

NIKE (NKE)  
Financial Analysis Report  
Stock Valuation

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## Company Overview and Financials

NIKE Inc., New York Stock Exchange trading symbol NKE, is a publicly listed company based in the United States and categorized under Consumer Discretionary and Textiles, Apparel and Luxury Goods.

Back in 1964, Blue Ribbon Sports, Inc. was founded. Then, in 1971, Blue Ribbon Sports, Inc. changed its name to NIKE Inc. after the brand NIKE was launched on the market. Since then, NIKE Inc. developed from a sportswear-specialized to a wider-ranged company which sells products including sportswear, accessories, equipment, casual apparel to the globe. Nowadays, NIKE is showing its strong engagement in design, international marketing, development and sales of footwear, apparel, equipment, accessories and services. By now, NIKE Inc is the world's largest supplier of athletic shoes and apparel for men, women and kids. Also, it is a major manufacturer of sports equipment, with revenue in excess of USD 37.4 billion in its fiscal year 2020. From 2017 to 2020, the value of brand NIKE alone exceeded USD 32 billion of USD 29.6 billion, making NIKE the most valuable brand in sports business.

Nike's Mission Statement is to "bring inspiration and innovation to every athlete in the world".

Nike's Vision Statement is "to remain the most authentic, connected, and distinctive brand".

Pursuing its mission and vision, NIKE shows steady growth in the market and has been leading the sportswear business field ever since.

NIKE includes NIKE, Jordan and Converse as brands with a world-wide representation.

NIKE outsources productions to more than 300 factories in more than 30 countries. Cooperation like with Apple Inc rounds off the business activities. Global sales are effected through NIKE-owned retail stores, digital platforms, independent distributors, licensees and sales representatives. Share volume is 2,288,301. The average volume 6,941,531.

The Market Cap (italization), which is the total dollar market value of NIKE outstanding share of stock, is USD 203'511'740'254.

## **Sector Review**

With NIKE leading the sportswear market for years, its business record is still far beyond reach for other brands. Adidas and Reebok are the main competitors to NIKE in the business environment, while other competitors are Fila, Puma, New Balance, Under Armour, Champion, Lululemon and NIKE sub-brand Converse.

As for the stock market, NIKE faces challenge from other business sectors. Its main stock market competitors are Walt Disney (DIS), Comcast (CMCSA), Netflix (NFLX), Sony Group (SONY), Charter Communications (CHTR), Activision Blizzard (ATVI), Marriott International (MAR), Lululemon Athletica (LULU), Hilton Worldwide (HLT), and Electronic Arts (EA).

In terms of NIKE strategies and approach, NIKE CEO John Donahoe once said on a call, "Our goal isn't merely to take market share. Our goal is also to grow the entire market." Since the emergence of the digital age, NIKE excels in its new and popular online market sales, additionally to the traditional offline market. With a promising future in the business world, NIKE's targets for 2022 and beyond are to:

- Increase revenue and net income
- Increase direct sales
- Increase brand digital sales
- Increase gross margin, including full-price sale and foreign currency exchange
- Increase cash and equivalents, as well as short term investments
- Increase diluted earnings per share and increase in dividend
- Maintain inventories level to avoid supply chain disruption
- Balance selling and administrative expense with growth and development
- Lower effective tax rate such as earnings mix etc.
- Retire shares through repurchase
- Remain status of a growth company with increasing market opportunity

In June 2020, NIKE announced a new digitally empowered phase of strategy to unlock long-term growth and profitability as a series of senior leadership changes, called Consumer Direct Acceleration. This goes in support of the shift to a new, simpler, consumer construct (men, women, kids), which allows NIKE to create a drive of more specialization with performance and lifestyle sport products.

## **Risks & Opportunities**

NIKE shows strength from the inside to the outside. Internally, NIKE's strength is in management, marketing analysis, strategies implementation and development. Externally, NIKE has been known to be strong in customer care and selling products of quality and design for all ranges of people.

Even though NIKE occupied the champion stage for many years in the market, market saturation is always the key threat to NIKE. Especially now in the digital age, more

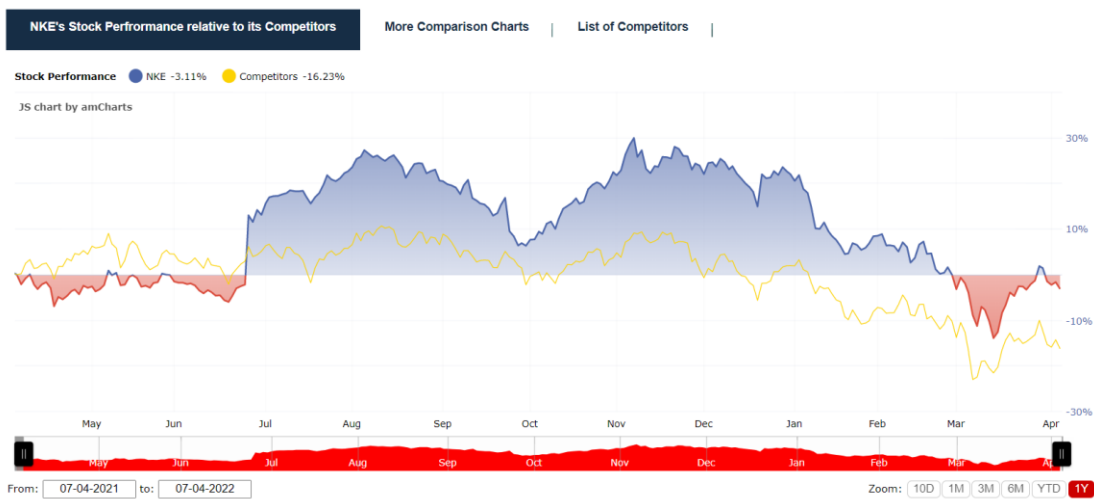
sportswear brands pop up to demand their share of the market. Filled with various fashion and sportswear brands in the market, consumers have more options to choose from, which creates another challenge for NIKE to continue attracting people. This is where the CEO's quote attacks: NIKE grows the market to avoid saturation.

Risks and threats are the motivation for creating opportunities. With an insight to plan the future, NIKE already figured out strategies to face relevant challenges. NIKE understands that people of different age have different expectations to address. Existing long-term loyal consumers prefer classic NIKE style, while new consumers prefer the latest trend of fashion. In order to maintain a good relationship with the existing long-term loyal consumers and attract new consumers to grow into loyal consumers, NIKE launches products in 2 different lines together for each season.

As more consumers result in more consumption, another challenge that NIKE must face is to balance the inventory due to supply chain issues.

## **Past Stock Performance and Future Projections Confronting Target Price with 2 Stage DDM**

Most of the year, NIKE's stock performance was much better than that of its stock competitors. As shown in the following graph, NIKE stock reflects unreachable market advantages in stock market.



On April 08 2022, NIKE stock price is listed as USD129.74. Industry insiders forecast that the stock price can still increase to USD177 or even higher, up to USD202. On average, NIKE’s potential highest stock price is estimated to be USD184.652 for 2022.

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### Nike Target Price Projection

Nike's current and average target prices are **129.74** and **184.65**, respectively. The current price of Nike is the price at which Nike Inc is currently trading. On the other hand, Nike's target price is what analysts think the stock is worth or could sell for in the future. The more significant the discrepancy between the two prices, the more it stimulates investors to act.

**Current Price**  
Nike Market Quote on 8th of April 2022

Low Price **127.88** Odds

High Price **129.93** Odds

**129.74**

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**129.74**

Target Price  
Analyst Consensus On Nike Target Price

Low Estimate **140.0** Odds

High Estimate **202.0** Odds

Number of Analysts **23**

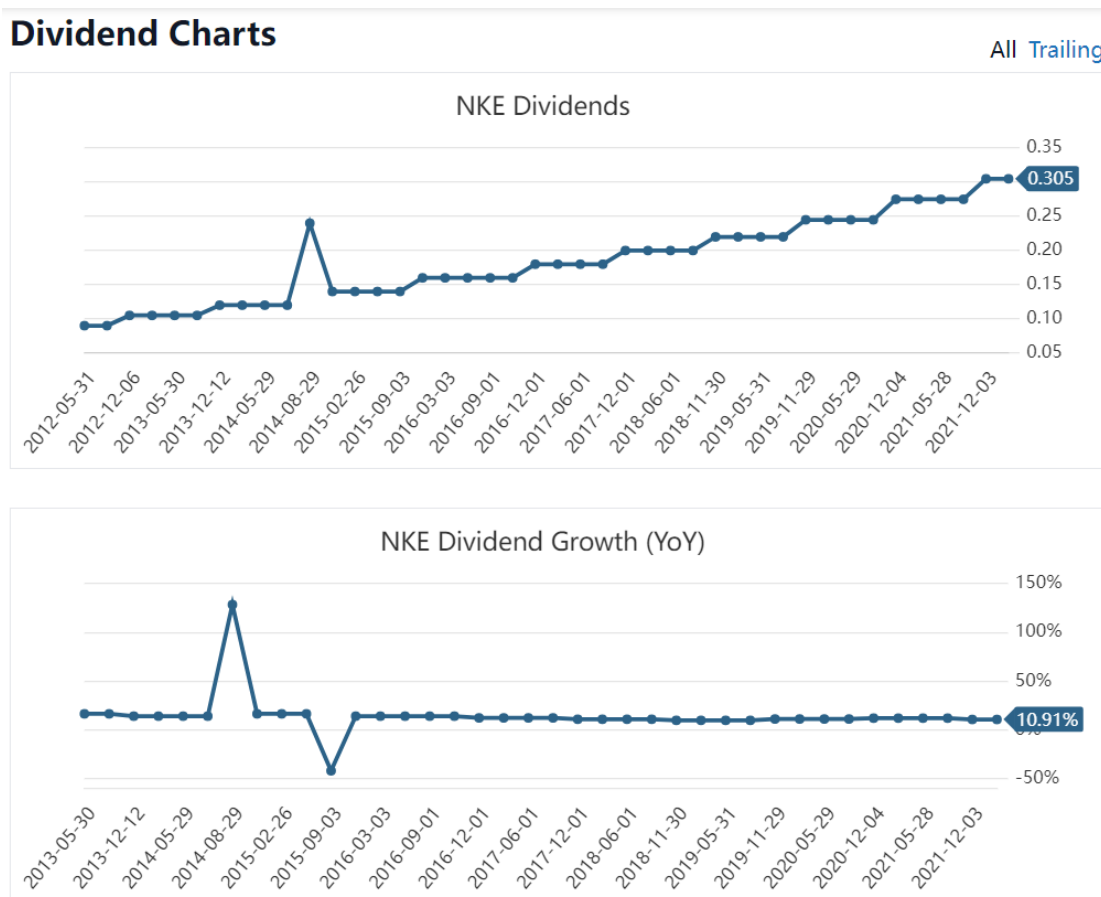
Standard Deviation **14.008**

**184.652**

The Dividend Discount Model (DDM) also known as the Gordon Growth Model,  $\{P = \frac{D_1}{(r-g)}\}$ , helps to calculate a mature company's stock's present value. The formula is:

$$P_0 = \frac{Div_1}{(1+r)^1} + \frac{Div_2}{(1+r)^2} + \frac{Div_3}{(1+r)^3} + [\dots] + \frac{Div_t + P_t}{(1+r)^t}$$

According to our financial advisers, the discount rate of NIKE Inc. is currently at 7.3%. The value of stock will be calculated as an estimate based on the net present value of future dividends, under consideration of constant growth. As seen in the charts below, from 2012 to 2021, NIKE has shown a quite perfect constant growth.



After calculation,  $P_0$  appears to be 1.151489.

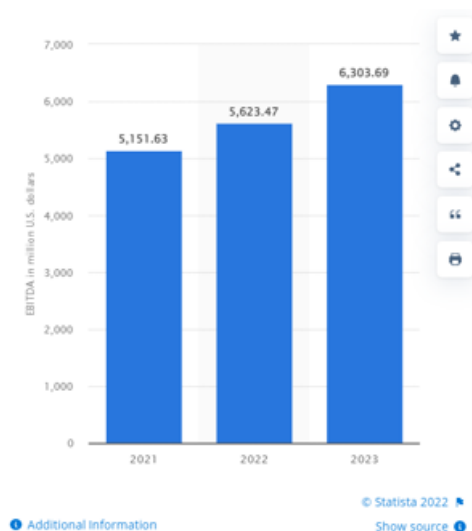


## Peer Comparison confronting similar indicators (P/E; EV/Sales; EV/EBIT EV/EBITDA)

Price-to-Earnings (P/E) ratio is the ratio to evaluate if a company is overvalued or undervalued. High P/E ratio means overvalued or expecting an increase in the future; while low P/E ratio means undervalued. 2021, NIKE's share price was USD127.23, and its diluted earnings per share was USD3.56. According to formula "P/E= Market value per share/earning per share", NIKE's P/E ratio was 35.74.

Enterprise Value to Sales (EV/SALES) is a financial measure to calculate a company's total value regarding to its sales revenue. While, Enterprise Value to its Earnings Before Interest, Taxes, Depreciation and Amortization (EV/EBITA) is a common measure to compare with different businesses on the relative value.

As mentioned above, NIKE's Current Market Capitalization, which is its Enterprise Value, is USD 203'511'740'254. NIKE 2021 annual EBIT was \$6.937bn, 122.7% increase from 2020. NIKE 2021 annual EBITDA was \$7.734bn, 82.66% increase from 2020, as seen in the graph below. By doing the calculation, NIKE's EV/EBIT ratio is 0.29 and its EV/EBITA ratio is 0.26.



## Conclusions and Recommendation

With solid growth rate, relatively low price, strong market position, frequent dividend payout with long history, and steady growth, it is good to add NIKE to existing portfolio, which will be a safe choice. NIKE is a solid company responding well to crises. Furthermore, it is also suitable for a beginner investor to play safe and still receive a good return.

The common purpose of investment is to achieve the highest possible return on investment and thereby increase the yield from investment value.

Considering the investment strategies as follows, the best option can be chosen according to the desired outcome based on the stock market situation. A mix thereof will help to diversify return and risk (though low in this case).

For stock trading, flexibility in investment is always a good choice, as unpredictable factors may result in unexpected outcomes. Generally, stock trading should be considered as an additional mode of investment, with the amount invested being unneeded and potentially a full write-off.

Short-term quick (active) trading or long-term passive trading are the benchmarks.

As options for stock trading exist:

1. dividend growth investment
  - only the dividend rate matters

Given the frequently increasing steady dividend payout of dividend for NIKE shares, this will work, especially on long-term considerations.

2. contrarian investment

- buying up highly undervalued stock during trading downturn

Given an unexpected drop in share price, this will be a great opportunity to acquire NIKE shares.

### 3. indexing (alternatively)

- a mix of different stocks

A portfolio of direct NIKE competitors, especially in terms of stock market competition, appears to be a safe bet.

### 4. active-passive strategy

- either quick buying and selling or waiting-out

Given the share trading constant up-and-down movements, active trading is possible with NIKE shares, yet requires a good feeling for the market development and a considerable investment of time and attention. If this is possible through quick selling, small yet steady amounts can be made. However, it is considered inefficient and unsuitable due to the unfavourable ratio of high input and low output.

Passive trading on the other side is highly favoured, especially given the quite safe dividend payout.

### 5. income investment

- the income matters

Focus on generating cash return rather than increasing value of portfolio. In this case, probably it is not in favour.

### 6. growth investment

- value increase at above-average rate (capital appreciation)

With holding period based on the value to be added to the portfolio, current value for the NIKE share does not seem to be a good candidate.

### 7. value investment

- value of company is under-estimated (bargain hunting)

Since NIKE is a mature company at the stock exchange, the shares may be

undervalued looking at long-term holding opportunities. Yet the share value nevertheless appears to be too close to fair value for this option.

Altogether, NIKE shares hold a strong buy-mark, with solid character, promising dividend and low risk.

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