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Can NIKE keep doing it?
An equity research report.

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A Project carried out on the Master in (Economics/Finance/Management) Program, under the supervision of:

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Abstract

Can NIKE keep doing it?

An equity research report this paper will examine the company Nike Inc., in particular is the shares of Nike Inc. overvalued based on a discounted cashflow model. This section of the report will delve into Nike's past performance and the competitive landscape in order to aid judgements about future growth rates used in the full equity research report. This main finding of this report is that Nike shares are overvalued.

Keywords (up to four)

Equity Research, Competitive Landscape

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This report is part of the “Will Nike continue to thrive?” report (annexed), developed by Callum O’Brien and Edmond Sahradyan and should be read has an integral part of it.

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Introduction

The purpose of this report was to research the Nike Inc. Stock and model an underlying intrinsic value.

This report used a discounted cashflow model and estimated Nike Inc. shares had an underlying value of $87.19, with the current stock price being $105.54 on 16/12/22 we recommend a “SELL” order on the stock.

This section of the report was the company overview and competitive landscape, later in the report conclusions were made about Nike’s ability to continue its revenue growth in the regions discussed below, the information in this section affected the resulting decisions about how to model the growth of Nike’s revenue by geographical region.

Company Overview

Business Model.

Nike has three main brands that it markets worldwide, the NIKE Brand, the Jordan Brand and Converse. For each brand products are designed specifically to specialize for consumer needs and brand identity. In its accounts Sales and operating results for Converse products are reported separately to NIKE Brand and Jordan Brand geographic operating segments.

NIKE Brand

Since the divestiture of Nikes acquired businesses, Nikes principle business activity has been focused on the design, production, marketing, and sale of athletic and sports products. NIKE Brand splits its products into six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). They further split these offerings into Men’s, Women’s and Kids' in order to differentiate their products to customers so to better meet individual consumer needs through specialization (Figure 1). In the US Nike has licensing deals with a multitude of collegiate and professional athletic programs in order to build its brand and expose itself to the public. NIKE Brand products are sold primarily for athletic use, and the NIKE Brand also sells performance equipment and accessories, and through its partnerships sells items with NIKE and licensed college, professional team or league logos (Figure 2) .

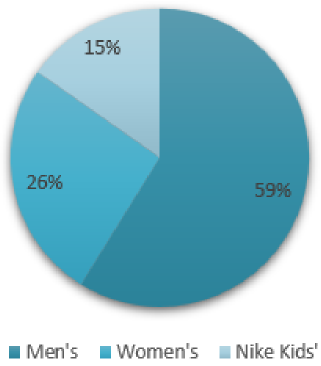


Figure 1: Nike’s Revenues by Customers
Source: Investor report 2022

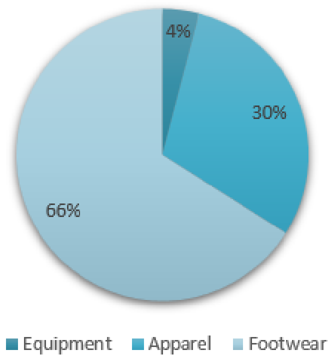


Figure 2: Nike's revenue by product 2022
Source: Investor report 2022

Jordan Brand

Jordan brand was started in 1985 with the release of the Air Jordan I shoe, produced for use by Michael Jordan and then released to the general public for sale. Through an expansion of the infamous “Jumpman” shoe line the Jordan brand has become an integral part of Nike’s business model. In 2022 the Jordan brand passed $5 billion in revenue for the first time (19), and it is as significant to Nike image as it is to its profits. In 1995 when Michael Jordan returned from retirement to the NBA a study estimated that to the 5 companies who partnered with Jordan there was an over 2 Billion gain to shareholders, of which the largest proportion was attributed to Nike, raising the question of whether the Jordan brand would suffer when the athlete finally would retire for good (20). Conversely, the opposite happened and over the last 20 years the brand has moved to become culturally significant moving from beyond basketball to include other sports such as NASCAR, American Football, and European Football (21). It has also been present in films, high fashion and become a landmark in the US and abroad. It initially aided NIKE Inc. by turning a track shoe company into broad apparel and fashion and continues to add to its reputation and revenues.

Converse

Nike's only wholly-owned subsidiary brand, Converse, designs, distributes and licenses casual sneakers, apparel and accessories, and its operating results are reported separately. Converse itself is an American company founded in 1908, it made the Chuck Taylor Basketball shoe in 1917 and had a partnership with NBA players throughout the leagues existence and was a competitor to Nike up until 2003 when having been too reliant on the All Star shoe (22) it filed for bankruptcy on January 22, 2001. Converse was acquired for $309 million in 2003 by Nike, immediately Nike rectified previous mistakes and through synergies expanded the product line and reestablished the brand. It is the one of the only survivors of the late 2000s divestments Nike made in order to re-align and simplify their business. It was kept due to its alignment with Nike's brand and product line, alongside its revenue success. Indeed Converses revenue has increased 139% since 2010, and it has outperformed compared to Nike in 2022. In the last year the EBIT of Converse increased 23% while the EBIT of the total NIKE Brand fell 2.72%. In 2022 there were 87 US and 58 non-US Converse stores including factory stores (Figure 3).

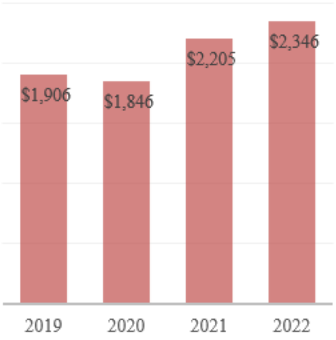


Figure 3: Revenues of Converse
Source: Investor report 2022

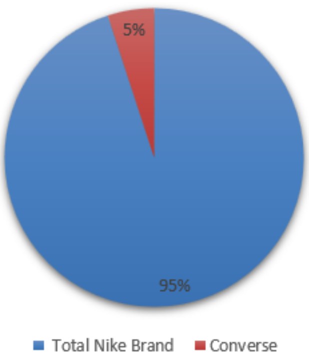


Figure 4: Nike's Revenue by Brands 2022
Source: Investor report 2022

Performance

NIKE inc revenues are split between NIKE Brand (including Jordan Brand), Converse and Corporate. In FY2022 NIKE Inc had a revenue of $ 46,710 Million, of which 95% was attributable to the NIKE and Jordan Brand and 5% to Converse. This is fairly consistent with the split in 2021 and 2020. The corporate revenue of negative $72 Million is the result of foreign currency hedge losses related to revenues generated by entities within the NIKE Brand geographic operating segments and Converse, and is how NIKE minimizes the risk of currency swings using its central foreign exchange risk management program. (Figure 6)
Branding is of utmost importance to apparel companies as consumers can change purchasing habits easily and brand value is one of the few ways to build consumer loyalty. Nike has reinforced its position as a global brand with its clear focus on inclusion, community and innovation. The 2022 Kantar BrandZGlobal Report found Nike's brand value was $109,601 Million Dollars a 31% year-on-year increase on it 2021 value. It achieved this with a focus on inclusion and sustainability.

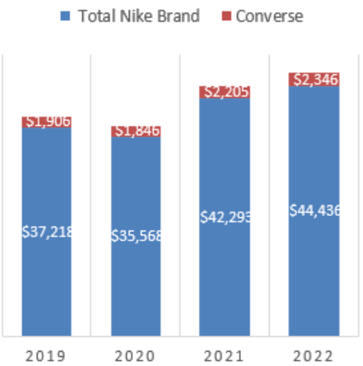


Figure 5: Nike's Revenues by Brands
Source: Investor report 2022

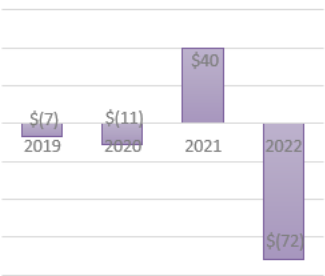


Figure 6: Revenues of Corporate
Source: Investor report 2022

NIKE Brand further splits its revenues by footwear 66%, Apparel 30%, Equipment 4% and Global Brand Divisions. Global Brand Divisions is income from NIKE Brand licensing and other miscellaneous revenues not included in any other segment, while it increased 308% in 2022, due to NIKE Brands expand in licensing (24), it is still a negligible percentage of NIKE Brand revenue. (Figure 7) . By far the most significant revenue driver is the Footwear segment that makes up 66% of Total NIKE Brand Revenues. Worryingly this segment has grown the least of all segments at 4%, down from 20% growth in 2021. Similarly, Apparel, the second largest NIKE Brand segment at 30% of revenue, and grew 5% in 2022 compared to 17% in 2021. This follows a trend, as only the equipment section grew more in 2022, 18%, than it did in 2021, 8%. This is due to the reduction of COVID restrictions and a growth in sports activities, a factor that weighs far more heavily for Equipment than the rest of NIKE and may also have been delayed when compared to footwear and apparel in terms of post COVID-19 demand recovery. However, due to its small share of NIKE Brand Revenue, 4%, it is not a mitigating factor for NIKE Inc's issue of slowing revenue growth (Figure 8).

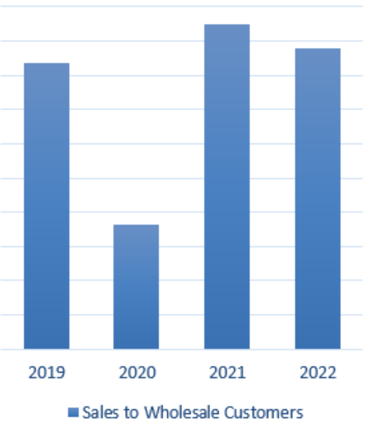


Figure 10: Sales to Wholesales Customers
Source: Investor report 2022

Figure 7: Revenues - Global Brand Divisions
Source: Investor report 2022

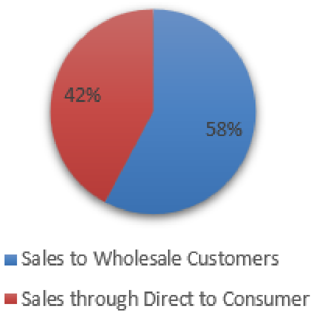


Figure 9: Revenues by Distribution Channel
Source: Investor report 2022

Route to Market

NIKE Brand revenues can also be illustrated through route to sale, with $ 25,608m of sales via wholesale customers, and $18,726m of Sales through NIKE Direct. (Figure 9) Although wholesale customers still make up the majority of revenue at 58% this has been falling year on year, in FY2019 wholesale customers made up 78% of total NIKE Brand revenues. This change has been due to a shift in NIKE Inc's strategy, Nike's growth plan, the Triple Double Strategy announced in 2018, had an aim to generate 50% of its sales through its own stores and e-commerce platforms. This was put in place to not only improve margins and total revenue but also to control the brand experience and create a consistent shopping experience for the customer and prevent any damage to the brand by independent retailers (25). This process has been expedited by the COVID-19 pandemic's effect on physical stores as wholesale suppliers with physical locations had to close and high street footfall has still not rebounded to pre-pandemic levels (26) (Figure 10).

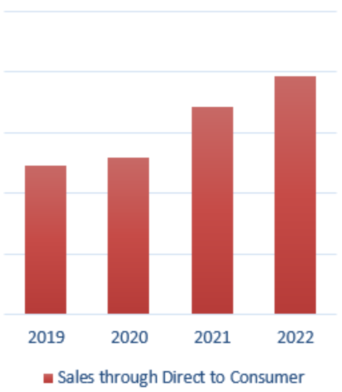


Figure 11: Sales through Direct to Consumer
Source: Investor report 2022

This explains the struggles by retailers such as Footlocker and JD Sports who have seen share prices tumble. Indeed 70% of Footlocker sales in 2021 were Nike and they believe this will reduce to 50% in 2023 (27), as they push Adidas, Puma, and New Balance. Although this may be worrying in a sense of reduced exposure, NIKE Brand have seen the desired effect NIKE Brand Digital sales grew 18% in 2021, and there was a comparable NIKE store sales growth of 10%, NIKE attribute this to improved physical retail traffic, and the addition of new stores. The 23 new NIKE Brand US stores are an investment that is synchronal with NIKE's strategy at this time. (Figure 11)

Geographies

NIKE Brand segments its revenues via 4 regions, North America, Europe, Middle East & Africa (EMEA), Greater China, and Asia Pacific & Latin America (APLA). There is also Global Brand Divisions not attributable to any region. (Figure 12) North America has the largest revenue at $18,353 Million, 41% of total revenue. Previous to the COVID-19 pandemic North America was a stable and mature region, posting a revenue CAGR of 6.1% from 2013 to 2019. Due to the pandemic in FY2020 revenue decreased by 9%, and then in FY2021 rebounded with a 19% growth rate, which was an anomaly. The reduced 7% growth rate for FY2022 is still positive as is it still a relatively impressive number for a mature market. However, as NIKE sales were still disrupted at a higher level in 2021 than 2022, looking forward we shouldn't expect this growth rate in perpetuity. This does show how well NIKE Inc have reacted to the disruption in the North American region as the CAGR of revenue from 2013 to 2022 is 5.1%, a rate still conclusive with a mature market. (Figure 13)

Figure 13: Revenues - North America
Source: Investor report 2022

a ■ Asia Pacific & Latin America

12: Revenues by Geography 2022
: Investor report 2022

Europe, Middle East & Africa (EMEA) represent the second highest region in terms of revenue at $12,479 Million. There is no information given on how that is split, FY2017 was the last time NIKE divulged this information with a revenue of $7,970 Million with Western Europe being 78% of that revenue and Central & Eastern Europe making up 19%. Nike Brand sales in Africa are a small amount today, with almost all of the EMEA revenue resulting from European sales. Similar to North American EMEA we consider a mostly mature region because of the large European element with CAGR of 6.1% for FY2016-FY2019 and 8.7% from FY2016 to FY2022, alongside a revenue reduction in 2020 of 5% and then a rebound 2021 with a growth rate of 23%. The 2021 growth rate excluding currency changes was 17% due to a weakening euro and a strengthening dollar reducing the dollar value of products sold in Europe. In FY2022 the AMEA region has a stronger revenue growth rate at 9% when compared to North America, this growth rate rises to 12% when you exclude currency changes. Although this may partially be a continuation of reduced disruption, the region's growth is still large enough for there to encouragement about the demand for Nike Brands products and business practices in Europe. (Figure 14)

Figure 14: Revenues - Europe, Middle East & Africa
Source: Investor report 2022

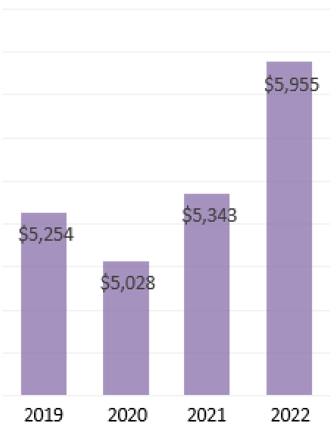


Figure 15: Revenues - Asia Pacific & Latin America
Source: Investor report 2022

When considering the Asia Pacific & Latin America region it makes up 13% of revenue, with no information about how the revenue is split. In FY2017 this was split between Japan and Emerging Markets, with Japan making up 21% of the total APLA region revenue of $4,737 million. Given that split we view APLA as a mostly emerging market, which means it is disappointing that the APLA CAGR for the period of FY2016 to FY2022 was only 5.5%. This is consistent across the years with the APLA region showing the smallest variance of revenue over the last 5 years. Nike Inc's performance in the APLA region has been a relative disappointment, especially with the context of their other emerging market, Greater China. APLA had a higher revenue than the Greater China region in FY2016, however in the next 5 years its revenue grew by 24% while the revenue of Greater China grew by 119%. (Figure 15)

Nike in China

Nike in China has been an enormous success story followed by tension and politics. Between FY2013 and FY2021 the CAGR of Nike Brands revenue in China was 16.3%, and positive throughout, even posting an 8% revenue growth in 2020 when the entire Chinese region had some of the strictest COVID regulations in the world. (31) The success follows the Beijing Olympics and the NBA expansion into China, the Chinese population being exposed to high profile athletes all wearing Nike kickstarted a decade of growth for the Nike Brand. China's 5G technology infrastructure and digital related business environment has enabled the Nike Brand to achieve high exposure, sell across the country and partner with Chinese brands and athletes aligning itself with the culture. (32) This led the Greater China revenue reaching heights of $8,290 Million in 2021, 20% of the Nike brands total revenue; in 2013 this figure was 10%. With China's consistently high GDP growth and the mature nature of the North American market it was expected this number would only continue to rise. A Morgan Stanley report forecasted that consumer spending in China will rise over 100% by 2030 to $9.7 trillion annually matching the private consumption in the US (64).

Figure 16: Revenues – Greater China
Source: Investor report 2022

In 2022 Nike had its first fall in revenue in the Greater China region in over a decade. Nike's revenue fell 9%, as its products were removed from some Chinese e-commerce websites, labels were placed on Nike imports warning of dangers to children and a wave of Chinese celebrities have denounced their former overseas sponsors (33). When considered on a currency neutral basis this decrease in revenue is actually 13%. The main crux of this negative sentiment to US clothing and apparel companies from China was the sanctions and statements from the US and

Europe condemning the alleged use of Uyghur forced labour in cotton production, (30) and the statement from Nike Inc. stating they would not use any Xinjiang cotton in production.

Nike in its investor report blames supply chain constraints on poor revenue performance in its investor report alongside these government restrictions some of which were due to COVID-19. Many of their stores had temporary closures, with some required to operate on reduced hours, as well as lower physical traffic compared to pre-pandemic levels possibly due to customers being put off by the risks of in-person shopping.

Although Nike performance was good in the middle of the year, with high sales in the "618" festival (34), rival domestic brands have thrown support behind Xinjiang cotton and are filling the gap from Nikes drop in demand (35). Given previous instances of Chinese government protectionism in other industries (35), this is a worrying trend for Nike Inc as there is a possibility barriers to trade in China may be increased if the Chinese Government believes that domestic companies could fill the demand. Nike hope their brand is not tainted from now on to the Chinese public and have large plans in China with a focus on utilizing fully renewable energy in their facilities by 2025, and have invested in logistics centers and wind powered energy sources (36), however they will need to mend their reputation in China if they hope to continue to grow. (Figure 16)

Supply

Nikes production consists of a large number of private suppliers in countries with low-income populaces such as China and Indonesia, no factory accounts for more than 8% of Nike Brands FY2022 footwear production. All footwear and apparel products are manufactured by independent contractors outside the United States, while some of Nike's sports equipment are produced in the United States.
These suppliers consist of 120 finished goods footwear contract factories located in 11 countries, and 279 finished goods apparel contract factories located in 33 countries. In FY2022 contract factories in Vietnam, Indonesia and China manufactured approximately 44%, 30% and 20% of total NIKE Brand footwear, respectively, while Vietnam, China and Cambodia produced 26%, 20% and 16% of total NIKE Brand apparel. Following Nike's decision to not use Xinjiang cotton China has gone from producing 23% of apparel in 2020 to 20%, a very marginal decrease.

First the first quarter of FY2022 Nike had no production from the majority of its factories in Vietnam and Indonesia due to COVID-19 shutdowns enforced by the governments. The increasing COVID-19 levels and response in China could pose a risk of supply falling such as it did in the first 3 months of 2022 however due to Nike Inc's ongoing inventory issues this is minimized.

Nike has gone from not having enough inventory in fiscal quarter one, due to mandated factory production halts, to having too much in its fourth quarter. In the fourth quarter of fiscal 2022 Nike experienced extended inventory transit times which then drove elevated levels of in-transit inventory. This inventory stayed high, especially in China where the reduce demand with COVID-19 restrictions and Nike's reputation meant the product could not be sold. Currently inventories are $8.4 billion, a level 23% higher when compared with the fiscal year 2021. This is a problem experienced in all Nike regions not just Greater China, however due to restrictions it may be the region Nike can react the least.

This is a problem that looks set to harm Nike for a very important Christmas period. Nike has been looking to liquidate as much excess supply as possible, focusing on off-season apparel in North America so it can transition its inventory to the appropriate composition for the holiday demand (37). This has resulted in aggressive markdowns and so although sales and indeed revenue may rise, margins will undoubtedly fall. Nike now expects gross margins for the year to decline 200-to-250 basis points (38), due to aggressive markdowns and discounts alongside elevated freight costs (39). Nike has managed to recover from its 14% share drop on in September when the company reported a 44% rise in fiscal first-quarter inventory (40), however the aggressive clearing of stock has indeed come at a price.
Previous to the pandemic Nike had a very efficient supply process, that had was more likely to cause a reputational risk than a financial risk.

Due to its ability to switch between suppliers easily this results in a large amount of bargaining power and depresses their costs. In the past this has resulted in human rights abuses and scandals, this came to light most prominently after a 1991 expose written by Jeff Ballinger reporting the low wages and poor working conditions in Nike's Indonesian factories. The risks associated with such scandals have been largely diminished since Nike launched its Code of Conduct in 1992.
In 2021, NIKE, Inc. publicized changes to its Code of Conduct to align itself with expectations of key stakeholders for Nike and the apparel industry. This included an focus on labor rights, health and safety, and environmental regulations in order to

drive supply chain consistency and support their 2025 targets. (4)

It's strategy is centered around using innovation to maximize its growth in a sustainable way to compete in the market and fulfil customer demands. It does this through heavy investment in its Research and Development wing. (3) Nike has its own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields. (6)

"Our mission is what drives us to do everything possible to expand human potential. We do that by creating ground breaking sports innovations, by making our products more sustainably, by building a creative and diverse global team, and by making a positive impact in communities where we live and work".-Nike mission statement.

Nike now has a scorecard assessment system for potential suppliers in order to gauge their working practices alongside costs, delivery, and quality (57). The country risk index measures the risk of the country in terms of political stability and protectionism, the manufacturing Index adds sustainability metrics and supplier accountability to the scorecard (58). Using this system Nike has minimized the risks of using independent suppliers and avoid scandals that may damage the brand and revenues.

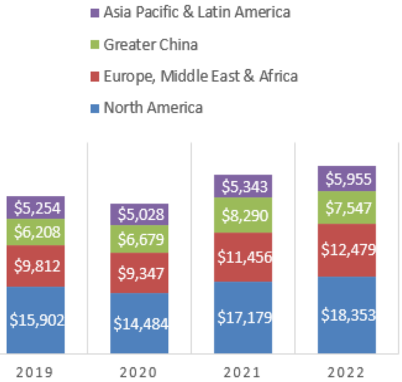


Figure 17: Nike's Revenues by Geography
Source: Investor report 2022

Overall, Nike has seen more disruption to its supply line than ever before, this has caused increased costs, reduced margins and harmed its working capital. It has been mainly due to COVID-19 disruptions, and before 2020 supply chain issues were rare. In future with lessening restrictions and Nike's new focus on not repeating these mistakes one could have a positive outlook, but currently they are not performing well in this area. There is also uncertainly due to the COVID-19 pandemic lingering and whether temporary closures may be the new normal, in this case Nike need to learn quickly. (Figure 17)

Industry Overview

<u>The current state of the apparel and footwear Industry</u>

Nike Inc. operates in the apparel and footwear markets. The apparel Industry is worth approximately $1.53 trillion US dollars in 2022 (45). NYU Stern estimate the apparel industry beta as 1.23 as of January 2022 (44). The footwear industry is currently estimated to be worth $382 Billion dollars (46), with an NYU Stern estimate beta of 1.19. Both industries are forecasted to have large jumps in revenue in 2023, with revenue for apparel expected to rise 14% while footwear revenue is forecasted to rise 17%. By 2027 Statista estimate the apparel market to have $1.94 trillion dollars in revenue and the footwear market $508.2 billion dollars, this would imply a CAGR of 4.9% and 5.9% respectively. This is optimistic in assuming the effects of COVID-19 which have harmed the industries over the last 3 years will not continue.

The value of Brands is of high importance to the apparel industry as consumers switch between companies with ease and effective brands is a rare way to maintain consumer loyalty. According to the 2022 Kantar BrandZ Global Report the brand value year on year change for the apparel industry was an increase of 20%, with an estimated combined brand value for the top 10 companies standing at $216,595 Million dollars (55). In a study by Małgorzata, Karaszewski, and Kuczmarska, they argue a positive correlation between brand strength and the economic performance of enterprises this subsequently increases sales which has a positive effect on brand equity, using data from Kantar BrandZ (66).

<u>The effect of COVID-19</u>

The apparel industry has radically changed since the COVID-19 pandemic in early 2020. An industry largely run by multinational companies with international supply lines, a high number of physical retail stores, and factories; all players have had to adapt in order to survive over the last 2 and a half years. There has been some increased demand for exercise and sportswear throughout the pandemic as people working from home changed their exercise regimes, this increased demand is predicted to outlast the coronavirus pandemic with GlobalData forecasting the sportswear market to grow 25% by 2025 (41).

Despite this the pandemic has been highly damaging to the apparel industry, with a reliance on physical locations and international supply routes it was unsurprising to see the market contract for the first time since the 2008 recession in 2020. The apparel industry suffers from seasonality, demand instability, and unpredictability (42), and as the pandemic has required a more responsive supply chain, many companies have suffered from disruption (43). Factories have dealt with mandatory closures, there have been delays in shipping and as a result inventory levels have been volatile as companies struggle to deal with the logistics involved with planning for the new seasons. Subsequently, there has been a shift in the strategies of multinational companies where there is a priority to convert sales channels to direct to consumer sales.

Trends in the Sporting Industry

As mentioned previously people found new exercise habits during the lockdowns in 2020 and they stuck, there is a rising focus level on health, and the community digital health apps used continue to perform into 2022. Strava, the running app, exploded in 2020 and in their annual report suggested the fastest-growing sports were those done in communal spaces that saw closures during the first year of the pandemic (47). A report from McKinsey found younger consumers who exercise in the United States, India and China have higher consumer confidence and that their increased spending will be focused on sporting goods among other essentials (48). Strava grew among a wave of social media exercise, and firms are seeking to harness this new link between online engagement and sports. There is a push among all companies, not just Nike Inc, to promote Direct-to-consumer sales. Adidas, Under Armor, and Levi's have all targeted at least 50% of revenue to come from Direct-to-consumer sales (49), with the whole industry seeking to take adapt to a dying highstreets and the increasing reliant consumer technology relationship sped up by mandatory lockdowns. Developing websites, apps, and stores and building on their functionality has been an important way for companies to build engagement and increase sales. Furthermore, use of social media and data tracking has been vital to aid product development and demand planning, especially considering the supply chain issues and even demand disruption surrounding the industry currently.

Sustainable Development Goals

There is also currently a push for sustainability among apparel companies as it becomes more of a priority for consumers. When focusing on the UN's 17 Sustainable Development Goals, the industry was expected to adapt to meet issues such as overconsumption and overpackaging, helping battle worker exploitation, making sure cities in which production takes place are safe, resilient and sustainable, and finally, lowering the carbon footprint of all products and shipping practices (56). As it is resource and labor intensive the global apparel industry has been documented as the second worst resource intensive polluter trailing only the oil industry (59). Companies have forced supply chains to take new approaches, encouraging them to select sustainable raw materials to using end-of-life apparel products (60). In order to avoid being branded as greenwashing it is just as important for firms to change their supply lines, commit to goals such as equality of employment and wage structure, as it is to include this in their branding. The companies whose brands and revenues have performed the best have ensured that they meet these UN criteria.

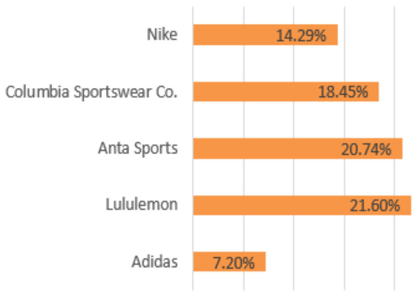


Figure 19: Operating Margins
Source: Investor report 2022

<u>**Key Competitors**</u>

Nike operate in the apparel and footwear industry which has a widely distributed landscape with multiple players who are clearly differentiated from each other. When considering Nike Inc's direct rivals we must consider specific sports brands and focus on multinationals with a large market capitalization. The graph from S&P Capital below illustrates the size of Nike in the sportswear market, and the companies with similar EBIT margin and yearly sales growth (48).(Figures 19, 20, 21)

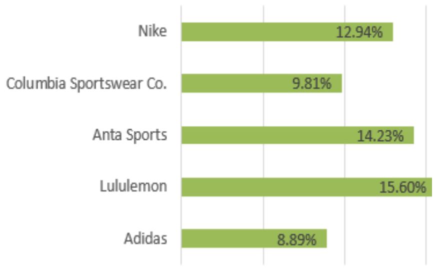
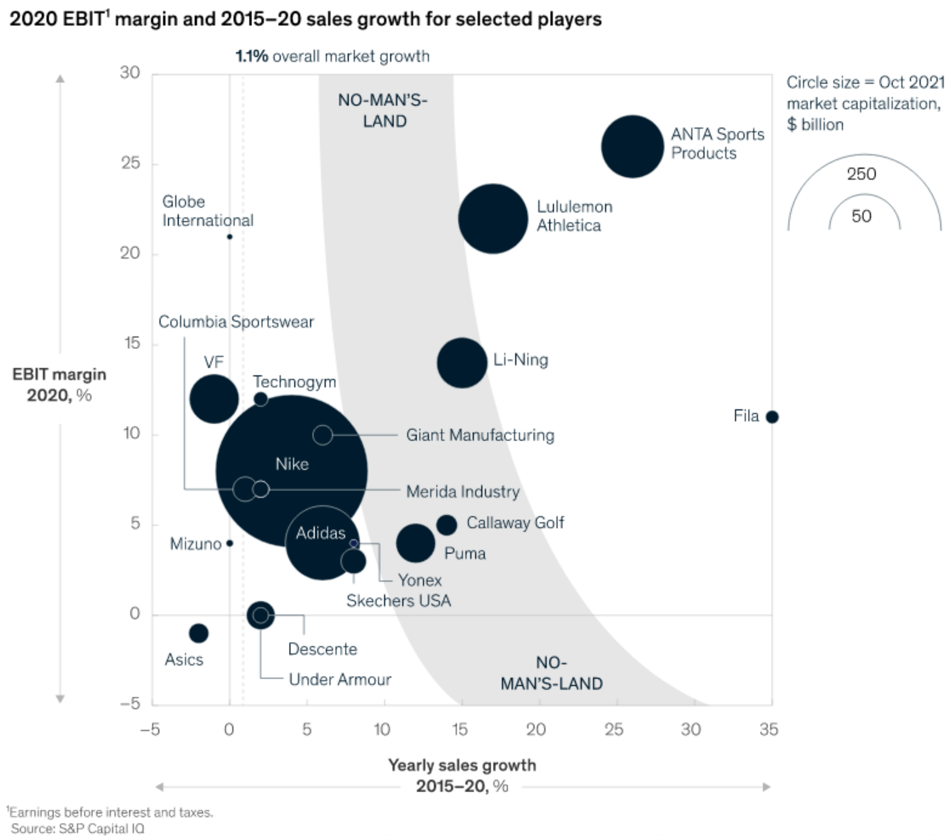


Figure 20: Profit Margin
Source: Investor report 2022



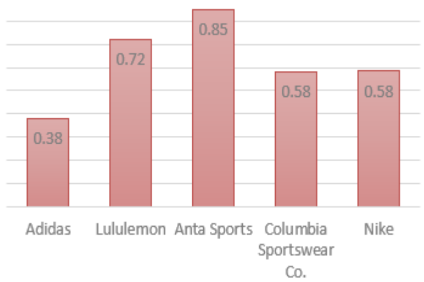


Figure 21: Debt to Equity Ratio
Source: Investor report 2022

<u>**Adidas**</u>

Adidas is the competitor which shares the most in common with Nike. An older company Adidas was founded in 1924 in Germany, but started selling products across Europe and the US and now has a market capitalization of over €X Billion Euros. A mature company adidas had revenues of €21,234 Million Euros in 2021, with a gross margin of 50.7% and an operating margin of 9.4%, its CAGR between 2016 and 2021 was 2.1%. Its market cap is €24.064 Billion and its 5 year monthly Beta is 1.

Adidas struggled more than Nike during 2020 losing 16% of its total revenue according to its 2020 annual report. Although not as large in North America where Adidas's revenues are a third of the size, in China and the EMEA region adidas is of similar size to Nike. Adidas was third in Kanar BrandZ apparel top 10 behind Nike and Zara with a brand value of $23,791 Million dollars.

In a comparative analysis Mahdi, Abbas, Mazar, and George, suggest both companies have a broad differentiation strategy, whereby they appeal to the widest possible audience through creating unique products and services (50). Adidas is the one of the few companies who can rival Nike in terms of innovation and R&D spending, both companies have similar mission statements with Adidas stating:

"Together we are a team of rebellious optimists, constantly challenging the status quo. We see possibilities where others only see the impossible. We serve the needs of our consumers, athletes, and communities. We train individually, and as a team, to inspire, innovate and grow. We are fair. We are authentic. Our game is built on trust. We live inclusivity every single day. We play to win in our mission to be the best sports brand in the world. Together, we are adidas."

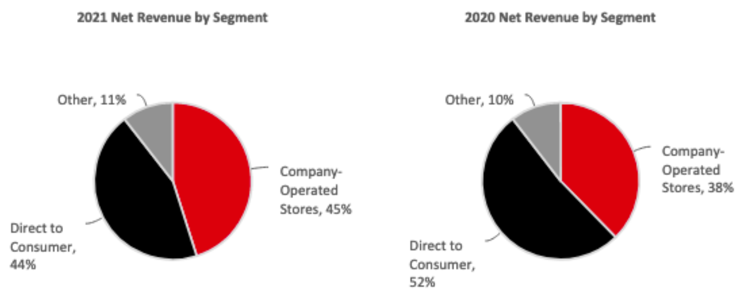
Adidas in terms of brand identity and reach is aligned with Nike, the Adidas "three stripes" logo is as iconic as the Nike "swoosh". Both have tried to push into each other's home market with through athlete partnerships. With Adidas going after American Athletes such as James Harden, Damien Lillard and Aaron Rodgers, while Nike has poured billions in European Football. Adidas even has similar strategy in terms of acquisitions. They acquired Reebok in 2006 for $3.8 billion, with a target of entering into the US market, as Reebok at the time had a 10 year deal to exclusively manufacture and sell NFL licensed merchandise and jerseys (51). Adidas in 2021 sold Reebok to Authentic Brands Group(ABG) for up to 2.1 billion euros ($2.5 billion dollars) in order to focus on its core brand (52). Adidas has also shown a similar commitment to sustainability with its Three Loop Strategy aiming for all production is to be climate-neutral by 2050 (71).
Nike is tries to differentiate itself from Adidas through innovation and branding, its ZoomX technology is its latest attempt to do this, adidas has its own R&D however and has created Boost technology that includes Thermoplastic Polyurethane (53). Jordan Brand is the jewel in Nike's crown and adds a US cultural element that Adidas does not possess, they tried to rival this with Yeezy's but have since discontinued the line due to the Kayne West outbursts.

Lululemon Athletica

Lululemon Athletica is a Canadian high-end athletic apparel company founded in Vancouver in 1998. They focused on technical athletic apparel for activities such as yoga, running, and training (54). A much younger company than Nike it is illustrated in figure x the higher level of growth and higher EBIT margin Lululemon Athletica has had over the 5 years 2015-2020. Lululemon is therefore a competitor in a different stage than Nike.

Lululemon Athletica in 2021 had a revenue of $6,257 Million dollars, and increase of 42% from 2020. Its Gross Margin improved from 56% in 2020 to 57.7%, while its EBIT margin increased from 18.6% to 21.3%. Its market cap is $41.799 Billion and its 5 year monthly Beta is 1.31. CSIMarket value their market share to be 4.91%. The larger beta is logical due to the growth rate of Lululemon and the high variance in their stock price, they also have experienced a stock price shock as they, like most in the industry, reported on their higher levels of inventory in September. A young firm Lululemon had a revenue CAGR of 22% from 2016 to 2021, as it expanded its physical locations and its brand became better known. Lululemon Athletica was fourth in Kanar BrandZ apparel top 10 with a brand value of $20,424 Million dollars. Lululemon has the majority of its revenues based in North America with 69% of revenue from the US and 15% from Canada. Although in 2022 it opened 31 new stores in the People's Republic of China, meaning there now are 86 stores, the most in any country outside of the US. Lululemon has made it a priority to expand into China where it will be a direct competitor to Nike and look to cannibalize sales from them in that region.

Lululemon does not sell to wholesalers taking complete control over the products branding and exposure to consumers. In 2021 there was a large rise in revenue of company-operated stores as restrictions lessened, and although Direct to Consumer revenue fell as a percentage of total it is still a high priority to Lululemon, in line with Nike and the rest of the athletic apparel industry. Its Direct to consumer net revenue increased 22%, they attribute this to increased traffic and a higher dollar value per transaction.



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Although Lululemon recognizes Nike, Inc., adidas AG, and Under Armour as competitors it also recognizes The Gap's Athleta brand, Victoria's Secrets sport and lounge selection, and Urban Outfitters, Inc. This is due their brand placement as high-end fashionable athletic apparel, they are in competition with the luxury elements of Nike Brand's apparel rather than trainers, heavy sportswear, the Jordan brand or Converse.

Li Ning

Li Ning is the largest Chinese athletic apparel and footwear company, founded in 1990 and name after champion gymnast Mr. Li Ning (61). Initially only selling products in China Li Ning gained international exposure with its sponsor of Olympic athletes and a partnership with the NBA. After the 2008 opening ceremony in Beijing the company's share price increased by over 3% the next trading day (62). It now sells products abroad but 98% of its revenue still comes from the Peoples Republic of China.

Li Ning in 2021 had a revenue of ¥22,572 Million dollars, an increase of 56% from 2020. At the current conversion rate is amounts to $3,247 Million dollars, however the dollar has fallen against the Yuan this number was higher in 2021. Its Gross Margin improved from 49.1% in 2020 to 53%, while its EBIT margin increased from 15.2% to 22.8%. It's market cap is ¥165.717 Billion, or $21.377 Billion dollars, and its 5 year monthly rolling beta is 0.73.

A fast growing young company in a high growth market, Li Ning had a revenue CAGR of 23% from 2016 to 2021. Li Ning was ninth in Kantar BrandZ apparel top 10 with a brand value of $3,767 Million dollars. An 86% increase from 2021, Li Ning has reportedly become the largest sportswear brand in China over Nike in equity terms.

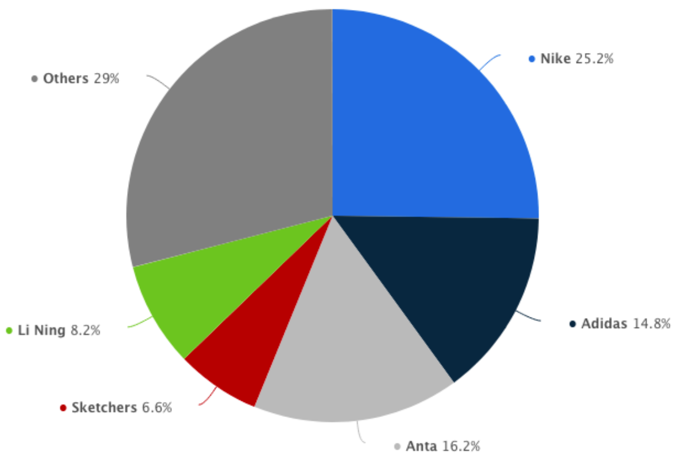
The 2022 Winter Olympics in China and the Pandemic have increased consumer demand in sports and fitness. After the Nike and others' falling out with the Chinese Government over the cotton, consumer opinion of western companies is low and Chinese national pride means brands like Li Ning and its competitor Anta are filling the gap. With existing deals with NBA players, such as Dwayne Wade, Li Ning and Anta are looking to become the dominant brands in China, replacing the likes of Nike and Adidas and are major threats. Even putting aside the worrying reputational hit western companies have taken with Chinese consumers, China has in other industries put forward protections policies in order to foster the growth of domestic companies. As these firms show they can provide similar quality products with similar athlete endorsements, Nike and Adidas may struggle even more in an ever important Greater China market.

Nikes Position

Nike is the largest company in terms of revenue and brand value in the apparel industry, with the highest market cap by a significant level. CSIMarket estimate their market share to be 31% in the global market (63).

Comparing their 5 year monthly rolling beta to the competition, of 1.14, Adidas has a slightly lower beta of 1 but has massively underperformed Nike with its share price decreasing 53% this last year compared with Nike losing 30% of value. Both have suffered from China's lockdown and supply issues but Nike has rebounded better with a 36% rise from its year low in late September when its inventory issues were announced. Overall, in the last months Nike's decision to offload product has benefited it, and allowed it to gain an advantage for its investors in comparison to its nearest rival, at the expense of its short term margins.

The main risk to Nike's long term position is the rise of competition in the Chinese market, however Nike still ranked first in the Chinese sportswear market with a market share of 25.2 percent. In 2021, Anta overtook Adidas as the second largest brand gaining a 16.2 percent market share that year, with Li Ning close behind (65). Although performing far better than its closest competitor, their struggles could be foreboding for the future of Nike in China.



Details: China; Euromonitor; The Paper; 2021

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Appendix

“NIKE INC.” COMPANY REPORT

“SPORTSWEAR APPAREL” 16 DECEMBER 2022

STUDENT: “C O’BRIEN/ E SAHRADYAN” 48880/48271@novasbe.pt

Will Nike continue to thrive?

How Nike can change with the times.

- Nike Inc. is the market leader in the apparel, the sportswear apparel, and the footwear industry, they are looking to modernise their selling practices promoting Direct-to-Consumer channels. This is in addition to their longstanding record of innovation and marketing.

- North America is the largest source of revenue for Nike Inc. however China is the fastest growing region, they have struggled in China in FY2022 due to COVID-19 restrictions and reputational issues. Nike Inc. have also suffered inventory issues, resulting in margin reduction in the latter half of 2022.

- This report used a discounted cashflow model and estimated Nike Inc. shares had an underlying value of $87.19, the current stock price being $105.54 we recommend a “SELL” order on the stock.

Company description

Nike is the global leader in sportswear apparel, headquartered in Portland, Oregon. The company sells footwear, apparel and equipment to billions of customer across the globe.

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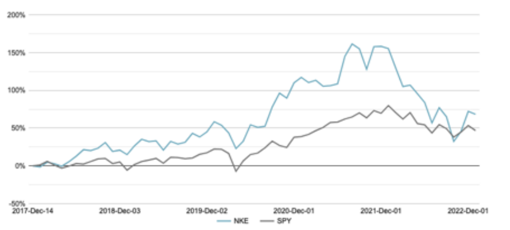
Recommendation:	**SELL**
Price Target FY21:	**87.19 $**
Price (as of 13-Feb-23)	**105.54 $**

Reuters: NKE.N, Bloomberg: NKE

52-week range (€)	105.52 - 107.61
Market Cap (€m)	165.283B
Outstanding Shares (m)	1.26B

Source: Yahoo Finance



Source: Aiolux

(Values in € millions)	2020	2021	2022
Revenues	37403	$44,538	$46,710
EBITDA	$4,234	$7,734	$7,515
Net Profit	$2,539	$5,727	$6,046
EPS	$1.6	$3.56	$3.75
P/E	74.58	43.75	30.74

Source: 2022 Annual Report; Macrotrends

Company Overview

History of Nike.

Nike Inc. is a global athletic-apparel brand based in North America, they sell their products in 170 countries, they have more than 30,000 worldwide employees and own dozens of brands. As such Nike is the leading player in the apparel industry, having established itself as such over the last 40 years.

NIKE, Inc. creates, distributes and sells athletic footwear, apparel, accessories and equipment for consumers to engage in sports and fitness. Since 2005 Nike has sold over 50% of its products outside of the US, its operating segments include North America; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA).

Nike was founded as Blue Ribbon Sports in 1964, in Portland Oregon, as a distributor for Japanese shoe maker Onitsuka Tiger. It was renamed Nike Inc. in 1971 as it launched its own brand of footwear, by 1980, Nike had attained a 50% market share in the U.S. athletic shoe market, and the company went public in December of that year. Traditionally selling track shoes for its first 10 years in the 80s Nike expanded its product line to encompass many sports and regions. After signing basketball player Michael Jordan, and using him to promote its Air sole technology, Nike created the Air Jordan 1 and exploded onto modern culture and expanded into sports apparel.

Starting in 1988 Nike began acquiring companies in order to expand, starting with the purchase of upscale footwear company Cole Haan. Since the 2000s Nike has divested almost all of its subsidiaries in order to focus its brand with the only remaining Brand being Converse for which was bought for $309 million in 2003. The last major divestiture was of the Hurley brand in fiscal year 2020 to Bluestar Alliance (23), the price of which was not disclosed nor the revenue of Hurley's for the years after 2013.

Nike's strategy has remained more consistent since 2012 when it divested the last of its large brands Umbro, and began an $8 billion stock buyback program. A mature business Nikes revenue has grown through expanding into new markets while keeping its margins high and consistently updating its product line with innovation. As a mature company in 2022, with stable production lines and development of products the greatest challenge to Nike is the continuing growth in overseas markets. However, due to stable leadership and the successful changes implemented during COVID-19 the outlook for Nike is positive.

Business Model.

Nike has three main brands that it markets worldwide, the NIKE Brand, the Jordan Brand and Converse. For each brand products are designed specifically to specialize for

consumer needs and brand identity. In its accounts Sales and operating results for Converse products are reported separately to NIKE Brand and Jordan Brand geographic operating segments.

NIKE Brand

Since the divestiture of Nikes acquired businesses, Nikes principle business activity has been focused on the design, production, marketing, and sale of athletic and sports products. NIKE Brand splits its products into six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). They further split these offerings into Men's, Women's and Kids' in order to differentiate their products to customers so to better meet individual consumer needs through specialization (Figure 1). In the US Nike has licensing deals with a multitude of collegiate and professional athletic programs in order to build its brand and expose itself to the public. NIKE Brand products are sold primarily for athletic use, and the NIKE Brand also sells performance equipment and accessories, and through its partnerships sells items with NIKE and licensed college, professional team or league logos (Figure 2) .

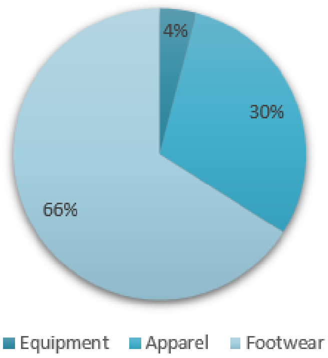


Figure 2: Nike's revenue by product 2022
Source: Investor report 2022

Jordan Brand

Jordan brand was started in 1985 with the release of the Air Jordan I shoe, produced for use by Michael Jordan and then released to the general public for sale. Through an expansion of the infamous "Jumpman" shoe line the Jordan brand has become an integral part of Nike's business model. In 2022 the Jordan brand passed $5 billion in revenue for the first time (19), and it is as significant to Nike image as it is to its profits. In 1995 when Michael Jordan returned from retirement to the NBA a study estimated that to the 5 companies who partnered with Jordan there was an over 2 Billion gain to shareholders, of which the largest proportion was attributed to Nike, raising the question of whether the Jordan brand would suffer when the athlete finally would retire for good (20). Conversely, the opposite happened and over the last 20 years the brand has moved to become culturally significant moving from beyond basketball to include other sports such as NASCAR, American Football, and European Football (21). It has also been present in films, high fashion and become a landmark in the US and abroad. It initially aided NIKE Inc. by turning a track shoe company into broad apparel and fashion and continues to add to its reputation and revenues.

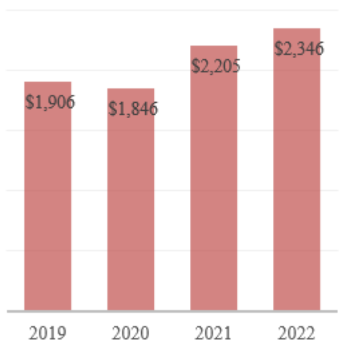
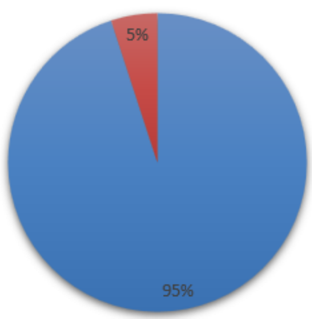


Figure 3: Revenues of Converse
Source: Investor report 2022

Converse

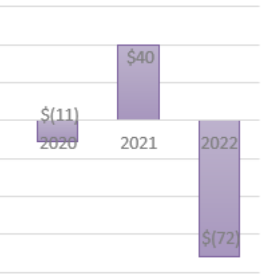


Nike's only wholly-owned subsidiary brand, Converse, designs, distributes and licenses casual sneakers, apparel and accessories, and its operating results are reported separately. Converse itself is an American company founded in 1908, it made the Chuck

Taylor Basketball shoe in 1917 and had a partnership with NBA players throughout the leagues existence and was a competitor to Nike up until 2003 when having been too reliant on the All Star shoe (22) it filed for bankruptcy on January 22, 2001. Converse was acquired for $309 million in 2003 by Nike, immediately Nike rectified previous mistakes and through synergies expanded the product line and reestablished the brand. It is the one of the only survivors of the late 2000s divestments Nike made in order to re-align and simplify their business. It was kept due to its alignment with Nike's brand and product line, alongside its revenue success. Indeed Converses revenue has increased 139% since 2010, and it has outperformed compared to Nike in 2022. In the last year the EBIT of Converse increased 23% while the EBIT of the total NIKE Brand fell 2.72%. In 2022 there were 87 US and 58 non-US Converse stores including factory stores (Figure 3).

Performance

NIKE inc revenues are split between NIKE Brand (including Jordan Brand), Converse and Corporate. In FY2022 NIKE Inc had a revenue of $ 46,710 Million, of which 95% was attributable to the NIKE and Jordan Brand and 5% to Converse. This is fairly consistent with the split in 2021 and 2020. The corporate revenue of negative $72 Million is the result of foreign currency hedge losses related to revenues generated by entities within the NIKE Brand geographic operating segments and Converse, and is how NIKE minimizes the risk of currency swings using its central foreign exchange risk management program. (Figure 6)



re 6: Revenues of Corporate
ce: Investor report 2022

Branding is of utmost importance to apparel companies as consumers can change purchasing habits easily and brand value is one of the few ways to build consumer loyalty. Nike has reinforced its position as a global brand with its clear focus on inclusion, community and innovation. The 2022 Kantar BrandZGlobal Report found Nike's brand value was $109,601 Million Dollars a 31% year-on-year increase on it 2021 value. It achieved this with a focus on inclusion and sustainability.

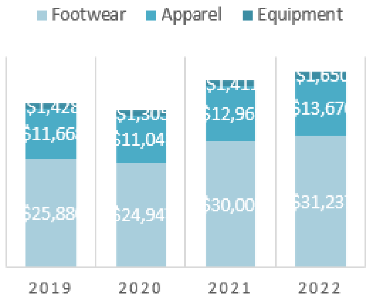
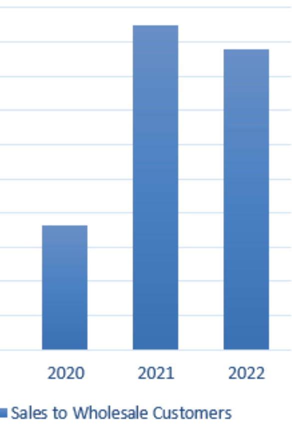


Figure 8: Nike's Revenues by Product
Source: Investor report 2022

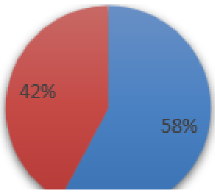
NIKE Brand further splits its revenues by footwear 66%, Apparel 30%, Equipment 4% and Global Brand Divisions. Global Brand Divisions is income from NIKE Brand licensing and other miscellaneous revenues not included in any other segment, while it increased 308% in 2022, due to NIKE Brands expand in licensing (24), it is still a negligible percentage of NIKE Brand revenue. (Figure 7) . By far the most significant revenue driver is the Footwear segment that makes up 66% of Total NIKE Brand Revenues. Worryingly this segment has grown the least of all segments at 4%, down from 20% growth in 2021. Similarly, Apparel, the second largest NIKE Brand segment at 30% of revenue, and grew 5% in 2022 compared to 17% in 2021. This follows a trend, as only the equipment section grew more in 2022, 18%, than it did in 2021, 8%. This is due to the reduction of COVID restrictions and a growth in sports activities, a factor that weighs far more heavily for Equipment than the rest of NIKE and may also have been delayed when compared to footwear and apparel in terms of post COVID-19 demand recovery. However, due to its small share of NIKE Brand Revenue, 4%, it is not a mitigating factor for NIKE Inc's issue of slowing revenue growth (Figure 8).

Route to Market

NIKE Brand revenues can also be illustrated through route to sale, with $ 25,608m of sales via wholesale customers, and $18,726m of Sales through NIKE Direct. (Figure 9) Although wholesale customers still make up the majority of revenue at 58% this has been falling year on year, in FY2019 wholesale customers made up 78% of total NIKE Brand revenues. This change has been due to a shift in NIKE Inc's strategy, Nike's growth plan, the Triple Double Strategy announced in 2018, had an aim to generate 50% of its sales through its own stores and e-commerce platforms. This was put in place to not only improve margins and total revenue but also to control the brand experience and create a consistent shopping experience for the customer and prevent any damage to the brand by independent retailers (25). This process has been expedited by the COVID-19 pandemic's effect on physical stores as wholesale suppliers with physical locations had to close and high street footfall has still not rebounded to pre-pandemic levels (26) (Figure 10).



10: Sales to Wholesales Customers
Investor report 2022



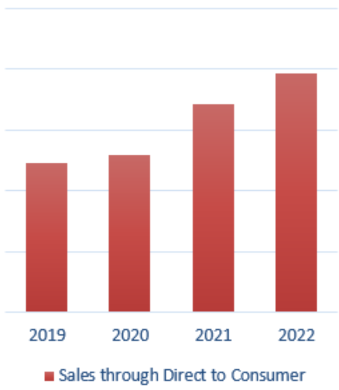


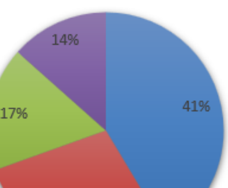
Figure 11: Sales through Direct to Consumer
Source: Investor report 2022

This explains the struggles by retailers such as Footlocker and JD Sports who have seen share prices tumble. Indeed 70% of Footlocker sales in 2021 were Nike and they believe this will reduce to 50% in 2023 (27), as they push Adidas, Puma, and New Balance. Although this may be worrying in a sense of reduced exposure, NIKE Brand have seen the desired effect NIKE Brand Digital sales grew 18% in 2021, and there was a comparable NIKE store sales growth of 10%, NIKE attribute this to improved physical retail traffic, and the addition of new stores. The 23 new NIKE Brand US stores are an investment that is synchronal with NIKE's strategy at this time. (Figure 11)

Geographies

NIKE Brand segments its revenues via 4 regions, North America, Europe, Middle East & Africa (EMEA), Greater China, and Asia Pacific & Latin America (APLA). There is also Global Brand Divisions not attributable to any region. (Figure 12)

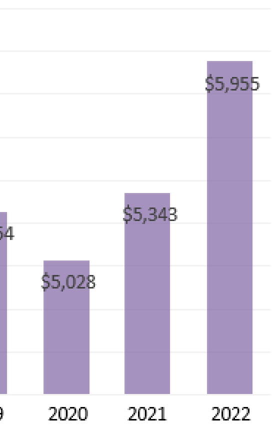
North America has the largest revenue at $18,353 Million, 41% of total revenue. Previous to the COVID-19 pandemic North America was a stable and mature region, posting a revenue CAGR of 6.1% from 2013 to 2019. Due to the pandemic in FY2020 revenue decreased by 9%, and then in FY2021 rebounded with a 19% growth rate, which was an anomaly. The reduced 7% growth rate for FY2022 is still positive as is it still a relatively



impressive number for a mature market. However, as NIKE sales were still disrupted at a higher level in 2021 than 2022, looking forward we shouldn't expect this growth rate in perpetuity. This does show how well NIKE Inc have reacted to the disruption in the North American region as the CAGR of revenue from 2013 to 2022 is 5.1%, a rate still conclusive with a mature market. (Figure 13)

Figure 14: Revenues - Europe, Middle East & Africa
Source: Investor report 2022

Europe, Middle East & Africa (EMEA) represent the second highest region in terms of revenue at $12,479 Million. There is no information given on how that is split, FY2017 was the last time NIKE divulged this information with a revenue of $7,970 Million with Western Europe being 78% of that revenue and Central & Eastern Europe making up 19%. Nike Brand sales in Africa are a small amount today, with almost all of the EMEA revenue resulting from European sales. Similar to North American EMEA we consider a mostly mature region because of the large European element with CAGR of 6.1% for FY2016-FY2019 and 8.7% from FY2016 to FY2022, alongside a revenue reduction in 2020 of 5% and then a rebound 2021 with a growth rate of 23%. The 2021 growth rate excluding currency changes was 17% due to a weakening euro and a strengthening dollar reducing the dollar value of products sold in Europe. In FY2022 the AMEA region has a stronger revenue growth rate at 9% when compared to North America, this growth rate rises to 12% when you exclude currency changes. Although this may partially be a continuation of reduced disruption, the region's growth is still large enough for there to encouragement about the demand for Nike Brands products and business practices in Europe. (Figure 14)



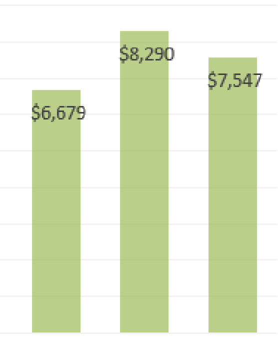
e 15: Revenues - Asia Pacific & America
ce: Investor report 2022

When considering the Asia Pacific & Latin America region it makes up 13% of revenue, with no information about how the revenue is split. In FY2017 this was split between Japan and Emerging Markets, with Japan making up 21% of the total APLA region revenue of $4,737 million. Given that split we view APLA as a mostly emerging market, which means it is disappointing that the APLA CAGR for the period of FY2016 to FY2022 was only 5.5%. This is consistent across the years with the APLA region showing the smallest variance of revenue over the last 5 years. Nike Inc's performance in the APLA region has been a relative disappointment, especially with the context of their other emerging market, Greater China. APLA had a higher revenue than the Greater China region in FY2016, however in the next 5 years its revenue grew by 24% while the revenue of Greater China grew by 119%. (Figure 15)

Nike in China

Nike in China has been an enormous success story followed by tension and politics. Between FY2013 and FY2021 the CAGR of Nike Brands revenue in China was 16.3%, and positive throughout, even posting an 8% revenue growth in 2020 when the entire Chinese region had some of the strictest COVID regulations in the world. (31) The success follows the Beijing Olympics and the NBA expansion into China, the Chinese population being exposed to high profile athletes all wearing Nike kickstarted a decade of growth for the Nike Brand. China's 5G technology infrastructure and digital related business environment has enabled the Nike Brand to achieve high exposure, sell across the country and partner with Chinese brands and athletes aligning itself with the culture. (32) This led the Greater China revenue reaching heights of $8,290 Million in 2021, 20% of the Nike brands total revenue; in 2013 this figure was 10%. With China's consistently high GDP growth and the mature nature of the North American market it was expected this number would only continue to rise. A Morgan Stanley report forecasted that consumer spending in China will rise over 100% by 2030 to $9.7 trillion annually matching the private consumption in the US (64).

In 2022 Nike had its first fall in revenue in the Greater China region in over a decade. Nike's revenue fell 9%, as its products were removed from some Chinese e-commerce websites, labels were placed on Nike imports warning of dangers to children and a wave of Chinese celebrities have denounced their former overseas sponsors (33). When considered on a currency neutral basis this decrease in revenue is actually 13%. The main crux of this negative sentiment to US clothing and apparel companies from China was the sanctions and statements from the US and Europe condemning the alleged use of Uyghur forced labour in cotton production, (30) and the statement from Nike Inc. stating they would not use any Xinjiang cotton in production.
Nike in its investor report blames supply chain constraints on poor revenue performance in its investor report alongside these government restrictions some of which were due to COVID-19. Many of their stores had temporary closures, with some required to operate on reduced hours, as well as lower physical traffic compared to pre-pandemic levels possibly due to customers being put off by the risks of in-person shopping.



16: Revenues – Greater China
: Investor report 2022

Although Nike performance was good in the middle of the year, with high sales in the "618" festival (34), rival domestic brands have thrown support behind Xinjiang cotton and are filling the gap from Nikes drop in demand (35). Given previous instances of Chinese government protectionism in other industries (35), this is a worrying trend for Nike Inc as there is a possibility barriers to trade in China may be increased if the Chinese Government believes that domestic companies could fill the demand. Nike hope their brand is not tainted from now on to the Chinese public and have large plans in China with a focus on utilizing fully renewable energy in their facilities by 2025, and have invested in logistics centers and wind powered energy sources (36), however they will need to mend their reputation in China if they hope to continue to grow. (Figure 16)

Supply

Nikes production consists of a large number of private suppliers in countries with low-income populaces such as China and Indonesia, no factory accounts for more than 8% of Nike Brands FY2022 footwear production. All footwear and apparel products are manufactured by independent contractors outside the United States, while some of Nike's sports equipment are produced in the United States.

These suppliers consist of 120 finished goods footwear contract factories located in 11 countries, and 279 finished goods apparel contract factories located in 33 countries. In FY2022 contract factories in Vietnam, Indonesia and China manufactured approximately 44%, 30% and 20% of total NIKE Brand footwear, respectively, while Vietnam, China and Cambodia produced 26%, 20% and 16% of total NIKE Brand apparel. Following Nike's decision to not use Xinjiang cotton China has gone from producing 23% of apparel in 2020 to 20%, a very marginal decrease.

First the first quarter of FY2022 Nike had no production from the majority of its factories in Vietnam and Indonesia due to COVID-19 shutdowns enforced by the governments. The increasing COVID-19 levels and response in China could pose a risk of supply falling such as it did in the first 3 months of 2022 however due to Nike Inc's ongoing inventory issues this is minimized.
Nike has gone from not having enough inventory in fiscal quarter one, due to mandated factory production halts, to having too much in its fourth quarter. In the fourth quarter of fiscal 2022 Nike experienced extended inventory transit times which then drove elevated levels of in-transit inventory. This inventory stayed high, especially in China where the reduce demand with COVID-19 restrictions and Nike's reputation meant the product could not be sold. Currently inventories are $8.4 billion, a level 23% higher when compared with the fiscal year 2021. This is a problem experienced in all Nike regions not just Greater China, however due to restrictions it may be the region Nike can react the least.

This is a problem that looks set to harm Nike for a very important Christmas period. Nike has been looking to liquidate as much excess supply as possible, focusing on off-season apparel in North America so it can transition its inventory to the appropriate composition for the holiday demand (37). This has resulted in aggressive markdowns and so although sales and indeed revenue may rise, margins will undoubtedly fall. Nike now expects gross margins for the year to decline 200-to-250 basis points (38), due to aggressive markdowns and discounts alongside elevated freight costs (39). Nike has managed to recover from its 14% share drop on in September when the company reported a 44% rise in fiscal first-quarter inventory (40), however the aggressive clearing of stock has indeed come at a price.

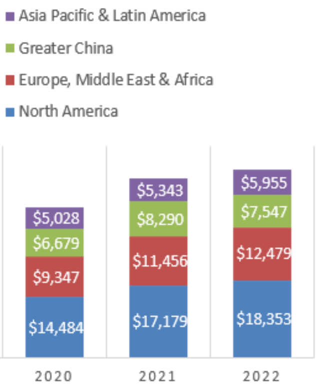
Previous to the pandemic Nike had a very efficient supply process, that had was more likely to cause a reputational risk than a financial risk.
Due to its ability to switch between suppliers easily this results in a large amount of bargaining power and depresses their costs. In the past this has resulted in human rights abuses and scandals, this came to light most prominently after a 1991 expose written by Jeff Ballinger reporting the low wages and poor working conditions in Nike's Indonesian factories. The risks associated with such scandals have been largely diminished since Nike launched its Code of Conduct in 1992.

In 2021, NIKE, Inc. publicized changes to its Code of Conduct to align itself with expectations of key stakeholders for Nike and the apparel industry. This included an focus on labor rights, health and safety, and environmental regulations in order to drive supply chain consistency and support their 2025 targets. (4)

It's strategy is centered around using innovation to maximize its growth in a sustainable way to compete in the market and fulfil customer demands. It does this through heavy investment in its Research and Development wing. (3) Nike has its own staff of specialists in the areas of biomechanics, chemistry, exercise physiology, engineering, digital technologies, industrial design, sustainability and related fields. (6)

"Our mission is what drives us to do everything possible to expand human potential. We do that by creating ground breaking sports innovations, by making our products more sustainably, by building a creative and diverse global team, and by making a positive impact in communities where we live and work".- Nike mission statement.

Nike now has a scorecard assessment system for potential suppliers in order to gauge their working practices alongside costs, delivery, and quality (57). The country risk index measures the risk of the country in terms of political stability and protectionism, the manufacturing Index adds sustainability metrics and supplier accountability to the scorecard (58). Using this system Nike has minimized the risks of using independent suppliers and avoid scandals that may damage the brand and revenues.



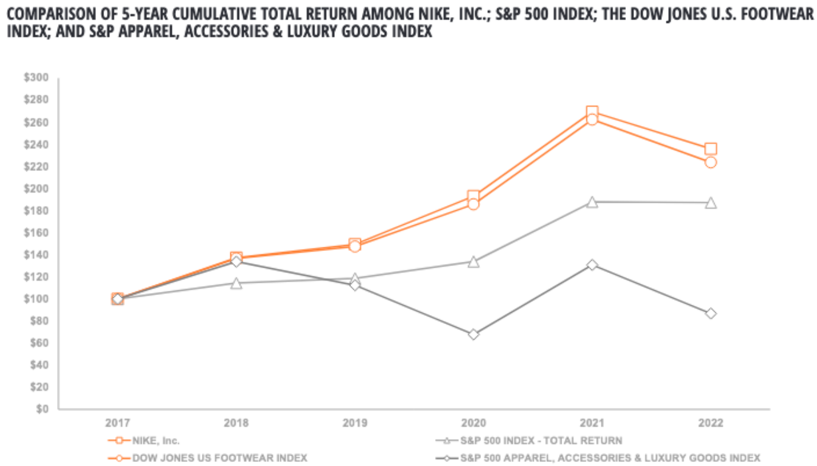
17: Nike's Revenues by Geography
e: Investor report 2022

Overall, Nike has seen more disruption to its supply line than ever before, this has caused increased costs, reduced margins and harmed its working capital. It has been mainly due to COVID-19 disruptions, and before 2020 supply chain issues were rare. In future with lessening restrictions and Nike's new focus on not repeating these mistakes one could have a positive outlook, but currently they are not performing well in this area. There is also uncertainly due to the COVID-19 pandemic lingering and whether temporary closures may be the new normal, in this case Nike need to learn quickly. (Figure 17)

Stock Performance

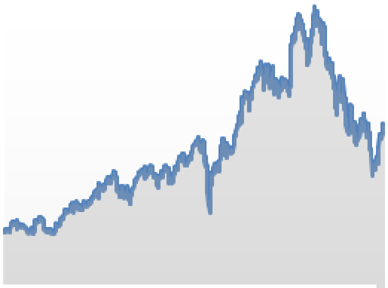
Nike Inc. stocks are traded under the “NKE” ticker in the NYSE stock exchange since its IPO in December 1980. The IPO sold two million Class B shares on the public market at $22 dollars a share, class A shares were created to maintain a controlling stake in the company and given to NIKE’s high ranking employees. The company’s board of directors consists of 12 directors, 3 elected by class B share-holders and 9 chosen by class A shareholders. Nike since its inception has far outperformed the market, a $1000 dollar investment at $22 would have returned $583,255 plus dividends, while the market has returned the equivalent of less than $24,000 over the same period. A lot of this rapid growth occurred over the 80s and 90s when in 9 out of 20 years, Nike stock grew by over 50% annually. (10). This is unsurprising due to the growth in revenue at that time, due to the expansion into new sports and the explosion of the Jordan brand.

Over the last 5 years Nike’s share price has been volatile, following a stable rise from 2017-2020 Nike lost over 30% of its share price a month due to the 2020 COVID-19 market collapse. However, in the next 18 months following a transition in business practices Nikes stock rebounded to an all-time high of $177, up 164% compared to the pandemic low of $67. Nike achieved this through accelerated automation and increased geographical diversity within supply chains (12). When compared to the market these outstanding returns are tempered however as over the same period the S&P 500 was up 95%. Nike has been correlated to the US market recently, and indeed, when the markets crashed in early 2022, so did Nike’s stock. Partially this is down to inflation reducing profits, and the natural ending of a bubble caused by US stimulus money, however this is also due to unique problems to Nike. In exhibit X, you can see that Nike has mirrored the Dow Jones US Footwear Index.



In June 2018, Nike embarked on a $15 billion share repurchase program. Over the 4 years there have been 77.4 million shares purchased at an average price of $111.98 per share, this has cost Nike an approximate $8.7 billion dollars and has contributed to Nike's performance over the last 4 years. Nike currently has a market capitalization of $175.876 Billion dollars with 1,567,100,000 shares outstanding, and has a 5 year monthly rolling beta of 1.14.

Nike is one of the worst performing members of the Dow Jones in 2022, is has not rebounded as well as the industrial average. Inventory problems have plagued Nike as fears of supply chain issues has resulted in overstocking in retail stores, although Nike has assured investors that this will be a one of issue that means margins should increase in following years (12). The issue that is more pressing when considering Nikes long term future is the reduction in demand in China. China has placed warnings on Nike imports saying they are dangerous to children, months after they faced a wave of backlash for past remarks on the alleged human rights abuses in the region. Boycotts have occurred and Nike reported a 55% reduction in (EBIT) in China, in the first quarter of 2022. (9) If this persists then Nike's stock may not rebound. (Figure 18)



Year	Open ($)	Close ($)	Returns (%)
	59.72	71.58	19.86
	71.58	98.85	38.1
	98.85	139.35	40.97
	139.35	165.40	18.69
5-2022)	165.40	91.72	-44.55

Industry Overview

The current state of the apparel and footwear Industry

Nike Inc. operates in the apparel and footwear markets. The apparel Industry is worth approximately $1.53 trillion US dollars in 2022 (45). NYU Stern estimate the apparel industry beta as 1.23 as of January 2022 (44). The footwear industry is currently estimated to be worth $382 Billion dollars (46), with an NYU Stern estimate beta of 1.19. Both industries are forecasted to have large jumps in revenue in 2023, with revenue for apparel expected to rise 14% while footwear revenue is forecasted to rise 17%. By 2027 Statista estimate the apparel market to have $1.94 trillion dollars in revenue and the footwear market $508.2 billion dollars, this would imply a CAGR of 4.9% and 5.9% respectively. This is optimistic in assuming the effects of COVID-19 which have harmed the industries over the last 3 years will not continue.

The value of Brands is of high importance to the apparel industry as consumers switch between companies with ease and effective brands is a rare way to maintain consumer loyalty. According to the 2022 Kantar BrandZ Global Report the brand value year on year change for the apparel industry was an increase of 20%, with an estimated combined brand value for the top 10 companies standing at $216,595 Million dollars (55). In a study by Małgorzata, Karaszewski, and Kuczmarska, they argue a positive correlation between brand strength and the economic performance of enterprises this subsequently increases sales which has a positive effect on brand equity, using data from Kantar BrandZ (66).

The effect of COVID-19

The apparel industry has radically changed since the COVID-19 pandemic in early 2020. An industry largely run by multinational companies with international supply lines, a high number of physical retail stores, and factories; all players have had to adapt in order to survive over the last 2 and a half years. There has been some increased demand for exercise and sportswear throughout the pandemic as people working from home changed their exercise regimes, this increased demand is predicted to outlast the coronavirus pandemic with GlobalData forecasting the sportswear market to grow 25% by 2025 (41).

Despite this the pandemic has been highly damaging to the apparel industry, with a reliance on physical locations and international supply routes it was unsurprising to see the market contract for the first time since the 2008 recession in 2020. The apparel industry suffers from seasonality, demand instability, and unpredictability (42), and as the pandemic has required a more responsive supply chain, many companies have suffered from disruption (43).

Factories have dealt with mandatory closures, there have been delays in shipping and as a result inventory levels have been volatile as companies struggle to deal with the logistics involved with planning for the new seasons. Subsequently, there has been a shift in the strategies of multinational companies where there is a priority to convert sales channels to direct to consumer sales.

Trends in the Sporting Industry

As mentioned previously people found new exercise habits during the lockdowns in 2020 and they stuck, there is a rising focus level on health, and the community digital health apps used continue to perform into 2022. Strava, the running app, exploded in 2020 and in their annual report suggested the fastest-growing sports were those done in communal spaces that saw closures during the first year of the pandemic (47). A report from McKinsey found younger consumers who exercise in the United States, India and China have higher consumer confidence and that their increased spending will be focused on sporting goods among other essentials (48). Strava grew among a wave of social media exercise, and firms are seeking to harness this new link between online engagement and sports. There is a push among all companies, not just Nike Inc, to promote Direct-to-consumer sales. Adidas, Under Armor, and Levi's have all targeted at least 50% of revenue to come from Direct-to-consumer sales (49), with the whole industry seeking to take adapt to a dying highstreets and the increasing reliant consumer technology relationship sped up by mandatory lockdowns. Developing websites, apps, and stores and building on their functionality has been an important way for companies to build engagement and increase sales. Furthermore, use of social media and data tracking has been vital to aid product development and demand planning, especially considering the supply chain issues and even demand disruption surrounding the industry currently.

Sustainable Development Goals

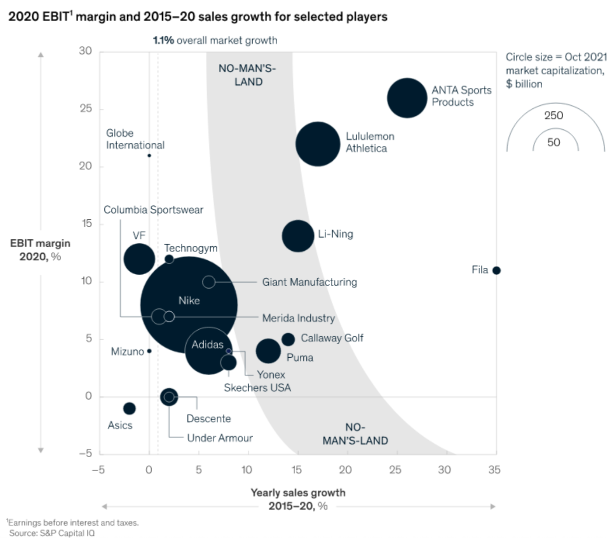
There is also currently a push for sustainability among apparel companies as it becomes more of a priority for consumers. When focusing on the UN's 17 Sustainable Development Goals, the industry was expected to adapt to meet issues such as overconsumption and overpackaging, helping battle worker exploitation, making sure cities in which production takes place are safe, resilient and sustainable, and finally, lowering the carbon footprint of all products and shipping practices (56). As it is resource and labor intensive the global apparel industry has been documented as the second worst resource intensive polluter trailing only the oil industry (59). Companies have forced supply chains to take new approaches, encouraging them to select sustainable raw materials to using end-of-life apparel products (60). In order to avoid being branded as greenwashing it is just as important for firms to change their supply lines, commit to goals such as equality of employment and wage structure, as it is to include this in their branding. The companies whose brands and revenues have performed the best have ensured that they meet these UN criteria.

Figure 19: Operating Margins
Source: Investor report 2022

Key Competitors

Nike operate in the apparel and footwear industry which has a widely distributed landscape with multiple players who are clearly differentiated from each other. When considering Nike Inc's direct rivals we must consider specific sports brands and focus on multinationals with a large market capitalization. The graph from S&P Capital below illustrates the size of Nike in the sportswear market, and the companies with similar EBIT margin and yearly sales growth (48).(Figures 19, 20, 21)

Figure 20: Profit Margin
Source: Investor report 2022



Adidas

Adidas is the competitor which shares the most in common with Nike. An older company Adidas was founded in 1924 in Germany, but started selling products across Europe and the US and now has a market capitalization of over €X Billion Euros. A mature company adidas had revenues of €21,234 Million Euros in 2021, with a gross margin of 50.7% and an operating margin of 9.4%, its CAGR between 2016 and 2021 was 2.1%. Its market cap is €24.064 Billion and its 5 year monthly Beta is 1.

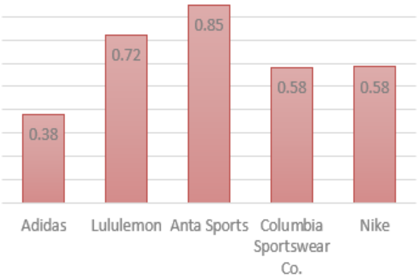


Figure 21: Debt to Equity Ratio
Source: Investor report 2022

Adidas struggled more than Nike during 2020 losing 16% of its total revenue according to its 2020 annual report. Although not as large in North America where Adidas's revenues are a third of the size, in China and the EMEA region adidas is of similar size to Nike. Adidas was third in Kanar BrandZ apparel top 10 behind Nike and Zara with a brand value of $23,791 Million dollars.

In a comparative analysis Mahdi, Abbas, Mazar, and George, suggest both companies have a broad differentiation strategy, whereby they appeal to the widest possible audience through creating unique products and services (50). Adidas is the one of the few companies who can rival Nike in terms of innovation and R&D spending, both companies have similar mission statements with Adidas stating:

"We play to win in our mission to be the best sports brand in the world. Together, we are adidas."

Adidas in terms of brand identity and reach is aligned with Nike, the Adidas "three stripes" logo is as iconic as the Nike "swoosh". Both have tried to push into each other's home market with through athlete partnerships. With Adidas going after American Athletes such as James Harden, Damien Lillard and Aaron Rodgers, while Nike has poured billions in European Football. Adidas even has similar strategy in terms of acquisitions. They acquired Reebok in 2006 for $3.8 billion, with a target of entering into the US market, as Reebok at the time had a 10 year deal to exclusively manufacture and sell NFL licensed merchandise and jerseys (51). Adidas in 2021 sold Reebok to Authentic Brands Group(ABG) for up to 2.1 billion euros ($2.5 billion dollars) in order to focus on its core brand (52). Adidas has also shown a similar commitment to sustainability with its Three Loop Strategy aiming for all production is to be climate-neutral by 2050 (71).

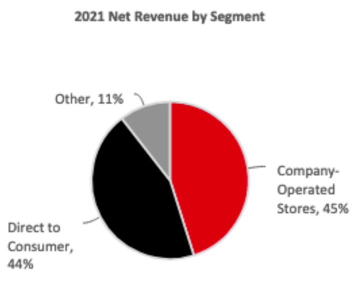
Nike is tries to differentiate itself from Adidas through innovation and branding, its ZoomX technology is its latest attempt to do this, adidas has its own R&D however and has created Boost technology that includes Thermoplastic Polyurethane (53). Jordan Brand is the jewel in Nike's crown and adds a US cultural element that Adidas does not possess, they tried to rival this with Yeezy's but have since discontinued the line due to the Kayne West outbursts.

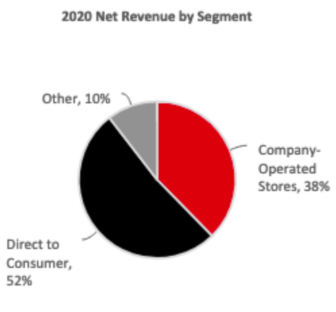
Lululemon Athletica

Lululemon Athletica is a Canadian high-end athletic apparel company founded in Vancouver in 1998. They focused on technical athletic apparel for activities such as yoga, running, and training (54). A much younger company than Nike it is illustrated in figure x the higher level of growth and higher EBIT margin Lululemon Athletica has had over the 5 years 2015-2020. Lululemon is therefore a competitor in a different stage than Nike. Lululemon Athletica in 2021 had a revenue of $6,257 Million dollars, and increase of 42% from 2020. Its Gross Margin improved from 56% in 2020 to 57.7%, while its EBIT margin increased from 18.6% to 21.3%. Its market cap is $41.799 Billion and its 5 year monthly Beta is 1.31. CSIMarket value their market share to be 4.91%. The larger beta is logical due to the growth rate of Lululemon and the high variance in their stock price, they also have experienced a stock price shock as they, like most in the industry, reported on their higher levels of inventory in September.

A young firm Lululemon had a revenue CAGR of 22% from 2016 to 2021, as it expanded its physical locations and its brand became better known. Lululemon Athletica was fourth in Kanar BrandZ apparel top 10 with a brand value of $20,424 Million dollars. Lululemon has the majority of its revenues based in North America with 69% of revenue from the US and 15% from Canada. Although in 2022 it opened 31 new stores in the People's Republic of China, meaning there now are 86 stores, the most in any country outside of the US. Lululemon has made it a priority to expand into China where it will be a direct competitor to Nike and look to cannibalize sales from them in that region.

Lululemon does not sell to wholesalers taking complete control over the products branding and exposure to consumers. In 2021 there was a large rise in revenue of company-operated stores as restrictions lessened, and although Direct to Consumer revenue fell as a percentage of total it is still a high priority to Lululemon, in line with Nike and the rest of the athletic apparel industry. Its Direct to consumer net revenue increased 22%, they attribute this to increased traffic and a higher dollar value per transaction.





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Although Lululemon recognizes Nike, Inc., adidas AG, and Under Armour as competitors it also recognizes The Gap's Athleta brand, Victoria's Secrets sport and lounge selection, and Urban Outfitters, Inc. This is due their brand placement as high-end fashionable athletic apparel, they are in competition with the luxury elements of Nike Brand's apparel rather than trainers, heavy sportswear, the Jordan brand or Converse.

Li Ning

Li Ning is the largest Chinese athletic apparel and footwear company, founded in 1990 and name after champion gymnast Mr. Li Ning (61). Initially only selling products in China Li Ning gained international exposure with its sponsor of Olympic athletes and a partnership with the NBA. After the 2008 opening ceremony in Beijing the company's share price increased by over 3% the next trading day (62). It now sells products abroad but 98% of its revenue still comes from the Peoples Republic of China.

Li Ning in 2021 had a revenue of ¥22,572 Million dollars, an increase of 56% from 2020. At the current conversion rate is amounts to $3,247 Million dollars, however the dollar has fallen against the Yuan this number was higher in 2021. Its Gross Margin improved from 49.1% in 2020 to 53%, while its EBIT margin increased from 15.2% to 22.8%. It’s market cap is ¥165.717 Billion, or $21.377 Billion dollars, and its 5 year monthly rolling beta is 0.73.

A fast growing young company in a high growth market, Li Ning had a revenue CAGR of 23% from 2016 to 2021. Li Ning was ninth in Kantar BrandZ apparel top 10 with a brand value of $3,767 Million dollars. An 86% increase from 2021, Li Ning has reportedly become the largest sportswear brand in China over Nike in equity terms.

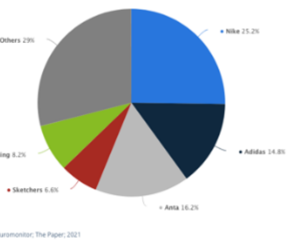
The 2022 Winter Olympics in China and the Pandemic have increased consumer demand in sports and fitness. After the Nike and others’ falling out with the Chinese Government over the cotton, consumer opinion of western companies is low and Chinese national pride means brands like Li Ning and its competitor Anta are filling the gap. With existing deals with NBA players, such as Dwayne Wade, Li Ning and Anta are looking to become the dominant brands in China, replacing the likes of Nike and Adidas and are major threats. Even putting aside the worrying reputational hit western companies have taken with Chinese consumers, China has in other industries put forward protections policies in order to foster the growth of domestic companies. As these firms show they can provide similar quality products with similar athlete endorsements, Nike and Adidas may struggle even more in an ever important Greater China market.

Nikes Position

Nike is the largest company in terms of revenue and brand value in the apparel industry, with the highest market cap by a significant level. CSIMarket estimate their market share to be 31% in the global market (63).

Comparing their 5 year monthly rolling beta to the competition, of 1.14, Adidas has a slightly lower beta of 1 but has massively underperformed Nike with its share price decreasing 53% this last year compared with Nike losing 30% of value. Both have suffered from China's lockdown and supply issues but Nike has rebounded better with a 36% rise from its year low in late September when its inventory issues were announced. Overall, in the last months Nike's decision to offload product has benefited it, and allowed it to gain an advantage for its investors in comparison to its nearest rival, at the expense of its short term margins.

The main risk to Nike's long term position is the rise of competition in the Chinese market, however Nike still ranked first in the Chinese sportswear market with a market share of 25.2 percent. In 2021, Anta overtook Adidas as the second largest brand gaining a 16.2 percent market share that year, with Li Ning close behind (65). Although performing far better than its closest competitor, their struggles could be foreboding for the future of Nike in China.



Company Analysis

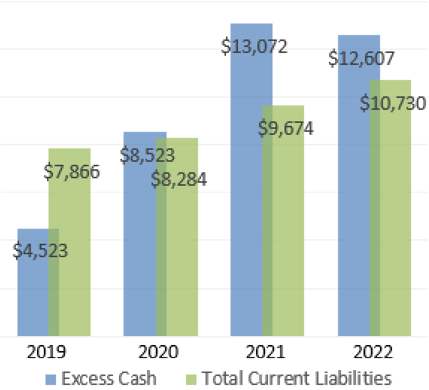
Financial Health

When examining the financial health of Nike Inc. we first look at its balance sheet, liquidity, and debt structure, in order to determine financial risks and the success of Nike's executives in fulfilling their financial targets. Financial Health was determined using liquidity ratios, balance sheet items and debt level trends over the last 4 years.

Liquidity Ratios	
Current Ratio	2.63
Quick Ratio	1.84
Cash Ratio	0.80

Figure 22: Liquidity Ratios
Source: Investor report 2022

Nikes short term assets have consistently stayed at over double the level of its short term liabilities, comfortably covering its short-term obligations. It's Cash ratio has decreased from 1.02 in 2021 to 0.8 this year, however is still much higher than its 2019 ratio of 0.6, when the climate was far more stable. Alongside the current and quick ratio being very healthy we are positive about the financial health of Nike Inc. The strong cash position implies executives have prioritised lower executional risk over deploying a large amount of its cash to maximise its return, this is responsible considering the current inventory issues surrounding Nike retail outlets. (Figure 22, 23)

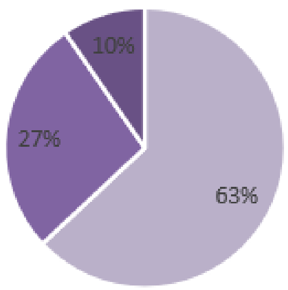


In addition to covering its short term obligations, Nikes short term assets have also consistently stayed at over double the level of its long-time liabilities, comfortably covering its long-term obligations. Nikes long term debt in 2022 was $8,922 million dollars, a 5.24% decline year-over-year. When considering Nikes debt level, it has been remarkably consistent at $9.4 Billion, since a jump in debt in early 2020, understandable in regard to changes to Nike's processes evolving at the start of the pandemic. Since the end of 2020 Nikes Debt-to-equity ratio has improved from 90% to 60%. Although the trend is positive there is still work to be done to reduce Nike's debt-to-equity ratio to its pre-pandemic level of 38%.

In our opinion the increases in equity while debt remains constant gives a positive outlook, especially considering the operating cashflow covering an increasing amount of the debt. The decreasing debt ratio of Nike coupled with increasingly healthy liquidity ratios provide a positive view, especially when combined with the stability of its revenue streams, even regarding the doubt over its Greater China segment. (Figure 24)

Sales Driver Analysis

When considering the drivers for Nikes revenue, all regions were had negative growth in 2020 except for Greater China, but rebounded in 2021 with Europa, Middle East and Africa and Greater China having revenue growth of 23%. Asia Pacific & Latin America had a small growth of 6% in 2021 as Nike struggled to deal with COVID-19 in the region more than others, however Asia Pacific & Latin America grew to its largest and most profitable quarter ever in Q3, thanks in large part to impressive digital growth. Nike struggled in the second half of 2022 in Greater China, due to lockdowns resulting in less physical sales being transacted. The expansion of the Nike App into those areas and introducing digital platforms in brick and mortar stores has increased the revenue of Nike in areas most hit by the pandemic. (14)
Indeed, Nike viewed direct to consumer and digital sales as growth drivers for NIKE last year. The direct-to-consumer business was up 20% in 2021 in Greater China, while NIKE Brand digital sales increased 59%. In all geographies, double digit growth was experienced in digits sales. (15) Digital sales already makes up over 25% of Nikes sales, up from 10% in 2019, and we expect this to continue growing into 2023 as Nike's Triple Double Strategy is implemented. (16)



- Cost of products sold
- General and administrative expense
- Selling and marketing expenses

Figure 25: Nike's Expenses 2022
Source: Investor report 2022

This is further highlighted in our report as Sales to Wholesale Customers decreased by 1% in 2022 while Sales through Direct to Consumer increased by 32% making up 42% of revenue compared to 38% of revenue in 2021.
When we look at revenue by product Footwear has remained constant at 67% of total revenue, this is consistent with apparel and equipment who also have stayed steady at 30% and 3% of revenue respectively. Nike however have put a focus womenswear recently, even if its proportions of product category have steady similar. Nike have ensured shareholders they have invested heavily in womenswear to give it an equal footing among menswear. (17)

Cost Driver Analysis

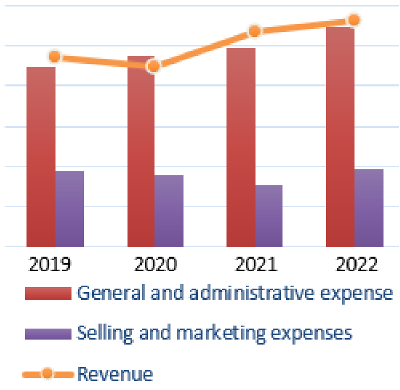


Figure 26: Revenues vs G&A and S&M
Source: Investor report 2022

Nike's cost of goods sold as a percentage of revenue has remained steady at 55% of revenue for the last three years. Demand creation expense consists of advertising and promotion costs, comparable to selling and marketing expenses. (Figure 25) Demand creation expenses are steady at around 10% aside from a dip to 7% in 2021, and general and administrative expenses minus depreciation were around 21%. Nike explain the 2022 24% increase in demand creation expenses as continued investments in digital marketing to support heightened digital demand. The CAGR of cost of products sold was 5.79% from 2017 to 2022, demand creation expenses was 2.88%, while General and administrative expenses minus depreciation was 9.22%. (Figure 26, 27)

Nikes largest cost driver cost of products sold is majority made up of inventory and warehousing costs. Nikes margins are expected to take a hit this year following inventory problems. Inventory problems have plagued Nike as fears of supply chain issues has resulted in overstocking in retail stores, although Nike has assured investors that this will be a one of issue that means margins should increase in following years (12).

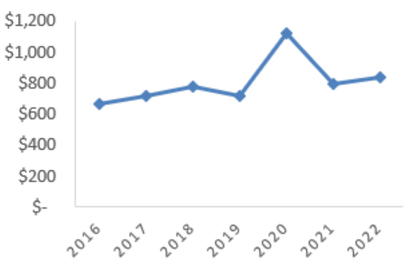
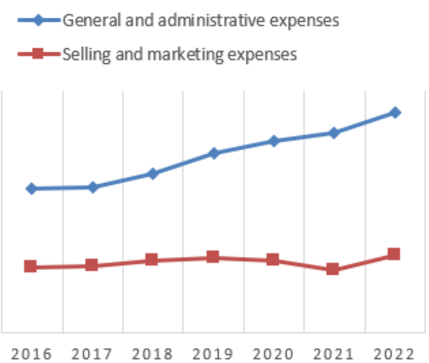


Figure 27: Nike's Depreciation 2016-2022
Source: Investor report 2022

Nike executives have warned that there will be mass markdowns which will seriously affect margins but that they should rebound in late 2023 and 2024, and that they don't expect this issue to be repeated, however it has affected stock prices of Nike and retailers such as dicks sporting goods. (18) Although this has not caused a significant increase in cost of goods sold due to Nikes success in offloading excess inventory, Nike has had to reduce prices in order to offload products resulting in the average revenue per product falling in the last three months of the calendar year. This has not had a large effect on their 2022 margins but will likely be more fully felt in their 2023 results. (Figure 28)

Margins and Profitability



Nike's gross profit margin has increased to 46% from 44.8% in FY2021, we expect this to rise further from 2024 onwards as lockdowns decrease in frequency and supply chain issues abate. This margin is worrying when compared to the industry; adidas their closest competitor, whom also suffered from inventory problems, had a gross margin of 50.7%, and all other smaller competitors had margins of over 50%.

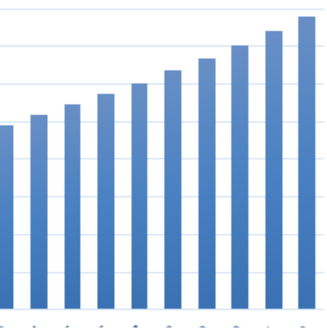
Nike's EBIT margin is down from 15.58% in 2021 to 14.29% in 2022, this is understandable considering product markdowns and a significant rise of 24% in demand creation expense back to its pre-2021 level. Comparing this to Nikes competitors, Adidas had an operating margin of 9.4%, while smaller regional competitors, such as Lululemon Athletica and Li Ning, had EBIT margins of over 20%. This is encouraging as Nike is outperforming its nearest competitor in terms of revenue size and EBIT margin, however the outstanding performance of its regional competitors, especially in the Chinese market may insinuate some advantage to their specialization.

Through Nike's plan to improve Consumer Direct Offense, they employed the Triple Double Strategy in 2019. In this strategy they targeted a Low-thirties percentage rate of return on invested capital (ROIC). ROIC is a profitability measure and was 46.50% for Nike in 2022 down from 48.80% the year prior, although having decreased in context this is far above the target Nike set for itself in 2019.

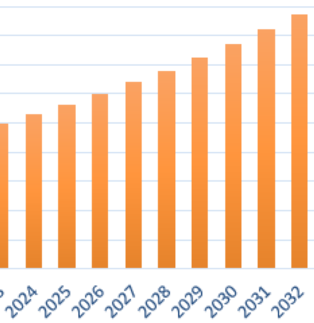
Overall, when analyzing Nike Inc., we found there are both supply and demand factors that have caused an increase in its revenue and a decrease in its margins in 2022. It is a healthy company that is a market leader and performing well in its field, its continued success will rely on smoothing its inventory problems, maintaining Chinese demand and building on its Direct-to-consumer push that it has benefitted from since 2019.

Forecasting

Revenues



The reportable operating segments for the NIKE Brand are: North America; Europe, Middle East & Africa (EMEA); Greater China; and Asia Pacific & Latin America (APLA). Converse is a reportable operating segment as of itself and separate to the Nike Brand. Growth rates were forecasted based on the expected change to market share alongside the performance and growth of the region or market itself. (Figure 29)



: Forecasted Revenues of Converse
stimation 2022

Converse has a checkered history as a Nike acquisition with many questioning whether divestment was pertinent as revenues stagnated between 2015 and 2019, with converse losing 3.8% of its revenue in that period. Since the pandemic, Converse have had an overhaul however with product diversification, coupled with a more direct, branded and immersive digital experience (67). Since then in 2021 and 2022 they have experienced 19% and 6% growth respectively. With double-digit growth in its direct to consumer revenue, and wholesale declines we expect this trend and a 6% growth rate to continue for Converse (68). (Figure 30)

Nikes outlook depends on its ability to gain market share in these regions, as well as the growth of the regions themselves. Nike has the largest brand value of any apparel company, and this is value is consistently high in all its operating regions. Nike has a leading market share of 43.7% in the global sportswear segment, the two next companies Adidas, 23.7%, and Puma, 7.6%, have far less market position and brand recognition (69). Whether Nike can continue to increase market position as well as the growth of the market as a whole is different in each geographic segment. The revenue of the global activewear market was estimated to be $379.77 Billion US dollars in 2022, and forecasted by Statista to have a CAGR of 3.7% over the next 5 years (70).

North America is the largest of the Nike brand geographic segments with a revenue of $18,353 Million, 41% of total revenue. North American region as the CAGR of revenue from 2013 to 2022 is 5.1%, a rate conclusive with a mature market. Revenue in the total Apparel market amounts to US$364.20bn in 2022, and was forecast to have a . The value of the athletic apparel market in North America stood at 67.4 billion U.S. dollars in 2021 and is forecast to exceed 85 billion U.S. dollars by 2026. For Nike to achieve a CAGR of 4.7% over this time period it would need to maintain its market share. Considering the growth of domestic competitors, such as Lululemon, we believe Nike will maintain not grow market share. (Figure 31)

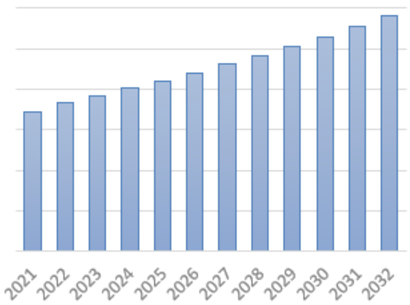


Figure 31: Forecasted revenues – NA
Source: Estimation 2022

Europe, Middle East & Africa (EMEA) has revenues of $12,479 Million. It had a 12% growth rate in 2022, currency adjusted, and has a CAGR of 9.4% considering the revenue from 2017 to 2022. Nike has X market share in the EMEA sportswear market. A report from Euromonitor forecasted growth between 1 and 2% a year from 2023 onwards (72). However, Statista forecast a 5.94% CAGR in the Apparel market with 20222 revenue surmounting to US $397.20billion. Due to the positive trends in European exercise, the strong e-commerce performance also mentioned in the Euromonitor report and the past performance in the region we forecast a 5.94% annual growth rate for 2023 onwards, with market growth in the sportswear market being lower but market share continuing to rise. (Figure 32)

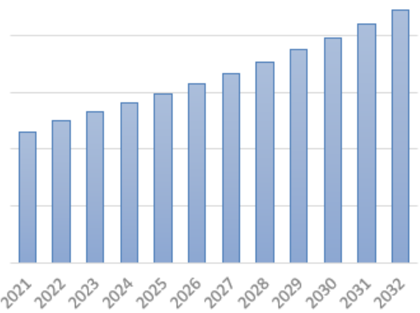


Figure 32: Forecasted revenues – EMEA
Source: Estimation 2022

The Asia Pacific & Latin America region has a revenue of $5955 Million Dollars, up 9% from 2021. Its CAGR of 4.7% in the last 5 years is the lowest of all Nike Brand's regions. A reason for this is the Asia Pacific region have slowing sports apparel markets, Japan whom made up over 20% of APLA revenue in 2017 has had a shrinking sports apparel market in terms of revenue. Statista forecast the Japanese market will grow by 1% between now and 2030 (73). While Nike's strategy in Latin America is at odds with its triple double direct to consumer plan, with an expansion of its distributor business model (74). For the APLA region we forecasted a 4.30% growth rate as the markets and Nike attention to them is underwhelming. (Figure 33)

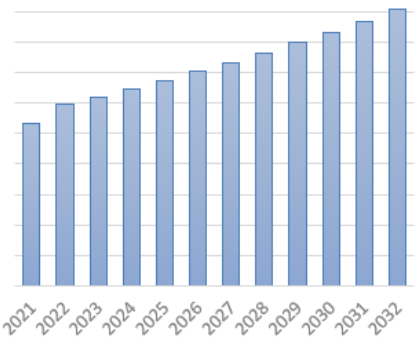
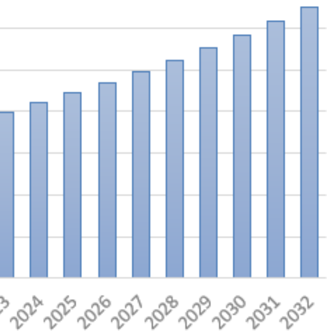


Figure 33: Forecasted revenues – APLA
Source: Estimation 2022



: Forecasted revenues – GC
stimation 2022

China is the fastest growing of the Nike brand geographic segments with a revenue of $7,547 Million. China has a CAGR of revenue from 2017 to 2022 of 12%, a rate that indicates a growing market, but lost 9% of revenue in 2022 year on year. This was due to lockdowns and poor consumer sentiment of Nike. In 2021, market of sportswear in Greater China was approximately 59.2 billion U.S. dollars, Statista estimate a CAGR of 5.23% for the sportswear market over the next 5 years. We expect Nike to continue to increase market share somewhat but with new rivals such as Li Ning and Ante and the naturally slowing demand as China tapers into a more mature market we forecast a growth rate of 5.59% for 2023 and onwards. However there are still significant risks of Chinese protectionist policies and further lockdowns, harming retail sales. (Figure 34, 35)

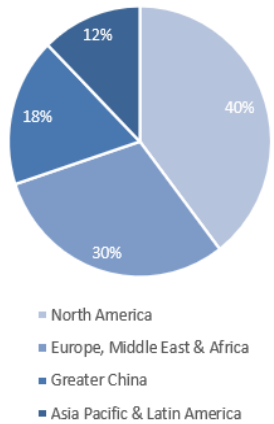


Figure 35: Forecasted Revenues by Geography 2032
Source: Estimation 2022

Cost Structure

Nike's costs can be broken down to four categories, cost of sales sold, demand creation expense, and operating overhead expense.

Nikes cost of sales has been remarkably consistent since 2014, although Nike Inc. has suffered inventory problems and has implemented markdowns as a result the cost of sales decreased to 54% from 55% in 2022. We expect this number to rise back to the previous level of 55% in 2023, and continue as such throughout the next 10 years.

Selling and marketing expenses, otherwise known as Demand creation expenses, are forecasted to rise to 10% of revenue from 8% in 2022 and remain there until 2032 as Nike maintain their efforts to invest in digital marketing to support heightened digital demand. Demand creation is made up of all promotional costs, this includes the costs of endorsement contracts with athletes, television, digital and print advertising and media costs. Since Nike Inc.'s business model revolves around athlete partnerships and through that maintaining their brand this increased level is consistent with their statements and investor reports.

Operating overhead expense increased 11% for fiscal 2022 to $10,954 Million dollars, 22% of revenue. This was the level in 2020 and 2019. Operating overheads is made up of employee costs such as wages, research and development expenses, bad debt expense as well as other administrative expenses such as rent, depreciation and amortization. Depreciation was forecasted stable at 2% similar to non and post pandemic years. The increase attributable to higher strategic technology investments from Nike and wage increases.

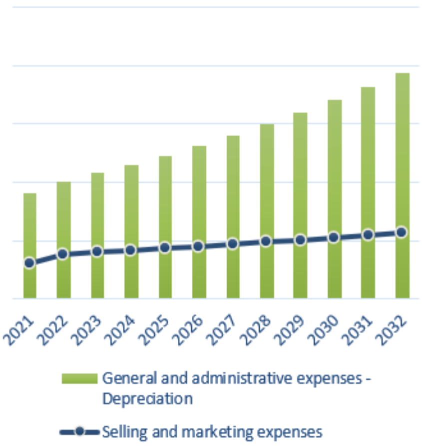


Figure 36: Forecasted G&A and S&M Costs
Source: Estimation 2022

Valuation

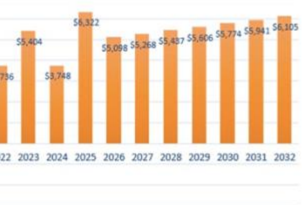


Figure 39: Free Cash Flow
Source: Estimation 2022

Using discounted cash flow method, core cash-flows were forecasted and then discounted and then computed with a terminal valuation to give an EV. Core cash flows were negative in 2020 due to the pandemic closing physical stores and halting business, due to the performance in 2021 they then rose to $6,459 Million dollars. However, due to inventory problems and falling margins core cash flow dropped in 2022, we expect this to be recified in 2023 and by 2027 reach a stable state with steady growth.

Cost of Debt

To determine Nike's Cost of Debt we decided to investigate its long-term debt. We have all the information about the bonds that Nike has issued, total of 8 billion valuation. We calculated weighted average yield of those bonds which is equal to 5.24%. As Standard & Poor's rating and Moody's rating rated Nike's bonds with the rating of AA- and A1 respectfully. Nike's debt has very high rating and is considered as an investment grade, so we will consider this weighted average YTM as Nike's Cost of Debt.

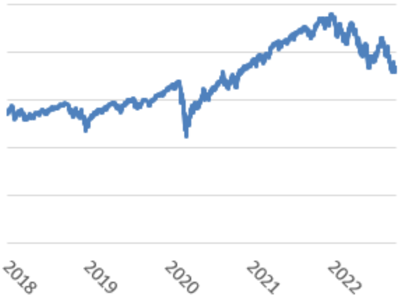


Figure 37: Market Return (S&P 500)
Source: Yahoo Finance

Cost of Equity

To calculate Nike's Cost of Equity we need to find its beta. We took S&P 500 Index as a represent of the entire market. We calculated beta using monthly prices of S&P 500 and Nike of the past 5 years. Nike's Beta is equal to 1.111368. After finding the beta we calculated market return, as before we used S&P 500 as a represent of the whole market. We calculated Market return finding an average annual return for the historical period from 2018 to 2022. We chose this period to include a pandemic and Ukrainian crisis as those two catastrophes had their effect on the financial market and we will still fill the consequences for a long time. We received 6.52% of market return (Figure37) . We also took 10Y US Treasury bond interest rate as a risk-free rate, it is 4% at this moment, which is not surprising, considering nowadays situation. We calculated company's 6.80% of Cost of Equity using CAPM formula.

Risk free rate	4%
Beta	1.11
Market Return	6.52%
Cost of Equity	6.80%

Marginal Tax Rate	21%
Cost of Debt	5.24%
After Tax Cost of Debt	4.14%

Total Debt	$ 12,627
Market Cap.	$136,980
Total	$149,607
E/D+E	91.56%
D/D+E	8.44%

WACC	6.57%

Figure 38: WACC Table
Source: Estimation 2022

WACC

As we now have both Cost of Equity and Cost of Debt, we can calculate company's WACC. At first, we received 4.14% after tax cost of debt, then we calculated D/E+D and E/E+D ratios and finally find Nike's WACC, which is equal to 6.57%. (Figure 38)

ROIC and Core Growth Rate

We can see that Covid affected to company's ROIC as well, there are a high volatility in that period, but even in 2020 which is not the best year for the market and for Nike as well, ROIC was only decrease to 18% and after the pandemic we can see its consolidation and till the end of the forecasted period it will remain around 30%. We can see more or less the same picture for the Core Growth Rate, during Covid it was extremely volatile after decreasing to -28% its skyroked to 111%, after that we can see a consolidation as in ROIC and slow recovery from the negative ratios as in 2022 and 2023 it will flow around 3% till the end of predicted period.

Terminal growth rate

From the last forecasted year Nike will continue to growth and that rate is Nike's terminal growth rate or perpetuity growth rate. To make an assumption about this rate which of course has enormous effect on the valuation, we will use an inflation rate and GDP growth rate. As a rule to make an assumptions about company's terminal growth rate we should consider the historical inflation rate and the average GDP growth rate. If we take a growth rate less than inflation rate it will mean that in future, in some point company will not exist anymore, if we take a terminal growth rate higher than GDP growth rate it will mean that Nike will outperform the whole market in the future forever. Taking into consideration all the characteristic of Nike we can see that none of those scenarios seems meaningful, so Nike's terminal growth rate range close to this numbers. Average historical inflation rate in US is 3.57% which growth a lot after the pandemic and the war in Ukraine, the average historical GDP growth rate in US is 3.14%. As the extremely high inflation rates of the past years has changed nowadays picture a little bit we will take a GDP growth rate as our terminal growth rate 3.14%.

Sensitivity Analysis

6.37%	6.57%	6.77%
136966	129699	123163
143151	135145	127988
150116	141238	133353

6.37%	6.57%	6.77%
85.68	81.06	76.90
89.62	84.52	79.97
94.05	88.40	83.38

40: Sensitivity Analysis
e: Estimation 2022

We have considered a sensitivity with 2 variables, WACC and Terminal Growth rate. Setting a step size of 0.2% for both variables we have a WACC from 6.37% to 6.77% and Terminal Growth rate of 2.94% to 3.34%. We applied those changes for the company's EV and have around 123 billion as a worst case and 140 billion as the best case. In terms of share price, according to the worst scenario we have 76.9 and 94.05 according to the best scenario. (Figure 40)

Conclusion

This equity research report has valued the share price of Nike Inc. at $87.19 at the time of December 2022, using a DCF valuation method with assumptions listed in this report. The current trading price on the 16th of December is $105.54, 21.0% above our valuation. We estimate the stock is overvalued and the recommendation would therefore be "SELL".

Appendix

Forecasted Income Statement

CORE OPERATIONS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Revenue	$ 39,117	$ 37,403	$ 44,538	$ 46,710	$ 49,177	$ 51,761	$ 54,473	$ 57,324	$ 60,324	$ 63,482	$ 66,806	$ 70,307	$ 73,993	$ 77,876
% change		-4%	19%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Cost of products sold	$ (21,643)	$ (21,162)	$ (24,576)	$ (25,231)	$ (27,183)	$ (28,611)	$ (30,111)	$ (31,687)	$ (33,345)	$ (35,090)	$ (36,928)	$ (38,863)	$ (40,900)	$ (43,047)
% of Revenue	55%	57%	55%	54%	55%	55%	55%	55%	55%	55%	55%	55%	55%	55%
General and administrative expenses - Depreciation	$ (8,229)	$ (8,415)	$ (9,114)	$ (10,114)	(10,797.96)	(11,525.03)	(12,299.44)	(13,125.18)	(14,006.18)	(14,946.50)	(15,950.33)	(17,022.13)	(18,166.59)	(19,388.72)
% of Revenue	21%	22%	20%	22%	22%	22%	23%	23%	23%	24%	24%	24%	25%	25%
Depreciation	$ (720)	$ (1,119)	$ (797)	$ (840)	$ (869)	$ (869)	$ (869)	$ (869)	$ (869)	$ (869)	$ (869)	$ (869)	$ (869)	$ (869)
% of Revenue	2%	3%	2%	2%	2%	2%	2%	2%	1%	1%	1%	1%	1%	1%
Selling and marketing expenses	$ (3,753)	$ (3,592)	$ (3,114)	$ (3,850)	(4,006.20)	(4,167.60)	(4,334.93)	(4,508.74)	(4,689.46)	(4,877.48)	(5,073.16)	(5,276.86)	(5,488.94)	(5,709.75)
% of Revenue	10%	10%	7%	8%	8%	8%	8%	8%	8%	8%	8%	8%	7%	7%
Core result before Taxes	**$ 4,772**	**$ 3,115**	**$ 6,937**	**$ 6,675**	**$ 6,321**	**$ 6,588**	**$ 6,859**	**$ 7,135**	**$ 7,415**	**$ 7,699**	**$ 7,986**	**$ 8,276**	**$ 8,568**	**$ 8,862**
Statutory Taxes	$ (1,002)	$ (654)	$ (1,457)	$ (1,402)	$ (1,327)	$ (1,383)	$ (1,440)	$ (1,498)	$ (1,557)	$ (1,617)	$ (1,677)	$ (1,738)	$ (1,799)	$ (1,861)
% of Result	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%	21%
Tax adjustments	$ (48)	$ 211	$ 160	$ 180	$ 126	$ 126	$ 126	$ 126	$ 126	$ 126	$ 126	$ 126	$ 126	$ 126
Foreign-derived intangible income benefit	*$ -*	*$ 234*	*$ 246*	*$ 273*	*$ 188*	*$ 188*	*$ 188*	*$ 188*	*$ 188*	*$ 188*	*$ 188*	*$ 188*	*$ 188*	*$ 188*
State taxes, net of federal benefit	*$ (48)*	*$ (23)*	*$ (87)*	*$ (93)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*	*$ (63)*
Core Result	**$ 3,722**	**$ 2,672**	**$ 5,640**	**$ 5,453**	**$ 5,119**	**$ 5,330**	**$ 5,544**	**$ 5,762**	**$ 5,983**	**$ 6,207**	**$ 6,434**	**$ 6,664**	**$ 6,895**	**$ 7,127**

NON-CORE OPERATIONS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Other non-operating income, net	$ 78	$ (139)	$ (14)	$ 181	$ (76)	$ (59)	$ (62)	$ (65)	$ (69)	$ (72)	$ (76)	$ (80)	$ (84)	$ (88)
% of Cash Investments		-3%	0%	1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Statutory Taxes	$ (16)	$ 29	$ 3	$ (38)	$ 16	$ 12	$ 13	$ 14	$ 14	$ 15	$ 16	$ 17	$ 18	$ 19
Tax adjustments	$ 226	$ 38	$ 286	$ 758	$ 327	$ 327	$ 327	$ 327	$ 327	$ 327	$ 327	$ 327	$ 327	$ 327
Subpart F deferred tax benefit	*$ -*	*$ -*	*$ -*	*$ 313*	*$ 78*	*$ 78*	*$ 78*	*$ 78*	*$ 78*	*$ 78*	*$ 78*	*$ 78*	*$ 78*	*$ 78*
Excess tax benefits from share-based compensation	*$ 173*	*$ 208*	*$ 300*	*$ 326*	*$ 252*	*$ 252*	*$ 252*	*$ 252*	*$ 252*	*$ 252*	*$ 252*	*$ 252*	*$ 252*	*$ 252*
Foreign earnings	*$ 53*	*$ (170)*	*$ (13)*	*$ 120*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*	*$ (3)*
Non-core Result	**$ 287**	**$ (72)**	**$ 275**	**$ 901**	**$ 267**	**$ 281**	**$ 278**	**$ 276**	**$ 273**	**$ 270**	**$ 267**	**$ 264**	**$ 261**	**$ 257**

FINANCIAL OPERATIONS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Interest expense	$ (49)	$ (89)	$ (262)	$ (205)	$ (410)	$ (419)	$ (419)	$ (419)	$ (419)	$ (419)	$ (419)	$ (419)	$ (419)	$ (419)
% of Debt year previous		3%	2%	2%	3%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Statutory Taxes	$ 10	$ 19	$ 55	$ 43	$ 86	$ 88	$ 88	$ 88	$ 88	$ 88	$ 88	$ 88	$ 88	$ 88
Tax adjustments	$ 58	$ 9	$ 20	$ (146)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)	$ (15)
Income tax audits and contingency reserves	*$ (62)*	*$ 40*	*$ (100)*	*$ (100)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*	*$ (55)*
U.S. research and development tax credit	*$ 48*	*$ 52*	*$ 60*	*$ 67*	*$ 57*	*$ 57*	*$ 57*	*$ 57*	*$ 57*	*$ 57*	*$ 57*	*$ 57*	*$ 57*	*$ 57*
Other, net	*$ 72*	*$ (84)*	*$ 60*	*$ (113)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*	*$ (16)*
Financial Result	**$ 19**	**$ (62)**	**$ (187)**	**$ (308)**	**$ (339)**	**$ (346)**	**$ (346)**	**$ (346)**	**$ (346)**	**$ (346)**	**$ (346)**	**$ (346)**	**$ (346)**	**$ (346)**

Total Income	**$ 4,028**	**$ 2,538**	**$ 5,728**	**$ 6,046**	**$ 5,047**	**$ 5,264**	**$ 5,476**	**$ 5,691**	**$ 5,910**	**$ 6,131**	**$ 6,355**	**$ 6,581**	**$ 6,809**	**$ 7,037**

Forecasted Balance Sheet

CORE BUSINESS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Operating Cash	$ 140	$ 264	$ 404	$ 390	$ 349	$ 367	$ 386	$ 406	$ 428	$ 450	$ 474	$ 498	$ 525	$ 552
% of Revenue	0.4%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
Receivables	$ 4,272	$ 2,749	$ 4,463	$ 4,667	$ 4,707	$ 4,954	$ 5,213	$ 5,486	$ 5,773	$ 6,076	$ 6,394	$ 6,729	$ 7,082	$ 7,453
% of Revenue	11%	7%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Payables And Accrued Expenses	$ (4,636)	$ (4,028)	$ (6,298)	$ (7,091)	$ (6,386)	$ (6,721)	$ (7,074)	$ (7,444)	$ (7,833)	$ (8,243)	$ (8,675)	$ (9,130)	$ (9,608)	$ (10,113)
% of Revenue	12%	11%	14%	15%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
Current Provisions	$ (1,218)	$ (1,583)	$ (1,435)	$ (1,412)	$ (1,671)	$ (1,759)	$ (1,851)	$ (1,948)	$ (2,050)	$ (2,157)	$ (2,270)	$ (2,389)	$ (2,514)	$ (2,646)
% of Revenue	3%	4%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Inventory	$ 5,622	$ 7,367	$ 6,854	$ 8,420	$ 8,297	$ 8,733	$ 9,190	$ 9,671	$ 10,177	$ 10,710	$ 11,271	$ 11,861	$ 12,483	$ 13,138
% of Revenue	14%	20%	15%	18%	17%	17%	17%	17%	17%	17%	17%	17%	17%	17%
Net PPE	$ 4,744	$ 7,963	$ 8,017	$ 7,717	$ 9,108	$ 10,622	$ 9,713	$ 10,221	$ 10,756	$ 11,319	$ 11,912	$ 12,536	$ 13,193	$ 13,885
% of Revenue	12%	21%	18%	17%	19%	21%	18%	18%	18%	18%	18%	18%	18%	18%
Goodwill And Other Intangible Assets	$ 437	$ 497	$ 511	$ 570	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
% of Revenue	1%	1%	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Prepaid Assets	$ 1,968	$ 1,653	$ 1,498	$ 2,129	$ 2,136	$ 2,248	$ 2,366	$ 2,490	$ 2,620	$ 2,757	$ 2,901	$ 3,053	$ 3,213	$ 3,382
% of Revenue	5%	4%	3%	5%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Invested Capital in CORE	**$ 11,329**	**$ 14,882**	**$ 14,014**	**$ 15,390**	**$ 16,580**	**$ 18,443**	**$ 17,944**	**$ 18,883**	**$ 19,871**	**$ 20,911**	**$ 22,006**	**$ 23,159**	**$ 24,374**	**$ 25,653**

NON-CORE BUSINESS	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Non Current Deferred Taxes Assets	$ 2,011	$ 2,326	$ 2,921	$ 3,821	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
% of Revenue	5%	6%	7%	8%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Non Current Deferred Taxes Liabilities	$ (3,347)	$ (2,684)	$ (2,955)	$ (2,613)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
% of Revenue	9%	7%	7%	6%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Invested Capital in NON-CORE	**$ (1,336)**	**$ (358)**	**$ (34)**	**$ 1,208**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**

FINANCIAL	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Excess Cash	$ 4,523	$ 8,523	$ 13,072	$ 12,607	$ 9,810	$ 10,326	$ 10,867	$ 11,436	$ 12,034	$ 12,664	$ 13,327	$ 14,025	$ 14,761	$ 15,535
Long Term Debt And Capital Lease Obligation	$ (3,464)	$ (12,319)	$ (12,344)	$ (11,697)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)	$ (9,956)
Current Debt And Capital Lease Obligation	$ (15)	$ (696)	$ (469)	$ (930)	$ (528)	$ (528)	$ (528)	$ (528)	$ (528)	$ (528)	$ (528)	$ (528)	$ (528)	$ (528)
Pension & Other Post Retirement Benefit Plans Current	$ (1,656)	$ (1,641)	$ (1,472)	$ (1,297)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)	$ (1,517)
Other Current Liabilities	$ (341)	$ (336)	$ —	$ —	$ (169)	$ (169)	$ (169)	$ (169)	$ (169)	$ (169)	$ (169)	$ (169)	$ (169)	$ (169)
Invested Capital in FINANCIAL	**$ (953)**	**$ (6,469)**	**$ (1,213)**	**$ (1,317)**	**$ (2,359)**	**$ (1,844)**	**$ (1,303)**	**$ (734)**	**$ (135)**	**$ 495**	**$ 1,158**	**$ 1,856**	**$ 2,591**	**$ 3,366**

Total Invested Capital (Core+Non Core)	**$ 9,993**	**$ 14,524**	**$ 13,980**	**$ 16,598**	**$ 16,580**	**$ 18,443**	**$ 17,944**	**$ 18,883**	**$ 19,871**	**$ 20,911**	**$ 22,006**	**$ 23,159**	**$ 24,374**	**$ 25,653**
Net Financial Assets	$ 953	$ 6,469	$ 1,213	$ 1,317	$ 2,359	$ 1,844	$ 1,303	$ 734	$ 135	$ (495)	$ (1,158)	$ (1,856)	$ (2,591)	$ (3,366)

SUM	$ 9,040	$ 8,055	$ 12,767	$ 15,281	$ 14,221	$ 16,600	$ 16,641	$ 18,149	$ 19,736	$ 21,406	$ 23,164	$ 25,015	$ 26,965	$ 29,019
Total Equity	**$ 9,040**	**$ 8,055**	**$ 12,767**	**$ 15,281**	**$ 14,221**	**$ 16,600**	**$ 16,641**	**$ 18,149**	**$ 19,736**	**$ 21,406**	**$ 23,164**	**$ 25,015**	**$ 26,965**	**$ 29,019**
Check	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE

Free Cash Flow Map

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
CORE BUSINESS														
Core Result	$ 3,722	$ 2,672	$ 5,640	$ 5,453	$ 5,119	$ 5,330	$ 5,544	$ 5,762	$ 5,983	$ 6,207	$ 6,434	$ 6,664	$ 6,895	$ 7,127
Change in Core Invested Capital		$ 3,553	$ (867)	$ 1,376	$ 1,190	$ 1,863	$ (499)	$ 939	$ 988	$ 1,040	$ 1,095	$ 1,153	$ 1,214	$ 1,279
Core FCF		**$ (881)**	**$ 6,507**	**$ 4,077**	**$ 3,929**	**$ 3,467**	**$ 6,044**	**$ 4,823**	**$ 4,995**	**$ 5,167**	**$ 5,339**	**$ 5,510**	**$ 5,680**	**$ 5,847**
NON-CORE BUSINESS														
Non-Core Result	$ 287	$ (72)	$ 275	$ 901	$ 267	$ 281	$ 278	$ 276	$ 273	$ 270	$ 267	$ 264	$ 261	$ 257
Change in Non-Core Invested Capital		$ 978	$ 324	$ 1,242	$ (1,208)	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-Core FCF		**$ (1,050)**	**$ (49)**	**$ (341)**	**$ 1,475**	**$ 281**	**$ 278**	**$ 276**	**$ 273**	**$ 270**	**$ 267**	**$ 264**	**$ 261**	**$ 257**
Free Cash Flow		**$ (1,931)**	**$ 6,459**	**$ 3,736**	**$ 5,404**	**$ 3,748**	**$ 6,322**	**$ 5,098**	**$ 5,268**	**$ 5,437**	**$ 5,606**	**$ 5,774**	**$ 5,941**	**$ 6,105**
FINANCING														
Financial Result	$ 19	$ (62)	$ (187)	$ (308)	$ (339)	$ (346)	$ (346)	$ (346)	$ (346)	$ (346)	$ (346)	$ (346)	$ (346)	$ (346)
Change in Net Financial Assets		$ 5,516	$ (5,255)	$ 104	$ 1,042	$ (515)	$ (541)	$ (569)	$ (598)	$ (630)	$ (663)	$ (698)	$ (735)	$ (775)
Change in Equity		$ (985)	$ 4,712	$ 2,514	$ (1,060)	$ 2,378	$ 42	$ 1,508	$ 1,587	$ 1,670	$ 1,758	$ 1,851	$ 1,950	$ 2,054
Comprehensive Income	$ 4,028	$ 2,538	$ 5,728	$ 6,046	$ 5,047	$ 5,264	$ 5,476	$ 5,691	$ 5,910	$ 6,131	$ 6,355	$ 6,581	$ 6,809	$ 7,037
Financing CF		**$ 1,931**	**$ (6,459)**	**$ (3,736)**	**$ (5,404)**	**$ (3,748)**	**$ (6,322)**	**$ (5,098)**	**$ (5,268)**	**$ (5,437)**	**$ (5,606)**	**$ (5,774)**	**$ (5,941)**	**$ (6,105)**
Check		TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE	TRUE
ROIC	33%	18%	40%	35%	31%	29%	31%	31%	30%	30%	29%	29%	28%	28%
RONIC			84%	22%	-24%	18%	12%	-44%	24%	23%	22%	21%	20%	19%
Core Growth Rate		-28%	111%	-3%	-6%	4%	4%	4%	4%	4%	4%	4%	3%	3%

Valuation

						1	2	3	4	5	6	7	8	9
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
CORE BUSINESS														
Core Result	3722	2672	5640	5453	5119	5330	5544	5762	5983	6207	6434	6664	6895	7127
Change in Core Invested Capital		3553	-867	1376	1190	1863	-499	939	988	1040	1095	1153	1214	1279
Core FCF		***-881***	***6,507***	***4,077***	***3,929***	***3,467***	***6,044***	***4,823***	***4,995***	***5,167***	***5,339***	***5,510***	***5,680***	***5,847***
NON-CORE BUSINESS														
Non-Core Result	287	-72	275	901	267	281	278	276	273	270	267	264	261	257
Change in Non-Core Invested Capital		978	324	1242	-1208	0	0	0	0	0	0	0	0	0
Non-Core FCF		***-1,050***	***-49***	***-341***	***1,475***	***281***	***278***	***276***	***273***	***270***	***267***	***264***	***261***	***257***
Free Cash Flow		***-1,931***	***6,459***	***3,736***	***5,404***	***3,748***	***6,322***	***5,098***	***5,268***	***5,437***	***5,606***	***5,774***	***5,941***	***6,105***
Discount Factor						0.94	0.88	0.83	0.78	0.73	0.68	0.64	0.60	0.56
PV						*3,517*	*5,566*	*4,212*	*4,084*	*3,955*	*3,827*	*3,698*	*3,570*	*102,715*
														TV
EV	**135,145**													
Equity	132,786													
# shares outstanding	1,571													
Share price	**$ 84.52**													
ASSUMPTIONS														
Discount Rate	6.57%													
Growth Rate	3.00%													

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Financial Statements

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
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