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Global Footwear Giants Under Intense Competition

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Abstract

This report offers a comprehensive financial valuation and strategic analysis of Nike, Inc., highlighting its robust market position, financial health, and expansion strategies in emerging markets. Despite its strengths, Nike faces challenges such as premium valuation and intense competition, which may affect future investor returns and market share. The analysis includes detailed evaluations of revenue trends, profitability margins, and capital structures, alongside advanced financial modeling techniques like sensitivity, scenario, and Monte Carlo simulations to forecast future performance. The findings suggest Nike's current overvaluation, recommending a sell strategy for investors seeking a margin of safety, particularly in a volatile market influenced by geopolitical uncertainties.

Keywords: Valuation, Corporate Finance, Investment, Financial Market

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This report is part of the Nike inc. report (annexed), developed by Diogo Santos
And Carmen Trad and should be read has an integral part of it.

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Introduction

The purpose of this joint report is to do a Nike valuation to give a financial advice to an investor. Nike maintains a strong market position with robust financial health and a strategic focus on emerging markets, yet its premium valuation and increasing competition, alongside geopolitical risks, heighten its investment risk profile. With the stock currently overvalued by 6.3% after accounting for dividends, our recommendation is to sell, especially for conservative investors seeking a safety margin. The report is structured to begin with a detailed company overview, followed by a comprehensive financial analysis covering revenue, margins, and ratios. It then delves into industry analysis, examining geographic regions, distribution channels, and competitors. Strategic assessments through SWOT and ESG analyses precede revenue forecasts and cost analysis, segmented by region. The report concludes with a valuation section using various financial models, recommendations, and appendices with supporting data. In my individual report, I cover the Company Overview, detailing the history, business operations, and macroeconomic factors, followed by a comprehensive Financial Analysis including revenues, margins, and various financial ratios. I also explore Industry Analysis focusing on the competitive landscape and strategic insights through a SWOT analysis and ESG considerations, concluding with an in-depth Discounted Cash Flow analysis, incorporating sensitivity, scenario analyses, and Monte Carlo simulations. My colleague handled the sections on Activity and Liquidity Ratios, providing detailed assessments of the company's operational efficiency. They also conducted a thorough Industry Analysis, offered detailed Forecasts and Valuations of future performance, and concluded with strategic Recommendations based on the comprehensive financial and market analysis conducted.

1. Company Overview

1.1. Company History

Nike, Inc. is an American multinational corporation that engages in the production, design, development, and global marketing and sales of footwear, apparel, equipment, and services. The company employs more than 44,000 individuals across the globe, with the brand being regarded as the most valuable in the sports industry in 2024. The company was founded in 1964 by Bill Bowerman and Phil Knight under the name Blue Ribbon Sports. In 1971, it became Nike, Inc., taking its name from the Greek goddess of victory, Nike. Nike sponsors numerous high-profile athletes and sports teams globally, with the well-known trademarks "Just Do It" and the Swoosh logo, which represents the wing of the Greek goddess Nike. The mission of Nike Inc. is to pursue product innovation for the global athletic footwear



Figure 2: Share Price of Nike USD
Source: Yahoo Finance

market. A multitude of ideas are tested in order to enhance performance, mitigate injury risk and innovate products. The headquarters of Nike are situated in close proximity to Beaverton, Oregon, within the Portland metropolitan area of the United States of America. It is a significant producer of sports equipment and one of the largest suppliers of athletic shoes and apparel in the world.

Over the course of its history, the American brand has acquired several apparel and footwear companies, some of which have been divested. In the 2000s, Nike initiated the divestiture of select subsidiaries, thereby reorienting its strategic focus towards its core business lines. Since 2013, the company has owned two key subsidiaries, Hurley International and Converse, Inc.

Nike Labs has been in operation for over three decades, during which time it has been responsible for the delivery of scientific insights, which have been used to drive performance innovations across the entire Nike brand. The team comprises over 40 researchers specializing in a range of scientific disciplines, including biomechanics, physiology, physics, mathematics, kinesiology, biomedical engineering and mechanical engineering.

The company's product range is marketed under various brand names, including Nike Pro, Nike+, Nike Golf, Nike Blazers, Air Jordan, and Air Max. Additionally, Nike Inc. has a portfolio of subsidiary brands, namely Jordan, Hurley Int., and Converse.

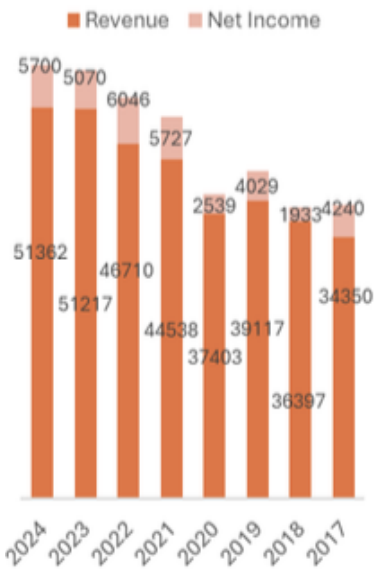


Figure 3: Financial Performance
Source: Nike Financial Statement

1.2. Business Overview

The geographical scope of the Nike Corporation's activities is divided into five regions: North America, Europe, the Middle East and Africa, the Asia-Pacific region and Greater China. In 2024, the North American region is responsible for generating 42% of the company's revenues, while the EMEA region, Greater China and the Asia-Pacific region, accounts for the remaining 61%. The global market share of Nike, in the categories of sneakers and apparel, has exhibited a decline of less than one percentage point, from 17.1% in 2022 to 16.4% in 2024, in the sportswear market. This information is derived from data provided by Euromonitor. In comparison, Adidas, the closest competitor to Nike, has a market share of 9% (a decrease from 9.5% in 2022, but an increase from the figures recorded in 2023).

The Nike business model is characterized by a high degree of outsourcing, particularly within the Asian continent, with 145 footwear and 400 apparel factories. This approach helps to reduce costs and improve scalability. Furthermore, Nike has established collaborative relationships with over 30 academic institutions, including the Massachusetts Institute of Technology (MIT) in the United States and the University of Manchester in the United Kingdom. These partnerships facilitate the advancement of research and development (R&D) activities, with the objective

Nike heavily outsources production, operating 145 footwear and 400 apparel factories primarily in Asia.

of developing efficient systems. This research also targets Flyknit technology, which is designed to reduce waste by 60% per shoe unit in comparison to the cut-and-sew technology (NIKE, 2024). Such a forward-looking perspective is reflected in their financial statements, which indicate R&D expenditures of \$3 billion.

The development of the ZoomX product, which is manufactured using environmentally friendly materials, has resulted in an approximate 15% increase in its lifespan. In addition to these developments, Nike has implemented a range of other sustainable measures. To illustrate, in 2019 the organization initiated the 'Move to Zero' campaign, which has resulted in a 15% reduction in CO₂ emissions in its supply chain. Furthermore, Nike has set forth ambitious objectives, including the elimination of waste and carbon neutrality by 2025, a 70% reduction in plastic packaging, and the attainment of 100% renewable energy by the same year. Nike's brand image is a significant contributing factor to the company's success. This image has been enhanced through strategic partnerships with prominent athletes, such as LeBron James and Cristiano Ronaldo. Furthermore, high-end brand collaborations, such as that with Off-White, have also been established. Such collaborative endeavors serve to reinforce the brand's image and reputation.

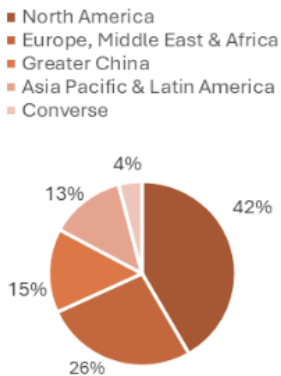


Figure 4: 2024 Sales Break Down
Source: Nike Financial Statement

1.3. Macroeconomic

2024 financials highlight a significant relationship with global macroeconomic variables that affect both revenue and profitability. The company recorded global revenue of \$51.3 billion, with the largest share coming from North America at 42%, followed by Europe, the Middle East, and Africa at 26%. This distribution underscores the impact of regional economic conditions. In the United States, economic resilience was evident with a GDP growth of 2.8% in Q3 2024, an increase from 1.9% in 2022. This growth stands in stark contrast to the European Union, where GDP growth is projected at just 0.9% for the same period, with the Euro area even lower at 0.8%. The sluggish growth in Europe may influence consumer spending on non-essential items, potentially affecting Nike's sales in these markets. In the U.S., consumer spending is expected to slow from 2.6% in 2024 to 2.2% in 2025, impacted by slower employment growth amidst high prices and interest rates. Nonetheless, U.S. annual inflation decreased to 2.5% in 2024 from 3.4% in the previous year, which may enhance consumer purchasing power for discretionary items such as Nike's footwear and apparel. The reduction in inflation, while potentially beneficial for consumer spending, also presents challenges in managing production costs. Nike, with 58% of its sales outside the United States, is particularly exposed to currency exchange fluctuations. The strong U.S. dollar has led to higher prices for Nike products in foreign markets, likely affecting sales volumes. In its fiscal 2023 report, Nike indicated that foreign exchange losses reduced revenue growth by six percentage points. Interest rates significantly influence Nike's financial



Figure 5: Inflation U.S and EU
Source: Statista

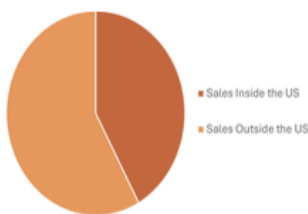


Figure 6: Currency Exposure
Source: Nike Financial Statements

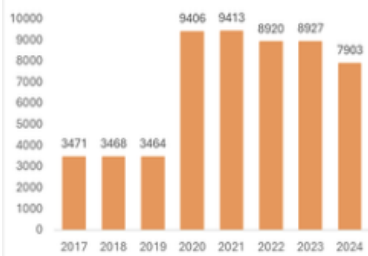


Figure 7: Long-term debt of Nike
Source: Nike Financial Statements

strategy. As of May 2024, Nike's total debt was reduced to \$7.903 billion from \$8.927 billion in 2023. However, rising interest rates increase borrowing costs, impacting net income and cash flow, while also reducing consumer disposable income, potentially decreasing purchases of discretionary items like Nike's products. (19), (22), (28), (43), (24), (25), (27), (52), (53)

2. Financial Analysis

2.1. Revenues

Nike's revenue shows relatively good growth from 2017 to 2024, recording an annual average growth rate of 6%. There was only one year in which there was a drop in revenue, that was in 2020 when a drop in revenue of 4.3% was witnessed. This was mainly due to the interruption of the supply chains and the closing of shop outlets because of the COVID-19 global crisis. The next year, 2021, saw an impressive recovery of the company. A growth of 19% was recorded. Such a result shows that the e-commerce approach worked, and the economy was effectively bouncing back, registering a 32% growth in the e-commerce sector from 2020 to 2021. In the ensuing two years, growth alongside recovery from the spike observed during the pandemic post 2021 remained stable but in 2024, there was a weakness in the growth which signals a level of market saturation and a lack of innovation by Nike. When considering sales by channel, it is worth noting that direct-to-consumer revenues in 2024 stood at \$22.3 billion, that represents 44% of Nike's total revenues. The shift to DTC has improved margins, decreased reliance on distributors and further enhanced customer retention. In the year 2023, Adidas generated 39% of its DTC profit from direct channels, supported by investments in digital platforms, while Puma generated 25% of its revenue from DTC sales, supported by an omnichannel retail approach. In general, Adidas and Puma lagged behind Nike. Adidas only grew its revenue by 0.13% from 2017 to 2023, with its revenue falling from €22.5 billion in 2022 to €21.4 billion in 2023, partly due to poor currency translation and its exit from the Yeezy market. Adidas' 2023 breakdown by product category is as follows: Footwear 57% Apparel 36% Accessories 7%. On the other hand, PUMA was much stronger, growing 12.96% over the same period, driven by strong demand in APAC and EMEA. PUMA's revenue split in 2023 was 53.3% for apparel, 14.6% for accessories and 32.1% for footwear.

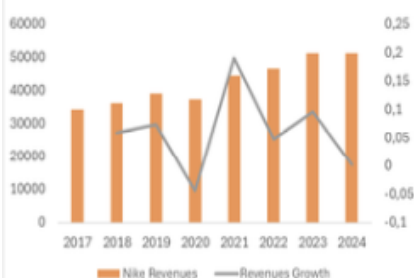


Figure 8: Revenue of Nike and competitors
Source: Nike Financial Statements

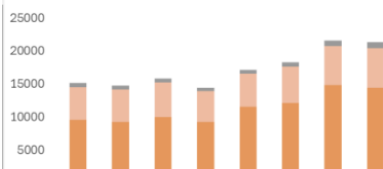


Figure 9: Revenue North America
Source: Nike's Financial Statements

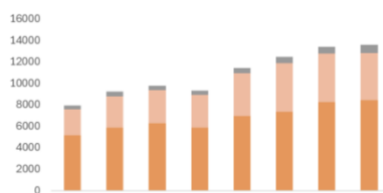


Figure 10: Revenue EMEA
Source: Nike's Financial Statements

2.2. Revenue by Segment and Region

North America is Nike's largest market, with \$21.4 billion in revenue in 2024, up from \$7 billion in 2017, marking a 42.6% total growth. The strongest growth occurred in 2021 (18.6%) driven by post-pandemic recovery and rising sports participation, with Average percentage of the population engaged in sports at

around 23.4%. In 2022, growth slowed to 5% due to cautious retailer orders and lower consumer spending. Nike's focus on direct-to-consumer channels contributed to its market resilience and proximity to the customers. Nike's digital transformation and strong e-commerce presence, boosted by the Jordan brand and athlete partnerships. The limited supply and period "drops" of new products increase the traffic in Nike's digital platforms, which helped to attract more customers to the online business. However, the saturated market poses challenges for maintaining leadership, requiring ongoing innovation. The EMEA region is Nike's second-largest market, with an average annual growth of 7.9% from 2017 to 2024. After a 4.7% decline in 2020, revenue grew by 22.6% in 2021 due to e-commerce success but slowed to 8.9% in 2022 amid supply chain disruptions. In 2023, growth rebounded to 7.5%, reaching \$7.54 billion, in 2024 fueled by rising demand and strategic partnerships. In Europe, sportswear's popularity as casual wear has grown, influenced by American style. Nike has responded by offering versatile products, capitalizing on the trend. Greater China saw 6.6% growth from 2017-2024, with revenue reaching \$5.75 billion in 2021 due to e-commerce growth and tailored products. However, sales fell 5.8% in 2022 amid supply chain issues and competition. In 2023, growth was modest at 0.4%, driven by middle-class demand for branded products. Challenges include geopolitical tensions and a crowded market. The Asia-Pacific and Latin American markets declined in 2020 but recovered with 12.4% growth in 2022 and 10.5% in 2023, reaching \$4.54 billion. Growth in these regions is driven by urbanization, rising income, and health trends. However, economic volatility, inflation, and political instability pose risks. Emerging markets like Vietnam offer expansion opportunities.



Figure 11: Revenue Greater China
Source: Nike's Financial Statements



Figure 12: Revenue Greater Europe
Source: Nike's Financial Statements

Despite challenges such as rising raw material costs and inflation, Nike maintained resilient gross margins, showcasing its operational capacity to sustain profitability in a dynamic market.

2.3. Gross margins analysis

Overall, from 2017 to 2023, Nike's gross margin trend is in the range of 43.4% and 45.98%, with consistent growth despite potential external challenges or shocks. The stability comes from effective brand management combined with high brand equity, innovation, and strategic direct-to-consumer sales, which the company says drive higher margins.

While Nike outperformed Adidas in terms of sales and growth over the last years, Adidas is presenting a higher Gross Margin, ranging between 47.29% and 52.00%. Adidas enjoyed a stronger market position in Europe, which helped it to maintain relatively robust margins, especially in apparel.

In comparison, Puma's gross margins ranged between 46.5% and 48.5% due to its strategic positioning on lifestyle products and partnerships where the brand premium can be extracted. With such a positioning, Puma maintains better margins than Nike in certain categories.

Under Armour showed significant gross margin variation within a range of 45.40% to 49.11%, driven by its luxury positioned products and premium pricing strategy. A strong focus on apparel and DTC channels supported margins for the company, but its positioning in niche markets contrasts with Nike's global scale and reliance on broader DTC strategies, which carry higher supply chain costs.

Over this period, Nike's gross margins have been resilient, demonstrating the company's ability to adapt to rising raw material costs, inflation and other market challenges. This demonstrates Nike's immense operational capacity to maintain profitability in a dynamic market environment.

2.4. EBITDA margins analysis

Between 2017 and 2019, Nike's profitability ranged from 14% to 16%. However, the global pandemic in 2020 disrupted supply chains, increased operating costs, and reduced sales, exacerbated by Nike's high fixed cost structure. In 2021, the company rebounded with an EBITDA margin of 17.6%, driven by resurgent consumer demand and a strategic shift towards more direct-to-consumer sales. However, from 2021 to 2023, Nike's EBITDA margins faced gradual erosion due to several factors. Rising input costs, especially for raw materials and labor, along with increased freight expenses due to ongoing supply chain disruptions, contributed to this decline. Additionally, operational inefficiencies and market saturation led to promotional pressures by 2023, further impacting margins. Despite these challenges, Nike maintained more stable margins compared to competitors like Adidas and Under Armour, showcasing its effective cost management and operational resilience.

Adidas also faced challenges, with EBITDA margins falling from 16.29% in 2019 to 6.91% in 2023, reflecting inventory mismanagement, high supply chain costs, and the discontinuation of the Yeezy line. Under Armour saw wild swings, peaking at 37.76% in 2019 before falling to 6% in 2022. These swings were driven by a high-end pricing strategy with good cost control in the early years, while higher freight costs and inventory write-downs came into play in the post-pandemic period.

While Nike was similarly affected, its margins were much more stable, a good reflection of its cost discipline and efficiency. It has been better than any of its peers at adapting to the changing market and leveraging control over its cost structure to maintain its lead in operational resilience within the industry.

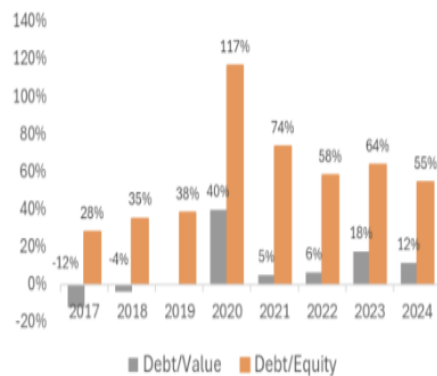


Figure 13: Nike's Debt to Value and Debt to Equity
Source: Nike's Financial Statements

2.5. Capital Structure ratios

Between 2017 and 2019, Nike maintained a rather low D/E ratio of 50%, which was estimated to be well above the tolerance threshold of an acceptable level. This

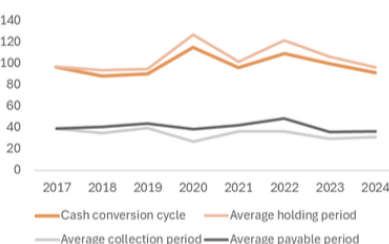


Figure 15: Cash Conversion Cycle Decomposition
Source: Nike's Financial Statements

"conservative" rationale was the reason for keeping this interest cost relatively low throughout the financial activity period. However, it increased dramatically, rising to 120% in 2020. This shift gave the ability for the company to finance its investments with debt and stores cash, making the company more flexible and agile for unexpected concerns in the short-term. The increase in cash exposure is also a safeguard against market volatility and allowed Nike to capitalize on emerging growth opportunities.

Moreover, the macroeconomic scenario of 2020 played a significant role in Nike's decision to increase its debt, mainly due to 3 factors: COVID-19, where the decrease in consumption created cash flow concerns and Nike raised its debt to ensure liquidity during an uncertain period; the shift to digitalization and direct to consumer policies where it was necessary additional capital to invest in technology, logistics and digital infrastructure and the low interest rates that created a favorable borrowing environment for company to issue more debt. In recent years, Nike was able to reduce its long-term debt from \$9.4 billion in 2020 to \$7.9 billion in 2024, while its equity grew from \$8.1 billion to \$14.4 billion over the same period. As a result, the D/E ratio has fallen from 117% to 55%.

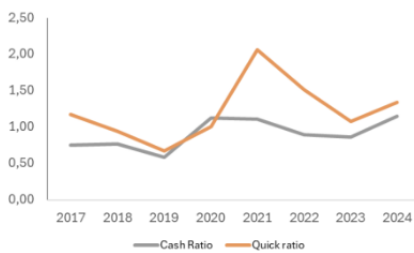


Figure 16: Cash and Quick Ratios
Source: Nike's Financial Statements

2.6. Return and Efficiency ratios

The Return on Equity (ROE) is one of the main ratios that constitute the Return and Efficiency category. ROE is the return that an investor/shareholder of each unit invested into the business. It is one of the metrics used to analyze if an investment is worth it or not. Nike presented a strong historical ROE, registering an average of 45%, making it more attractive when compared with its competitors, such as Adidas and Puma, that present 15.6% and 10.9% ratios respectively, and higher than the industry that presents a 15% average. Nike has a more efficient cost structure and has a stronger position in the North America region (when compared with other competitors) enable it to have higher ROE overall. In addition to that, Nike has the ability to charge higher prices and be more efficient in production costs which also contributes to keep its strong ROE.

However, due to the highly competitive market and the different business model of the competitors, there are companies that are catching up and even surpassing Nike regarding ROE, such as Lululemon that is achieving a 50% ratio. By targeting a niche in high-margin athleisure Lululemon generates a more attractive return for its investors and consequently reduces Nike's attractiveness. It is forecasted for Nike to decrease its ROE in the short term due to the increase in investment, however in a 5 year-period, the company will reap the returns of its investment, and it is expected to reach a ROE higher than 50%.

Fast growing companies are quickly closing the gap in Return on Equity, challenging established market leaders

2.7. Activity and Liquidity ratios

Activity ratio is mainly characterized by the Cash Conversion Cycle (CCC), a ratio that considers the average holding, collection and payable periods. Nike is characterized by a higher holding period and a lower payable period, reflecting in a higher CCC when compared with the industry and competitors (Figure 15). In contrast with what is expected, in this case, the payable period below industry average reflects Nike's healthy liquidity situation, that have a strong ability to pay its supplier in advance; consequently, the fact of having a lower payable period will translate in a higher CCC. The Cash Conversion Cycle for Nike has remained relatively stable over recent years, with notable exceptions in 2020 and 2022, which were heavily impacted by COVID-19. Due to disruptions in global supply chains, closed borders and fluctuations in consumer demand, the average holding period increased from 90 to 115 days. In 2024, Nike's CCC appears to be on a path to recovery, nearing pre-COVID-19 levels, registering again a decrease in the average holding period. Regarding liquidity, Nike as a save liquidity position, presenting Current, Quick and Cash ratio above industry average. Due to the factors mentioned before, Current Ratio was heavily impacted by the increase in inventory, creating a trick situation when analyzing Nike's liquidity, for that reason the Quick Ratio fits better in the analysis Quick ratio remaining close to 1 over the historical financial years. During COVID-19 pandemic Quick ratio rise to around 2, primarily due to increased cash and cash equivalents on the balance sheet. It was also an approach adopted by Nike's competitors. This higher liquidity buffer allowed Nike to navigate uncertainties while ensuring financial flexibility. Now on-wards It is expected to see a steady decrease in the Quick ratio until reach the 1 as Nike cash position is expected to grow slower than debt, due to Nike investment strategies

3. Industry Analysis

3.2. Competitive Landscape

As the leading brand in the sportswear industry, Nike has achieved numerous successes that have strengthened its market dominance. Over the years, Nike has consistently maintained its leadership position, solidifying its status as a long-standing market frontrunner. However, the company is confronted with a number of significant challenges that have an impact on its business activities. The intense competition from brands such as Lululemon, Adidas, Sketcher and Puma necessitates constant innovation and differentiation on the part of Nike. Furthermore, it is imperative that they remain abreast of the latest fashion trends,

Even with fierce competition, Nike continues to dominate the market by a remarkable margin.

the growing demand for sustainable products and the latest performance features.

- Adidas

Adidas was founded in 1949 by Adolf Dassler, who had split with his brother Rudolf, now the founder of rival company Puma. Adidas went on to become one of the leading companies in the global sportswear market, becoming truly famous for its innovations in football, running and basketball. In 2013, Adidas introduced its Boost cushioning technology, which improves both comfort and energy return. This includes Nike with 56%, followed by Lululemon with 8% growth and then Adidas with a market capitalisation of \$34.1 billion. On the other hand, Nike has shown stronger growth over the past seven years and has been more resilient during the pandemic period. In 2023, Nike reported sales of \$51.2 billion with a profit margin of 9.9%, while Adidas' sales were \$21.4 billion with a margin of 1.2%. While Nike has the advantage in the North American market, Adidas is strong in northern Europe. Both companies invest heavily in R&D, but the focus is different: Adidas focuses on sustainable innovation and speed factories that adapt to local markets and reduce delivery times.

- Lululemon

The footwear industry is highly competitive, requiring companies to adapt to changing consumer trends. In the past decade, athleisure apparel has become increasingly popular, with Lululemon emerging as a key competitor. Founded 30 years after Nike, Lululemon reported \$9.6 billion in revenue for 2023—a 200% increase from five years ago. Initially focused on women's yoga wear, the brand has expanded into athletic apparel, footwear, and men's clothing, broadening its market reach. Despite economic challenges, Lululemon achieved a 16% revenue increase in its fiscal fourth quarter and expects 2 digits growth in the current fiscal year. The company has consistently outperformed Nike in profitability, with higher gross and operating margins, underscoring its premium positioning in the industry. Lululemon's growth potential remains strong, particularly in international markets, as it continues to expand its product offerings and market presence.

- Skechers

Skechers, founded in 1992, is a global footwear brand known for comfort, style, and affordability. By 2022, it operated 4,705 stores, with 38% of revenue from direct-to-consumer sales (\$2.8 billion) and 62% from wholesale. The company produced 266.8 million pairs of shoes in 2022, up 33.4% from 2021, and saw significant international growth, especially in Asia and Europe. In 2023, Skechers' revenue reached \$8.1 billion, a 9.5% increase from 2022. Net sales rose 42.3% to \$530.6 million. The U.S. market share fell to 41%, while international sales grew by 59% to \$4.4 billion. From 2020 to 2022, 60% of revenue came from international



Figure 26: Nike vs Adidas Revenues Growth
Source: Nike's Financial Statements

Company	2024	2025	Variation
Nike	0,30%	2,30%	↑
Adidas	7,00%	8,00%	↑
Lululemon	15%	13%	↓
Puma	-0,20%	3%	↑
Skechers	9,50%	8%	↓

Figure 27: Nike vs Competitors Expected Growth
Source: Nike's Financial Statements

markets, with key regions including Asia-Pacific (25%) and EMEA (23%).

3.3. SWOT Analysis

Nike has achieved a considerable degree of brand recognition on a global scale, in the united state there is a recognition of the brand of 90%. With regard to the concept of brand loyalty, it is estimated that 49% of sneaker owners in the United States are likely to repurchase Nike products. In comparison to the 58% market penetration of the brand, this indicates that 84% of its owners demonstrate brand loyalty (Kunst, 2024). This brand strength enables Nike to target a diverse range of customer segments, including athletes, individuals with a penchant for fashion, and those who adopt a more casual approach to their attire. Moreover, the company's investment in research and development is regarded as one of its key competitive advantages, representing approximately 3% of its annual revenue in 2023. This research and development (R&D) activity has resulted in the creation of innovative products such as Flyknit, which has the dual benefit of reducing material waste and enhancing Nike's brand image.

The company Nike has indicated that it will maintain its focus on the footwear market, which currently accounts for approximately two-thirds of its revenues. The substantial proportion of Nike's revenues derived from the North American market renders the company vulnerable to fluctuations in this market, which constituted approximately 42% of its revenues in 2024. Such dependence renders the firm susceptible to the effects of recession, shifts in consumer expenditure patterns and rising prices in the US economy.

Nike has an opportunity to expand its market in the emerging regions of Asia Pacific and Latin America due to the significant growth in demand for sportswear and the rising consumer incomes in these regions. Between 2003 and 2009, the Latin American middle class experienced a 50% expansion, increasing from 103 million to 152 million individuals, representing 30% of the region's population at that time. It is anticipated that the expanding middle class will continue to constitute approximately 43% of the total population, a result of sustained economic growth and enhanced educational achievement and Nike have the opportunity to take advantage of this growth to increase its presence in the region. Moreover, this will result in a reduction in their reliance on the North American market. Additionally, Nike has the opportunity to diversify its product range and personalize it to meet local preferences.

As a consequence of these challenges, the sportswear industry is characterized by intense competition. The global footwear market is expected to generate an additional 23.5 billion dollars in revenue between 2024 and 2030, representing a compound annual growth rate (CAGR) of 3.4%. The market is currently-undergoing

Strengths	Weaknesses
Brand Strength	Market Dependency
Brand Loyalty	Economic Uncertainty
Diversification	

Figure 28: Nike's Strengths and Weaknesses
Source: Nike Financial Report

Opportunities	Threats
Global Expansion	Geopolitical Risks
Market Growth	Supply Chain Issues
Expanding Middle Class	

Figure 29: Nike Opportunity and Threats
Source: Nike Financial Report

North America represents the largest for Nike's revenue, accounting for 42%.

a phase of rapid expansion, driven by various global trends impacting consumers' habits and preferences. It is unsurprising that the effects of considerable rival pressure from Adidas, which generated €21.43 billion in revenue, and Puma, which generated €8.5 billion in revenue, in the same year, have been very disconcerting for Nike, which is attempting to maintain its position as the unquestionable leader in the market. Nike also faces significant geopolitical risks, particularly in two largest markets, the North America and China, where ongoing trade tensions and regulatory challenges could disrupt sales and supply chains. Additionally, Nike's lack of transparency over labor practices and ethical sourcing has placed the company under pressure. While competitors like Adidas and Puma have made an effort to enhance transparency and ensure ethical sourcing, Nike's perceived lack of clarity in these areas has intensified public and investor concerns, potentially impacting its brand reputation.

3.4. Environmental, Social, and Governance (ESG)

Nike has ambitious goals for the future: to reduce its greenhouse gas emissions by 70% by 2025 and to increase the representation of minority groups in its US workforce to 35%. Achieving these goals could lead to a significant increase in the company's brand value and net worth. The result would be higher earnings, improved credit ratings and lower risk premiums. Offsetting this would 3/be the operational costs, mainly of achieving 96% reliance on renewable energy. According to a McKinsey report, companies that switch to renewable energy can see a 20% reduction in energy costs over the long term, suggesting potential cost efficiencies over time.

Nike's commitment to sustainability resonates strongly with its core customer base, particularly younger demographics. According to the company's consumer research, 58% of Nike's customers are between the ages of 18 and 34. This generation is increasingly focused on corporate sustainability and ethics. Research from McKinsey & Company and Nielsen shows that products with ESG themes outperform over time. On average, products with ESG claims are expected to grow 1.5 times faster over a five-year period than those without. This underscores the importance of sustainability as a driver of consumer loyalty and revenue growth. Despite a very strong focus on sustainability, there are governance issues at Nike. The company's S&P Global ESG score is 44 out of 100, compared with 53 for key competitors such as Adidas. This gap poses risks, particularly in attracting ESG-focused institutional investors. A lower ESG score could also increase Nike's equity risk premium and therefore its WACC, potentially lowering its overall valuation. As more competitors move to circular business models using sustainable materials, Nike will face increasing pressure to innovate while keeping pace with industry trends. At an industry level, bold targets are being set to address sustainability

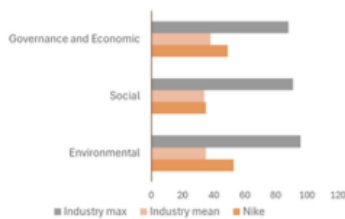
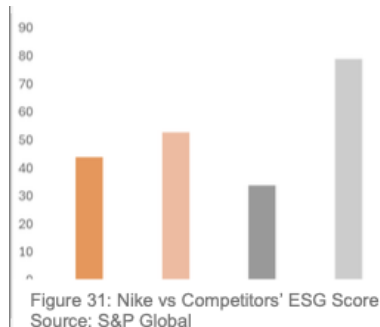


Figure 30: Nike vs Industry ESG Score
Source: S&P Global

challenges. As part of the apparel and footwear industry, Nike has committed to a target to reduce CO2 emissions by 700 million tonnes by 2030. If competitors achieve such targets before Nike does, the company could lose market share or face punitive regulations that would put a dent in its profitability. On the positive side, Nike has strategically invested in initiatives to ensure diversity and inclusion, spending \$1.4 billion with a diverse supplier base in fiscal 2023 to create business diversity. In doing so, this strategy can offer significant long-term benefits such as improved sourcing costs, the ability to develop unique products, and also better overall returns. Ultimately, Nike's various ESG initiatives - if implemented - will contribute to the market valuation through growth, cost efficiencies and risk mitigation. However, the company still needs to improve on its weaker governance scores and the competitive advantages of peers in ESG leadership. Improving governance and accelerating sustainability performance will be key to maintaining investor confidence and market competitiveness.



5. Discounted Cash Flow (DCF)

5.4. Sensitivity Analysis

Despite Nike's dominant market position and long-standing presence, uncertainty remains. Even small changes in certain inputs can have a significant impact on the projected value. The objective of the sensitivity analysis is to assess the impact of key drivers on the company's share price. The revenue growth change is identified as the most sensitive factor, with a reduction to \$67 resulting in a price of 3%. Changing the revenue growth rate from 3% to 5%, on the other hand, increases it to \$81, showing how much worse performance can be due to declining revenues. This shows the absolute importance of sales growth in increasing the value of the company. In addition, a sensitivity analysis has been carried out by stressing the beta to see how the WACC varies, since during our Linear Regression we achieved a beta of 1.03 with a standard deviation of 3%. At a beta of 1.03, indicating a medium level of risk, the WACC is 8.8%. The WACC increases to 9.1% when Beta is slightly increased to 1.09, however the WACC is 8.6% at a lower Beta value of 0.97. For the purposes of this analysis, it was decided that beta should vary as it is an important factor in estimating the cost of equity under the Capital Asset Pricing Model.

As the current WACC is 8.8%, a reduction to 8.6%, influenced by a lower beta (0.97 beta) would increase the value of the share to \$75. Conversely, in a scenario where Nike has a higher beta of 1.09, it will increase the WACC to 9.1%, the share price would fall to \$67. It follows that the WACC is one of the main determinant of the share price. The fact that a company's share price varies inversely with its WACC indicates the importance of a competitive capital structure. Both the WACC

and terminal growth rate were stressed against the price targets and the Enterprise Value.

5.5. Scenario Analysis

The DCF scenario analysis underlines its high sensitivity to changes in such assumptions: revenue growth, long-term growth, and WACC. In the worst case, which corresponds to conservative estimates of 2.5% revenue growth and 2.5% LT growth, with a higher WACC of 9.5%, the equity value decreases to \$86.06 billion, while the share price drops to \$57.30, indicating significant downside risks. Conversely, the best case assumes more favorable conditions: revenue growth of 4.5%, LT growth of 4.5%, and a WACC of 7.5%, which boosts the equity value to \$176.12 billion and the share price to \$117.25, largely driven by a significantly higher terminal value. The base case presents 4.0% revenue growth, 4.0% LT growth, and a WACC of 8.8%, resulting in an equity value of \$106.2 billion and a share price of \$70.70. This scenario analysis illustrates that the equity value and share price are highly sensitive to changes in revenue growth, LT growth, and WACC. The worst case reflects adverse conditions where the equity value is approximately 19% lower than in the base case due to slower growth and a higher cost of capital. The best case, on the other hand, results in an equity value increase of about 66% from the base case, attributed to accelerated growth and a lower cost of capital. This wide divergence underscores the critical importance of assumptions in deriving a valuation estimate and highlights how sensitive shareholder value can be to economic and operating conditions.

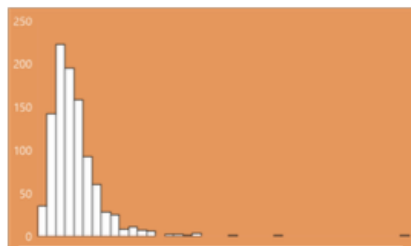


Figure 51: Monte Carlo Distribution
Source: Own calculation

5.6. Monte Carlo Simulation

A Monte Carlo simulation was performed in order to determine the robustness of the model. The variable of the model is share price, and the simulation examines the variability of this quantitative variable in the case when the following input assumptions are altered: sales growth, no-plat margin, equity cost and equity cost. This sales growth input was chosen in this case since it has a causal effect on the revenues forecast. This input, however, is quite uncertain, especially in the case of a highly competitive market. The net profit figure covers the profits made after operating costs and tax obligations have been met. As such, it can be said that it plays a vital role in the next cash potential available to the investors. This is helpful in advance as the no-plat margin, given understanding of its value, permits assessment of the degree to which the margin may be affected by changes in cost structure, consumer driven price competition or operational competence. And lastly, the cost of equity is the return that investors anticipate, which is the compensation for the risk associated with the subject firm as perceived by them. This has been experienced anytime the cost of equity changes where specific risks are identified

within the firm, from the market or industry. Regarding the distribution of the data, it is positively skewed. Most of the simulations return on average equity value closer to a lower value in relation to the mean of the model. Very few iterations achieve an equity value that is significantly above the average. Further on, the model shows moderate dispersion. The abuse distribution suggests that in most circumstances, the expectations core assumptions will prove to be less extreme in optimistic cases.

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Appendix

Financial Statements – Income Statement

Description	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Core Operations																
Revenues																
Total Sales	39117	37403	44538	46710	51217	51362	52521	53855	57393	60618	63315	66079	68539	70978	74181	76607
% growth		-4.38%	19.08%	4.88%	9.65%	0.28%	2.26%	2.54%	6.57%	5.62%	4.45%	4.37%	3.72%	3.56%	4.51%	3.54%
COGS																
% growth	-3.60%	-3.60%	-3.60%	-3.60%	-3.60%	96.40%	3.00%	2.53%	6.57%	5.59%	3.51%	4.37%	3.72%	3.56%	4.52%	3.54%
Gross Profit	17474	16241	19962	21479	22292	22887	23191	23782	25345	26779	28288	29523	30621	31711	33141	34314
SG&A	-3753	-3592	-3114	-3850	-4060	-4285	-4612	-4730	-5040	-5323	-5560	-5286	-5483	-5678	-5934	-6145
R&D and Salaries	-8229	-8775	-9114	-10114	-11458	-11447	-12342	-12656	-13487	-14245	-13296	-13877	-14393	-14905	-15578	-16130
D&A	-720	-759	-797	-840	-859	-844	-918	-981	-1020	-1039	-1058	-1073	-1122	-1176	-1218	-1285
Core Result Before Taxes	4868	3211	7033	6771	6011	6407	5414	5512	5893	6268	8469	9382	9719	10047	10506	10850
Total Taxes	-783	-387	-886	-616	-1096	-956	-954	-971	-1039	-1105	-1493	-1654	-1713	-1771	-1852	-1912
Other Comprehensive Income	330	-278	-329	692	-81	-187										
Core Result (NOPLAT)	4415	2546	5718	6847	4834	5264	4460	4549	4855	5163	6976	7729	8006	8277	8655	8938
Non-Core Operations																
Other expense	78	-139	-14	181	280	228	103	105	112	167	203	205	190	180	194	208
% of core	0.20%	-0.37%	-0.03%	0.39%	0.55%	0.44%	0.20%	0.20%	0.20%	0.28%	0.32%	0.31%	0.28%	0.25%	0.28%	0.27%
Savings and Profit Sharing Plan	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75	-75
Long-Term Incentive Plan (LTIP)	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21	-21
Non-Core Result Before Taxes	-18	-235	-110	85	184	132	7	9	16	71	107	109	94	84	96	112
Total Taxes	3	28	15	-8	-34	-26	1	2	3	14	21	22	19	17	19	22
Other Comprehensive Income	-7	-9	5	6	-6	9										
Non-Core Result	-22	-216	-90	83	144	121	8	11	19	86	128	131	112	100	117	134
Total Operating/Non-Operating Income	4393	2330	5628	6930	4978	5385	4468	4551	4874	5249	7104	7860	8118	8377	8772	9072
Financial Result																
Interest Expense	49	89	262	205	-6	-161	299	291	284	277	270	263	257	250	244	238
% of debt	-1.41%	-0.68%	-2.04%	-1.62%	0.05%	1.35%	2.55%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Financing Result before taxes	-49	-89	-262	-205	6	161	-299	-291	-284	-277	-270	-263	-257	-250	-244	-238
Total Taxes Shield	8	11	37	19	-1	-24	73	71	69	68	66	64	63	61	60	58
Result	-41	-78	-225	-186	5	137	-226	-228	-215	-209	-204	-199	-194	-189	-185	-180
Total Comprehensive Income	4352	2252	5403	6744	4983	5522	4242	4331	4659	5039	6900	7661	7924	8187	8587	8892

Balance Sheet

Description	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Core Operations																
Operational Cash	1174	1122	1336	1401	1537	1541	1576	1616	1722	1819	1899	1982	2066	1962	2225	2304
Accounts and notes receivable, net	4272	2749	4463	4667	4131	4427	4317	4426	4717	4982	5204	5431	5633	5834	6097	6313
Inventories	5622	7367	6854	8420	8454	7519	8036	8239	8780	9271	9597	10016	10388	10758	11344	11642
Average Holding Period	94,82	127,07	102,79	121,61	106,68	96,39	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00	100,00
% of sales	14%	20%	15%	18%	17%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%
Prepaid Expenses and Other Current Assets	1252	682	649	1162	1078	1020	1182	1212	1291	1364	1425	1487	1542	1597	1669	1728
Net Property, Plant And Equipment	4744	4866	4904	4791	5081	5000	5403	5769	6000	6113	6226	6315	6603	6918	7163	7560
Identifiable intangible assets, net	283	274	269	286	274	259	260	262	263	265	267	268	270	271	273	274
Goodwill	154	223	242	284	281	240	240	240	240	240	240	240	240	240	240	240
Deferred income taxes and other assets	1273	2068	2200	2726	2670	2991	2826	2693	2870	3031	3166	3304	3427	3549	3709	3840,37
Operating lease right-of-use assets	0	3997	3113	2926	2923	2718	3151	3231	3444	3637	3799	3965	4112	4259	4451	4608
Fixed Assets	4744	7963	8017	7737	8034	7718	8554	9010	9443	9750	10025	10279	10715	11177	11614	12188
Intangibles and Goodwill	437	497	511	570	555	499	500	502	503	505	507	508	510	511	513	514
Accounts Payables	2612	2248	2836	3358	2962	2651	2878	2951	3145	3322	3469	3621	3756	3889	4065	4209
Accrued liabilities	3916	2426	2549	3293	3612	3714	3676	3770	4018	4243	4432	4626	4798	4968	5193	5377
Income Tax Payable	229	156	306	222	240	534	537	539	542	545	547	550	553	556	559	561
% of sales	0,59%	0,42%	0,69%	0,48%	0,47%	1,04%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%	0,50%
Deferred income taxes and other liabilities	716	119	-5	-138	-292	-385	-383	-381	-379	-377	-375	-374	-372	-370	-368	-366
Net Working Capital	5563	7990	7611	8777	8286	7498	8019	8233	8896	9326	9678	10119	10514	10758	11420	11841
Core Invested Capital	11301	17489	16394	19928	19017	19001	20082	20899	22042	22989	23748	24584	25537	26164	27623	28730
Non-Core																
Non-core invested capital	-2271	-6984	-4954	-3616	-2797	-2660	-2960	-3071	-3286	-3531	-3778	-4039	-4314	-4605	-4914	-5240
Total Invested Capital	9030	13405	13440	16312	17010	16341	17222	17737	18727	19458	19970	20546	21223	21759	22709	23490
Financing																
Net Debt	3479	13615	12813	12627	12144	11952	10904	11016	11534	12050	12428	12787	13164	13539	14009	14449
Excess cash	3292	7226	8553	7173	5904	8319	6565	6732	7174	7577	7914	8260	8567	8872	9273	9601
Short-term investment	197	439	3587	4423	3234	1722	1630	1505	1420	1415	1385	1295	1265	1235	1185	1175
Net financial debt	-10	5369	673	1031	3066	1911	2769	2779	2920	3057	3129	3233	3233	3431	3562	3673
Total Equity	9040	8555	12767	15281	14054	14430	14579,3	14992,0	15795,4	16421,6	16864,7	17340,0	17921,6	18491,0	19197,8	19855,7

CashFlows

Operating Unlevered Free Cash Flows	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F	2034F
Operating Income before Taxes	4868	3211	7033	6771	6011	6407	5414	5512	5893	6268	8469	9382	9719	10047	10506	10850
Less: Taxes	-783	-387	-986	-616	-1096	-956	-954	-971	-1039	-1105	-1493	-1654	-1713	-1771	-1852	-1912
NOPLAT	4085	2824	6047	6155	4915	5451	4460	4540	4855	5163	6976	7729	8006	8277	8655	8938
Plus D&A	720	759	797	840	859	844	918	961	1020	1039	1058	1073	1122	0	0	0
Other Comprehensive Income	330	-278	-329	-692	-81	-187	0	0	0	0	0	0	0	0	0	0
Operating gross cash flow	5135	3305	6515	7687	5693	6108	5378	5521	5875	6202	8034	8802	9128	8277	9872	10223
Less: Δ in NWC	533	-1528	-521	-1196	492	876	-611	-214	-573	-520	-350	-444	-394	-391	-515	-421
Less: Δ in PP&E and intangibles (CAPEX)	-1010	-3978	-851	-540	-1146	-556	-1751	-1429	-1463	-1346	-1333	-1328	-1558	-461	-1656	-1840
Less: Δ in Intangibles	2	-60	-14	-59	15	56	-1	-1	-2	-2	-2	-1	-1	-1	-1	-1
Less: Δ in Deferred income taxes and other as	32	-785	-182	-476	56	-321	365	-67	-177	-161	-135	-128	-123	-122	-160	-131
Plus: Δ in Deferred income taxes and other liab	-27	-597	-124	-133	-154	-93	2	2	2	2	2	2	2	2	2	2
Operating Invested Capital	-470	-6948	-1702	-2374	-737	-38	-1996	-1710	-2213	-2026	-1817	-1909	-2075	-974	-2330	-2392
Operating Unlevered Free Cash Flow	4666	-3643	4813	5313	4955	6069	3382	3811	3661	4176	6217	6893	7063	7303	7542	7831
% Growth	#REF!	-178.07%	-232.12%	10.39%	-6.73%	22.48%	-44.28%	12.70%	-3.93%	14.05%	48.89%	10.87%	2.32%	3.54%	3.27%	3.84%
Non-Operating Unlevered Free Cash Flows																
Non Operating Profit	-18	-235	-110	85	184	132	-21	5	11	65	99	101	83	71	89	102
Less: Taxes	3	28	15	-8	-34	-20	-4	1	2	13	20	20	17	14	18	20
Other Comprehensive Income	-7	-9	5	6	-6	9	0	0	0	0	0	0	0	0	0	0
Less: Δ in Prepaid expenses	-738	-255	122	-118	103	30	-14	-14	-16	-17	-16	-16	-16	-17	-17	-18
Less: Δ in Deferred income taxes and other as	466	470	-403	-424	-5	-420	-37	-34	-32	-33	-37	-39	-40	-41	-40	-41
Plus: Δ in Accrued liabilities	303	1864	756	-587	-1016	100	80	84	87	90	94	98	102	106	110	114
Plus: Δ in Deferred income taxes and other liab	158	-66	395	-209	99	153	165	174	184	194	205	216	228	240	253	267
Non-Operating Invested Capital	189	1813	870	-1338	-819	-137	194	210	222	235	246	259	274	289	306	324
Non-Operating Unlevered Free Cash Flow	167	1597	780	-1255	-675	-16	168	216	236	313	365	379	374	413	446	446
Total Unlevered free cash flows	4833	-2045	5593	4058	4281	6054	3550	4027	3897	4489	6582	7272	7426	7677	7954	8277
Financing Cash Flow																
Financial Profit before Tax	-49	-89	-262	-205	6	161	-299	-291	-284	-277	-270	-263	-257	-250	-244	-238
Tax Shield	8	11	37	19	-1	-24	73	71	69	68	66	64	63	61	60	58
Change in Net debt	333	5361	-4677	358	1974	-1096	798	70	151	128	72	104	99	99	120	121
Transactions with Shareholders	-5124	-3237	-691	-4230	-6260	-5096	-4123	-3876	-3833	-4407	-6450	-7176	-7332	-7587	-7890	-8218
Financial FCF	-4833	2045	-5593	-4058	-4281	-6054	-3550	-4027	-3897	-4489	-6582	-7272	-7426	-7677	-7954	-8277