 |
| Average | 14,45 | 21,29 | 25,88 |
| Median | 10,86 | 13,45 | 20,61 |

| | EV/EBITDA | EV/EBIT | PE |
|---|---|---|---|
| Nike EV (weighted Average) | 145431,31 | 215694,03 | 190380,01 |
| Nike EV (Average) | 117823,16 | 155784,47 | 162803,04 |
| Nike EV (Median) | 88563,09 | 98398,66 | 129671,15 |

| | EV/EBITDA | EV/EBIT | PE |
|---|---|---|---|
| Price per Share (weighted Average) | 88,86 | 130,32 | 118,53 |
| Price per Share (Average) | 70,64 | 90,78 | 100,33 |
| Price per Share (Median) | 51,33 | 52,91 | 78,46 |

| | Price per Share |
|---|---|
| Max price per Share | 130,32 |
| **Median Price per Share** | **88,86** |
| **Average Price per Share** | **86,91** |

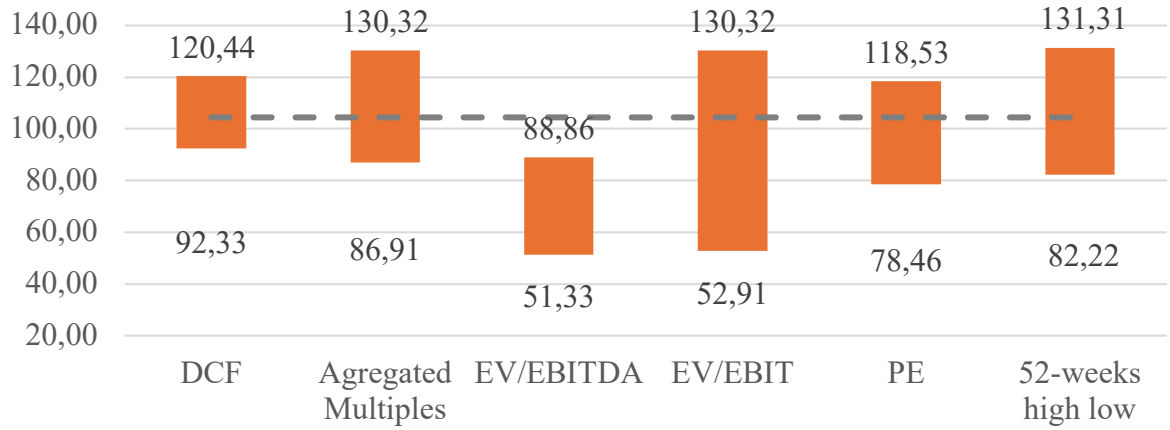
### 8.7.Results discussion

Considering all the results we obtained via the DCF and multiple methods, we obtained the following results.

Through the application of the DCF valuation, we obtained a valuation of $104.23. This valuation is solely based on Nike's reports and our assumptions. We think that this value is in line with the current market valuation. As we can see below, the sensitivity analysis, even with a 40 bps variation, is still within the 52-week high and low, as seen in the graph below. This is especially true considering that the maximum price per share in the last three years was $179,10, and the minimum was $82,22.

The multiple valuation gave a much lower valuation, with an average valuation of $88,86 per share. This can be explained given that Nike is a much larger company than any other competitor. This can be shown in Chapter 5.4 Competition; on average, in the last four years, Nike sold more than 67,4% more than Adidas, its biggest competitor. However, this valuation confirms that values are close to reality compared to other valuations; in the next chapter, we can see some close valuations between us and the reporting analysts.

Figure 20: Share Price Football Field Analysis (Own)



## 9. Equity Research Comparison

To conclude this Thesis, we compared our results with the Schwab Equity Ratings Report from Nike.

According to the Schwab Equity Ratings Report, this stock rates with a “C” grade, meaning an investor should consider holding it, monitoring its ongoing performance, and comparing the benefits of owning higher-rated stocks.

The investment bank issued a hold opinion in Nike’s shares and a target price of $98 for 12 months. They give this valuation based on a 26x multiple of the price-to-earnings estimate for the 2024 fiscal year. They give this price and evaluation because revenues were higher than expected, $12.94B versus $12.69B; however, they are still below expectation by $62M.

Charles Schwab only uses a price-to-earnings multiple to issue its hold opinion. Comparing our valuation with the report, we see that it is similar to that issued, especially when we compare our estimates of the price-to-earnings ratio. Our Price-to-Earnings multiple came off with a 25.88x close to the 26x issue by the rating company and a price target of $100,33.

However, as we explained earlier, this valuation is relatively low, especially compared with the Free Cash Flow and the Firm valuation we performed. Compared with several other valuations on the Eikon Platform, we see a target price of $121,91.

Finally, the price difference comes from Nike's overperformance compared to any other company in this industry. The multiples valuation methodology is not the most suitable for valuing Nike. However, multiples valuation is a solid methodology and an excellent one for comparing valuations.

## 10.Conclusion

As stated previously, the goal of this master's dissertation thesis is to provide a fair valuation of Nike for Fiscal year 2024, beginning exactly on 31/05/2023.

That said, valuations are not precise and highly subject to the assumptions and bias of the analyst and, in this case, mine. The COVID pandemic and the successive regional wars and conflicts that have been happening worldwide add an extra layer of complexity, especially for a company with stores, clients, and production plants worldwide.

Reflecting on everything discussed, we believe that Nike's valuation is better represented by the Discounted Cash Flow Method as it represents the business and its potential independently of its competition. Damodaran states, "If good investors buy businesses rather than stocks, DCF valuation is the right way to think about what you are getting when you buy an asset." This methodology is highly adaptable and allows analysts to fine-tune any necessary adjustments.

The Multiples valuation was used as a comparison. However, finding suitable candidates to perform this kind of valuation against Nike is challenging since Nike outperforms all the other companies in this industry. This is understandable as Nike is the most known and renowned company in this sector. Nike has a long and solid track record of partnerships with top athletes, such as Michael Jordan, who built the brand.

Finally, the results from the Free Cash Flow to the Firm results gave a final price of $104,45 per share for 31/05/2024. This means an upside of 5,3% from the current price of $99,16.

Considering all of these, we believe that the correct recommendation for Nike, given its track record, macroeconomic outlook, and the results we obtained, like Schwab's report, is to HOLD and monitor the company's development in the near future.

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# 12.Appendixes

Appendix 1. Income Statement Forcast (Own Analysis)

| (In millions, except per share data) | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Income from continuing operations: | | | | | | | | | | | | | | | |
| Revenues | 27799 | 30601 | 32376 | 34350 | 36397 | 39117 | 37403 | 44538 | 46710 | 51217 | 54440 | 58011 | 61693 | 65384 | 69314 |
| Total Nike Brand | 26112 | 28701 | 30507 | 32233 | 34485 | 37218 | 35568 | 42293 | 44436 | 48763 | 51932 | 55431 | 59033 | 62637 | 66479 |
| Unit profit % | 93,9% | 93,8% | 94,2% | 93,8% | 94,7% | 95,1% | 95,1% | 95,0% | 95,1% | 95,2% | 95,4% | 95,6% | 95,7% | 95,8% | 95,9% |
| North America | 12299 | 13740 | 14764 | 15216 | 14855 | 15902 | 14484 | 17179 | 18353 | 21608 | 22893 | 24528 | 26046 | 27565 | 29172 |
| Region Percentage | 44,2% | 44,9% | 45,6% | 44,3% | 40,8% | 40,7% | 38,7% | 38,6% | 39,3% | 42,2% | 42,1% | 42,3% | 42,2% | 42,2% | 42,1% |
| growth (%) | | 11,7% | 7,5% | 3,1% | -2,4% | 7,0% | -8,9% | 18,6% | 6,8% | 17,7% | 5,9% | 7,1% | 6,2% | 5,8% | 5,8% |
| EMEA | 6366 | 7126 | 7315 | 7970 | 9242 | 9812 | 9347 | 11456 | 12479 | 13418 | 13807 | 14390 | 14974 | 15557 | 16163 |
| Region Percentage | 22,9% | 23,3% | 22,6% | 23,2% | 25,4% | 25,1% | 25,0% | 25,7% | 26,7% | 26,2% | 25,4% | 24,8% | 24,3% | 23,8% | 23,3% |
| growth (%) | | 11,9% | 2,7% | 9,0% | 16,0% | 6,2% | -4,7% | 22,6% | 8,9% | 7,5% | 2,9% | 4,2% | 4,1% | 3,9% | 3,9% |
| Greater China | 2602 | 3067 | 3785 | 4237 | 5134 | 6208 | 6679 | 8290 | 7547 | 7248 | 8047 | 8732 | 9531 | 10330 | 11196 |
| Region Percentage | 9,4% | 10,0% | 11,7% | 12,3% | 14,1% | 15,9% | 17,9% | 18,6% | 16,2% | 14,2% | 15,5% | 15,8% | 16,1% | 16,5% | 16,8% |
| growth (%) | | 17,9% | 23,4% | 11,9% | 21,2% | 20,9% | 7,6% | 24,1% | -9,0% | -4,0% | 11,0% | 8,5% | 9,2% | 8,4% | 8,4% |
| Asia Pacific & Latin America | 4720 | 4653 | 4570 | 4737 | 5166 | 5254 | 5028 | 5343 | 5955 | 6431 | 7140 | 7748 | 8457 | 9165 | 9934 |
| Region Percentage | 17,0% | 15,2% | 14,1% | 13,8% | 14,2% | 13,4% | 13,4% | 12,0% | 12,7% | 12,6% | 13,1% | 13,4% | 13,7% | 14,0% | 14,3% |
| growth (%) | | -1,4% | -1,8% | 3,7% | 9,1% | 1,7% | -4,3% | 6,3% | 11,5% | 8,0% | 11,0% | 8,5% | 9,2% | 8,4% | 8,4% |
| Global Brand Divisions | 125 | 115 | 73 | 73 | 88 | 42 | 30 | 25 | 102 | 58 | 45 | 33 | 25 | 19 | 15 |
| Region Percentage | 0,4% | 0,4% | 0,2% | 0,2% | 0,2% | 0,1% | 0,1% | 0,1% | 0,2% | 0,1% | 0,1% | 0,1% | 0,1% | 0,1% | 0,1% |
| growth (%) | | -8,0% | -36,5% | 0,0% | 20,5% | -52,3% | -28,6% | -16,7% | 308,0% | -43,1% | -22,6% | -25,6% | -24,1% | -23,4% | -23,7% |
| Converse | 1684 | 1982 | 1955 | 2042 | 1886 | 1906 | 1846 | 2205 | 2346 | 2427 | 2482 | 2553 | 2633 | 2720 | 2808 |
| Unit profit % | 6,1% | 6,5% | 6,0% | 5,9% | 5,2% | 4,9% | 4,9% | 5,0% | 5,0% | 4,7% | 4,9% | 4,9% | 4,9% | 4,9% | 4,9% |
| growth (%) | | 17,7% | -1,4% | 4,5% | -7,6% | 1,1% | -3,1% | 19,4% | 6,4% | 3,5% | 2,3% | 2,9% | 3,2% | 3,3% | 3,2% |
| Corporate | 3 | -82 | -86 | 75 | 26 | -7 | -11 | 40 | -72 | 27 | 27,00 | 27,00 | 27,01 | 27,01 | 27,01 |
| Unit profit % | 0,0% | -0,3% | -0,3% | 0,2% | 0,1% | 0,0% | 0,0% | 0,1% | -0,2% | 0,1% | 0,02% | 0,00% | 0,01% | 0,01% | 0,01% |
| growth (%) | | -2833,3% | 4,9% | -187,2% | -65,3% | -126,9% | -57,1% | -463,6% | -280,0% | -137,5% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Cost of Sales | 15353 | 16534 | 17405 | 19038 | 20441 | 21643 | 21162 | 24576 | 25231 | 28925 | 30064 | 31174 | 32536 | 34155 | 35862 |
| Margin Revenues | 55,2% | 54,0% | 53,8% | 55,4% | 56,2% | 55,3% | 56,6% | 55,2% | 54,0% | 56,5% | 55,2% | 53,7% | 52,7% | 52,2% | 51,7% |
| Annual Growth(%) | | 7,7% | 5,3% | 9,4% | 7,4% | 5,9% | -2,2% | 16,1% | 2,7% | 14,6% | 3,9% | 3,7% | 4,4% | 5,0% | 5,0% |
| Gross Profit | 12446 | 14067 | 14971 | 15312 | 15956 | 17474 | 16241 | 19962 | 21479 | 22292 | 24376 | 26837 | 29157 | 31228 | 33452 |
| Gross Margin | 45% | 46% | 46% | 45% | 44% | 45% | 43% | 45% | 46% | 44% | 45% | 46% | 47% | 48% | 48% |
| Demand Creation Expense | 3031 | 3213 | 3278 | 3341 | 3577 | 3753 | 3592 | 3114 | 3850 | 4060 | 4203 | 4479 | 4763 | 5048 | 5351 |
| revs% | 10,9% | 10,5% | 10,1% | 9,7% | 9,8% | 9,6% | 9,6% | 7,0% | 8,2% | 7,9% | 7,7% | 7,7% | 7,7% | 7,7% | 7,7% |
| Operating Overhead Expense | 5735 | 6679 | 7191 | 7222 | 7934 | 8949 | 9534 | 9911 | 10954 | 12317 | 12658 | 13488 | 14344 | 15202 | 16116 |
| growth (%) | 20,6% | 21,8% | 22,2% | 21,0% | 21,8% | 22,9% | 25,5% | 22,3% | 23,5% | 24,0% | 23,3% | 23,3% | 23,3% | 23,3% | 23,3% |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total Selling and administrative expenses | 8766 | 9892 | 10469 | 10563 | 11511 | 12702 | 13126 | 13025 | 14804 | 16377 | 16861 | 17967 | 19107 | 20250 | 21468 |
| Interest Expense | 33 | 28 | 19 | 59 | 54 | 49 | 89 | 262 | 205 | -6 | 276,737 | 276,737 | 245,737 | 214,737 | 183,737 |
| | 2,8% | 2,6% | 0,9% | 1,7% | 1,6% | 1,4% | 0,9% | 2,8% | 2,3% | -0,1% | 3,1% | 3,1% | 3,1% | 3,1% | 3,1% |
| Other (income) Expense | 103 | -58 | -140 | -196 | 66 | -78 | 139 | 14 | -181 | -280 | -77 | -77 | -120 | -147 | -140 |
| Income before income taxes | 3544 | 4205 | 4623 | 4886 | 4325 | 4801 | 2887 | 6661 | 6651 | 6201 | 7316 | 8670 | 9924 | 10910 | 11941 |
| Income tax expense | 851 | 932 | 863 | 646 | 2392 | 772 | 348 | 934 | 605 | 1131 | 1024 | 1214 | 1389 | 1527 | 1672 |
| Tax% | 24,0% | 22,2% | 18,7% | 13,2% | 55,3% | 16,1% | 12,1% | 14,0% | 9,1% | 18,2% | 14,0% | 14,0% | 14,0% | 14,0% | 14,0% |
| NET INCOME | 2693 | 3273 | 3760 | 4240 | 1933 | 4029 | 2539 | 5727 | 6046 | 5070 | 6292 | 7456 | 8535 | 9383 | 10269 |
| Revs% | 9,7% | 10,7% | 11,6% | 12,3% | 5,3% | 10,3% | 6,8% | 12,9% | 12,9% | 9,9% | 11,6% | 12,9% | 13,8% | 14,4% | 14,8% |

Appendix 2. Cashflow Statement Forecast (Own Analysis)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Net Income** | **2693** | **3273** | **3760** | **4240** | **1933** | **4029** | **2539** | **5727** | **6046** | **5070** | **6292** | **7456** | **8535** | **9383** | **10269** |
| Income charges (credits) not affecting cash: | | | | | | | | | | | | | | | |
| -Depreciation | 518 | 606 | 649 | 706 | 747 | 705 | 721 | 744 | 717 | 703 | 730 | 733 | 734 | 747 | 753 |
| -Deferred income taxes | -11 | -113 | -80 | -273 | 647 | 34 | -380 | -385 | -650 | -117 | 0 | 0 | 0 | 0 | 0 |
| -Stock-based compensation | 177 | 191 | 236 | 215 | 218 | 325 | 429 | 611 | 638 | 755 | 834 | 920 | 1089 | 1249 | 1326 |
| -Amortization and other | 114 | 43 | 13 | 10 | 27 | 15 | 398 | 53 | 123 | 156 | 109 | 148 | 160 | 156 | 175 |
| -Net foreign currency adjustments | | 424 | 98 | -117 | -99 | 233 | 23 | -138 | -26 | -213 | | | | | |
| Changes in NWC | 0 | -2238 | 221 | -669 | 1877 | -932 | -1322 | -632 | -3205 | 207 | -1444 | -576 | -401 | -941 | -976 |
| **Cash provided by operations** | **3003** | **4680** | **3096** | **3640** | **4955** | **5903** | **2485** | **6657** | **5188** | **5841** | **6521** | **8681** | **10117** | **10594** | **11547** |
| | | | | | | | | | | | | | | | |
| **Cash used by investing activities:** | | | | | | | | | | | | | | | |
| Changes in short-term investments | -328 | 785 | 93 | 118 | 1326 | 850 | 27 | -3276 | -747 | 1481 | -204 | -1172 | -270 | 48 | -539 |
| -Additions to property, plant and equipment | -880 | -963 | -1143 | -1105 | -1028 | -1119 | -1086 | -695 | -758 | -969 | -810 | -814 | -816 | -829 | -836 |
| -Additions to Intangible Assets | 3 | 3 | 10 | 13 | 3 | 5 | | | | | -153 | -165 | -174 | -184 | -195 |
| -Proceeds from divestitures | | | | | | | | | | | 279 | -20 | -79 | 60 | -13 |
| -(increase) in other assets, net of othet liabilities | -2 | 0 | 6 | -34 | -25 | 0 | 31 | 171 | -19 | 52 | 0 | 0 | 0 | 0 | 0 |
| **Cash used by investing activities** | **-1207** | **-175** | **-1034** | **-1008** | **276** | **-264** | **-1028** | **-3800** | **-1524** | **564** | **-887** | **-2171** | **-1339** | **-905** | **-1583** |
| | | | | | | | | | | | | | | | |
| Cash used by financing activities | | | | | | | | | | | | | | | |
| -Net proceeds from long-term debt issuance | | | 981 | 1482 | | | 6134 | | | | | | | | |
| -Long-term debt payments, including portion | -60 | -7 | -106 | -44 | -6 | -6 | | -197 | | | 0 | 0 | -1000 | -1000 | -1000 |
| -(Decrease) Increase in notes payable | 75 | -63 | -67 | 327 | 13 | -325 | 49 | -52 | 15 | -4 | | | | | |
| -Payments on capital lease obligations | -17 | -19 | -7 | -17 | -23 | -27 | | | | -500 | | | | | |
| -Proceeds from exercise of stock options and other stock issuances | 383 | 514 | 507 | 489 | 733 | 700 | 885 | 1172 | 1151 | 651 | 991 | 931 | 858 | 927 | 905 |
| -Excess tax benefits from share-based payment arrangements | 132 | 218 | 281 | 177 | -55 | -17 | | | | | | | | | |
| -Repurchase of common stock | -2628 | -2534 | -3238 | -3223 | -4254 | -4286 | -3067 | -608 | -4014 | -5480 | -3367 | -4287 | -4378 | -4011 | -4225 |
| -Dividends - common and prefered | -799 | -899 | -1022 | -1133 | -1243 | -1332 | -1452 | -1638 | -1837 | -2012 | -2064 | -2552 | -2980 | -3189 | -3530 |
| %EBIT | -23% | -21% | -22% | -23% | -29% | -28% | -50% | -25% | -28% | -32% | -28% | -29% | -30% | -29% | -30% |
| -Other financing activities | | | | | | | -58 | -136 | -151 | -102 | | | | | |
| **Cash used by financing activities** | **-2914** | **-2790** | **-2671** | **-1942** | **-4835** | **-5293** | **2491** | **-1459** | **-4836** | **-7447** | **-4440** | **-5908** | **-7501** | **-7273** | **-7850** |
| | | | | | | | | | | | | | | | |
| -Effect of exchange rate changes on cash and equivalents | 1 | -83 | -105 | -20 | 45 | -129 | -66 | 143 | -143 | -91 | 0 | 0 | 0 | 0 | 0 |
| -Net Increase (decrease) in cash and equivalents | -1117 | 1632 | -714 | 670 | 441 | 217 | 3882 | 1541 | -1315 | -1133 | 1193 | 603 | 1277 | 2416 | 2113 |
| -Cash and equivalents, beginning of year | 3337 | 2220 | 3852 | 3138 | 3808 | 4249 | 4466 | 8348 | 9889 | 8574 | 7441 | 8634 | 9237 | 10514 | 12930 |
| **Cash Equivalent, End of year** | **2220** | **3852** | **3138** | **3808** | **4249** | **4466** | **8348** | **9889** | **8574** | **7441** | **8634** | **9237** | **10514** | **12930** | **15043** |

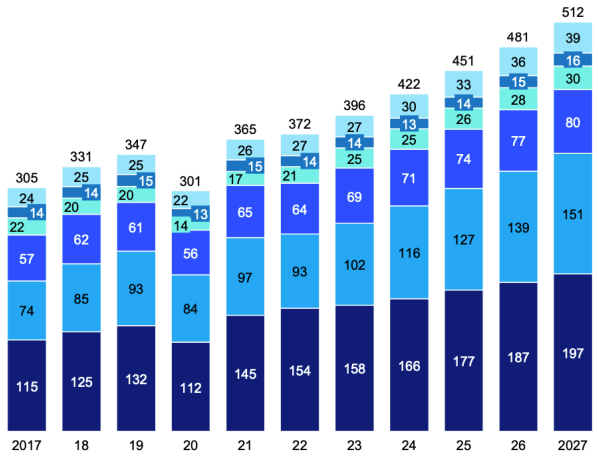
Appendix 3. Balance Sheet Forecast (Own Analysis)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024F | 2025F | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | | | | |
| **Current Assets** | | | | | | | | | | | | | | | |
| -Cash and Equivalents | 2220 | 3852 | 3138 | 3808 | 4249 | 4466 | 8348 | 9889 | 8574 | 7441 | 8634 | 9237 | 10514 | 12930 | 15043 |
| -Short-term investments | 2922 | 2072 | 2319 | 2371 | 996 | 197 | 439 | 3587 | 4423 | 3234 | 3438 | 4609 | 4880 | 4832 | 5371 |
| %revenues | 10,5 % | 6,8% | 7,2% | 6,9% | 2,7% | 0,5% | 1,2% | 8,1% | 9,5% | 6,3% | 7,9% | 7,9% | 7,4% | 7,7% | 7,7% |
| -Accounts receivable | 3434 | 3358 | 3241 | 3677 | 3498 | 4272 | 2749 | 4463 | 4667 | 4131 | 5095 | 5301 | 5463 | 5961 | 6264 |
| DSO | 44,5 | 39,5 | 36,0 | 38,5 | 34,6 | 39,3 | 26,5 | 36,1 | 36,0 | 29,0 | 33,7 | 32,9 | 31,9 | 32,8 | 32,5 |
| -Inventories | 3947 | 4337 | 4838 | 5055 | 5261 | 5622 | 7367 | 6854 | 8420 | 8454 | 9068 | 9639 | 9794 | 10382 | 10928 |
| DIO | 92,5 | 94,4 | 100,1 | 95,6 | 92,7 | 93,5 | 125,3 | 100,4 | 120,1 | 105,2 | 108,6 | 111,3 | 108,4 | 109,4 | 109,7 |
| -Deferred Income taxes | 355 | 389 | | | | | | | | | | | | | |
| -Prepaid expenses and other current assets | 818 | 1968 | 1489 | 1150 | 1130 | 1968 | 1653 | 1498 | 2129 | 1942 | 2226 | 2370 | 2423 | 2597 | 2769 |
| %revenues | 2,9% | 6,4% | 4,6% | 3,3% | 3,1% | 5,0% | 4,4% | 3,4% | 4,6% | 3,8% | 3,9% | 4,1% | 3,9% | 4,0% | 4,0% |
| **Total Current Assets** | **13696** | **15976** | **15025** | **16061** | **15134** | **16525** | **20556** | **26291** | **28213** | **25202** | **28460** | **31157** | **33073** | **36702** | **40375** |
| -Property, plant and equipment, net | 2834 | 3011 | 3520 | 3989 | 4454 | 4744 | 7963 | 8017 | 7717 | 8004 | 8084 | 8165 | 8247 | 8329 | 8412 |
| %COGS | 18,5 % | 18,2% | 20,2% | 21,0% | 21,8% | 21,9% | 37,6% | 32,6% | 30,6% | 27,7% | 26,2% | 24,7% | 23,2% | 21,7% | 20,2% |
| -Identifiable intangible assets, net | 282 | 281 | 281 | 283 | 285 | 283 | 274 | 269 | 286 | 274 | 318 | 335 | 349 | 376 | 397 |
| %revenues | 1,0% | 0,9% | 0,9% | 0,8% | 0,8% | 0,7% | 0,7% | 0,6% | 0,6% | 0,5% | 0,6% | 0,6% | 0,6% | 0,6% | 0,6% |
| -Goodwill | 131 | 131 | 131 | 139 | 154 | 154 | 223 | 242 | 284 | 281 | 281 | 281 | 281 | 281 | 281 |
| -Deferred income taxes and other assets | 1651 | 2201 | 2439 | 2787 | 2509 | 2011 | 2326 | 2921 | 3821 | 3770 | 4010 | 4430 | 4599 | 4894 | 5216 |
| %revenues | 5,9% | 7,2% | 7,5% | 8,1% | 6,9% | 5,1% | 6,2% | 6,6% | 8,2% | 7,4% | 7,4% | 7,6% | 7,5% | 7,5% | 7,5% |
| **Total Assets** | **18594** | **21600** | **21396** | **23259** | **22536** | **23717** | **31342** | **37740** | **40321** | **37531** | **41153** | **44367** | **46548** | **50582** | **54681** |
| **Liabilities and Sharegolders' Equity** | | | | | | | | | | | | | | | |
| **Current Liabilities** | | | | | | | | | | | | | | | |
| -Current portion of long-term debt | 7 | 107 | 44 | 6 | 6 | 6 | 3 | 0 | 500 | 0 | 0 | 1000 | 1000 | 1000 | 0 |
| -Notes Payable | 167 | 74 | 1 | 325 | 336 | 9 | 248 | 2 | 10 | 6 | 6 | 6 | 6 | 6 | 6 |
| -Accounts Payable | 1930 | 2131 | 2191 | 2048 | 2279 | 2612 | 2248 | 2836 | 3358 | 2862 | 3482 | 3615 | 3587 | 3894 | 4067 |
| DPO | 45,3 | 46,4 | 45,3 | 38,7 | 40,1 | 43,4 | 38,2 | 41,5 | 47,9 | 35,6 | 41,7 | 41,7 | 39,7 | 41,0 | 40,8 |
| -Current portion of operating lease liabilities | | | | | | | 445 | 467 | 420 | 425 | 425 | 425 | 425 | 425 | 425 |
| | | | | | | | 15% | 16% | 15% | 15% | 15,4% | 15,3% | 15,3% | 15,3% | 15,3% |
| -Accrued liabilities | 2491 | 3951 | 3037 | 3011 | 3269 | 5010 | 5184 | 6063 | 6220 | 5723 | 6002 | 5982 | 5902 | 5962 | 5949 |
| -Income taxes payable | 432 | 71 | 85 | 84 | 150 | 229 | 156 | 306 | 222 | 240 | 279 | 311 | 307 | 329 | 355 |
| % Revenues | 1,6% | 0,2% | 0,3% | 0,2% | 0,4% | 0,6% | 0,4% | 0,7% | 0,5% | 0,5% | 0,5% | 0,5% | 0,5% | 0,5% | 0,5% |
| **Total Current Liabilities** | **5027** | **6334** | **5358** | **5474** | **6040** | **7866** | **8284** | **9674** | **10730** | **9256** | **10193** | **11338** | **11227** | **11616** | **10801** |

| | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| -Long-term debt | 1199 | 1079 | 2010 | 3471 | 3468 | 3464 | 9406 | 9413 | 8920 | 8927 | 8927 | 7927 | 6927 | 5927 | 5927 |
| -Operating lease liabilities | | | | | | | 2913 | 2931 | 2777 | 2786 | 2786 | 2786 | 2786 | 2786 | 2786 |
| -Deffered income taxes and other liabilities | 1544 | 1480 | 1770 | 1907 | 3216 | 3347 | 2684 | 2955 | 2613 | 2558 | 2558 | 3158 | 3327 | 3613 | 3780 |
| % Revenues | 5,6% | 4,8% | 5,5% | 5,6% | 8,8% | 8,6% | 7,2% | 6,6% | 5,6% | 5,0% | 5,7% | 5,4% | 5,4% | 5,5% | 5,5% |
| -Class B - 679 and 679 shares outstanding | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| -Capital in excess of stated value | 5865 | 6773 | 7786 | 8638 | 6384 | 7163 | 8299 | 9965 | 11484 | 12412 | 13403 | 14334 | 15192 | 16119 | 17024 |
| -Accumulated other comprehensive income | 85 | 1246 | 318 | -213 | -92 | 231 | -56 | -380 | 318 | 231 | 231 | 231 | 231 | 231 | 231 |
| -Retained earnings | 4871 | 4685 | 4151 | 3979 | 3517 | 1643 | -191 | 3179 | 3476 | 1358 | 3052 | 4590 | 6855 | 10287 | 14128 |
| **Total Shareholders' Equity** | **10824** | **12707** | **12258** | **12407** | **9812** | **9040** | **8055** | **12767** | **15281** | **14004** | **16689** | **19158** | **22281** | **26640** | **31386** |
| **Total Liabilities and Shareholders' Equity** | **18594** | **21600** | **21396** | **23259** | **22536** | **23717** | **31342** | **37740** | **40321** | **37531** | **41153** | **44367** | **46548** | **50582** | **54681** |

Appendix 4. (Mckinsey, January 2024)

**Global sportswear market,** Retail Sales Price, USD bn




Source: Euromonitor, October 2023

| | CAGR, % | | | |
|---|---|---|---|---|
| | 2017-19 | 2021-22 | 2022-23 | 2023-27 |
| **Total** | +7 | +2 | +6 | +7 |
| **Rest of World** | +3 | +6 | +0 | +9 |
| **Eastern Europe** | +4 | -6 | -1 | +4 |
| **Latin America** | -4 | +20 | +22 | +4 |
| **Western Europe** | +3 | -3 | +8 | +4 |
| **Asia Pacific** | +12 | -4 | +11 | +10 |
| **North America** | +7 | +6 | +2 | +6 |

Appendix 5. (Mckinsey, January 2024)

## The rising cost of living is the number one source of concern – followed by climate change and unemployment

1 Greatest 13 Smallest | Economic | Political | Social

**Greatest sources of concern,** ranked 1 to 13

| | Overall | USA | Brazil | Europe | India | China |
|---|---|---|---|---|---|---|
| Rising prices / inflation | 1 | 1 | 1 | 1 | 1 | 1 |
| Climate change / sustainability | 2 | 3 | 5 | 2 | 2 | 2 |
| Unemployment / job security | 3 | 6 | 2 | 6 | 3 | 3 |
| Gun violence / personal safety | 4 | 2 | 3 | 8 | 4 | 7 |
| Ability to make ends meet | 5 | 2 | 6 | 4 | 8 | 4 |
| International conflicts | 6 | 8 | 8 | 3 | 5 | 5 |
| Political polarization / uncertainty | 7 | 4 | 7 | 9 | 5 | 8 |
| Immigration | 8 | 5 | 12 | 5 | 9 | 9 |
| Stock market performance | 9 | 9 | 10 | 11 | 6 | 7 |
| COVID-19 pandemic | 10 | 10 | 10 | 11 | 7 | 6 |
| Growing inequality in the society | 11 | | 4 | 8 | | |
| Cost and accessibility of healthcare | 11 | | 5 | 7 | | |
| Abortion laws | 12 | 7 | 11 | 12 | | 10 |
| Discrimination | 13 | | 9 | 10 | | |

Q: What has been the greatest source of concern for you the past year?

Source: McKinsey Corporate Performance Analytics, S&P, Company filings, Annual Reports, Q3 2023

Appendix 6.

| Asia & Latin America | China | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 104.45 | -5.00% | -4.00% | -3.00% | -2.00% | -1.00% | 0.00% | 1.00% | 2.00% | 3.00% | 4.00% | 5.00% |
| -5.00% | 96.51 | 97.28 | 98.08 | 98.92 | 99.80 | 100.72 | 101.67 | 102.67 | 103.71 | 104.79 | 105.92 |
| -4.00% | 97.19 | 97.96 | 98.77 | 99.61 | 100.48 | 101.40 | 102.36 | 103.35 | 104.39 | 105.47 | 106.60 |
| -3.00% | 97.91 | 98.68 | 99.48 | 100.32 | 101.20 | 102.11 | 103.07 | 104.07 | 105.10 | 106.19 | 107.31 |
| -2.00% | 98.65 | 99.42 | 100.23 | 101.07 | 101.94 | 102.86 | 103.82 | 104.81 | 105.85 | 106.93 | 108.06 |
| -1.00% | 99.43 | 100.20 | 101.00 | 101.85 | 102.72 | 103.64 | 104.59 | 105.59 | 106.63 | 107.71 | 108.84 |
| 0.00% | 100.24 | 101.01 | 101.82 | 102.66 | 103.54 | 104.45 | 105.41 | 106.40 | 107.44 | 108.52 | 109.65 |
| 1.00% | 101.09 | 101.86 | 102.67 | 103.51 | 104.38 | 105.30 | 106.25 | 107.25 | 108.29 | 109.37 | 110.50 |
| 2.00% | 101.98 | 102.74 | 103.55 | 104.39 | 105.27 | 106.18 | 107.14 | 108.14 | 109.17 | 110.26 | 111.38 |
| 3.00% | 102.90 | 103.67 | 104.47 | 105.31 | 106.19 | 107.10 | 108.06 | 109.06 | 110.09 | 111.18 | 112.30 |
| 4.00% | 103.86 | 104.63 | 105.43 | 106.27 | 107.15 | 108.06 | 109.02 | 110.02 | 111.05 | 112.14 | 113.26 |
| 5.00% | 104.86 | 105.63 | 106.43 | 107.27 | 108.15 | 109.06 | 110.02 | 111.02 | 112.05 | 113.14 | 114.26 |

Appendix 7.

| Variation of the Gross Margin | |
|---|---|
| -2.00% | 62.94 |
| -1.75% | 68.13 |
| -1.50% | 73.32 |
| -1.25% | 78.51 |
| -1.00% | 83.69 |
| -0.75% | 88.88 |
| -0.50% | 94.07 |
| -0.25% | 99.26 |
| 0% | 104.45 |
| 0.25% | 109.64 |
| 0.50% | 114.83 |
| 0.75% | 120.02 |
| 1.00% | 125.21 |
| 1.25% | 130.40 |
| 1.50% | 135.59 |
| 1.75% | 140.78 |
| 2.00% | 145.97 |