

NIKE INC

SPORTSWEAR & APPAREL

STUDENT: GONÇALO BARROSO DUARTE

COMPANY REPORT

3 JANUARY 2018

27231@novasbe.pt

- **Nike** want to reach **\$50 billion in revenues till 2020**, target that shows how commit Nike is with the future, Nike wants to **consolidate its leader position** and to overcome Adidas' hype
- One of the market's trends is **Adidas' hype**, a hype that allowed Adidas to be back on track and be closer to Nike. In the last years Adidas was able to start to threaten Nike's position by **recovering their market share** in some markets.
- **Under Armour** after succesful years enter in a bad mood where their **internationalization strategy** had not the returns they expected. In 2017 they have reached the **worst share price** in 5 years interval
- People are more into sports, **sport is booming** in the world as are more people into fitness life, people enrolled in gyms are the highest in a large period, and people are looking to sports with other eyes
- Nike has some strategies to reach the target like the bet on **e-commerce**, focus on **Chinese market**, bet on the **women sector** and recover on Emerging Markets
- It is expected that Nike **grow in the next years**, a growth based on the succesful path they will be through. The forecast is to Nike consolidate its leader position.

Company description

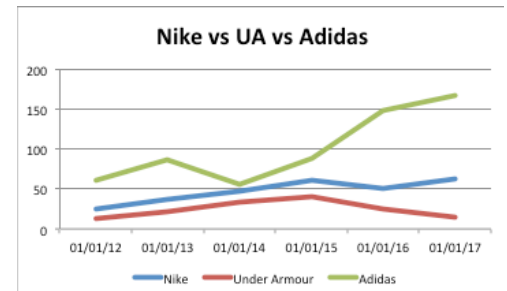
Nike is a footwear & apparel brand, the leader of this sector for a large time.

Is an international company present in 120 countries, which give them a wide portfolio with a considerable number of markets.

An American company based in Oregon official sponsor of NBA and NHL.

Recommendation:	BUY
<i>Vs Previous Recommendation</i>	<i>HOLD</i>
Price Target FY18:	110,20 \$
<i>Vs Previous Price Target</i>	<i>59,12\$</i>
Price (as of 30-Dec-17)	63,29\$
52-week range (\$)	51,23\$-63,29\$
Market Cap (\$)	103258,8028
Outstanding Shares (m)	1313,94931

Source: Bloomberg



Source: Bloomberg

(Values in \$ millions)	2016	2017	2018F
Revenues	32 376	34 350	37 810
EBITDA	5 291	5 651	7 049,95
Net Profit	3 760	4 240	5 199
EV/EBITDA	20,22	19,91	17,12
Equity	130 004,1	136 518	146 894,9
ROIC	24,23%	25,51%	26,85%
ROE	30,67%	30,17%	36,26%

Source: Nike Financial Report

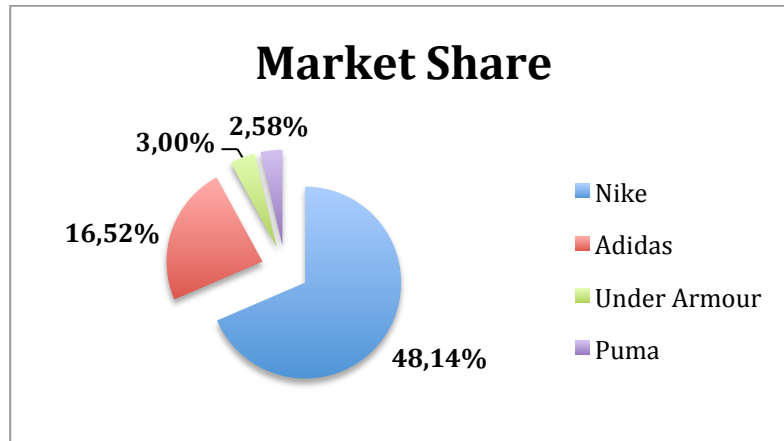
THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY [INSERT STUDENT'S NAME], A MASTERS IN FINANCE STUDENT OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL. (PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)

Table of Contents

COMPANY OVERVIEW	3
PEERS	11
HOW WILL NIKE BE ABLE TO GROW IN THE NEXT YEARS? (SUMMARY)	15
VALUATION.....	16
FINANCIALS.....	22
RISKS.....	24
DISCLOSURE/RECCOMENDATION	26
APPENDIX	26

Company overview

Nike is an international company performing in the footwear & apparel market, being the top brand in this area.



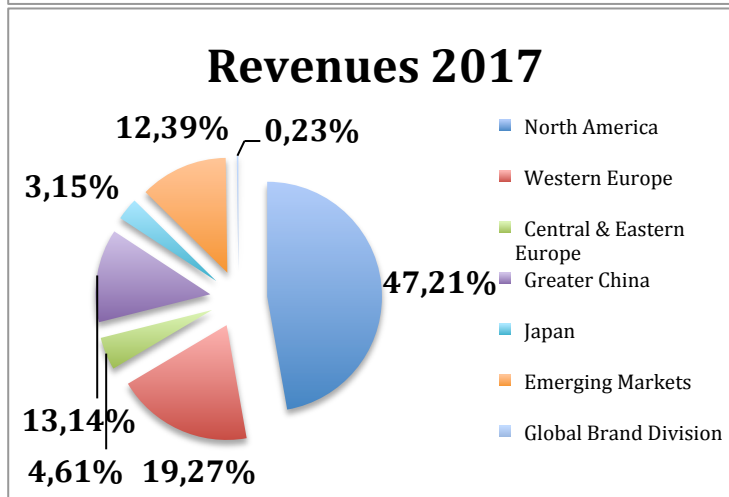
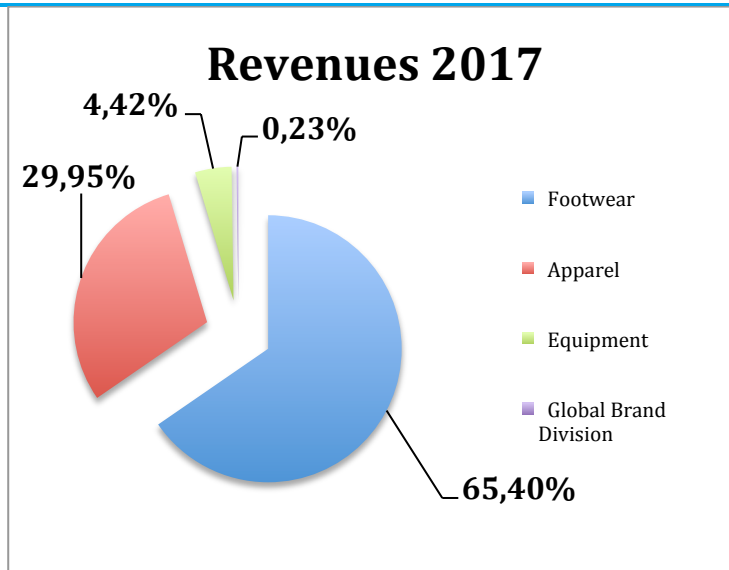
As a matter of fact, by looking to the history of this market, Nike has dominated it in the last years. Nike has outperformed all of its competitors while consolidated its position in the majority of the markets they perform in. Thus, Nike was able to raise its revenues in all markets as it can be seen in the table below.

	2014	2015	2016	2017	Average
Annual Growth					
North America	10,23%	11,72%	7,45%	3,06%	8,11%
Western Europe	18,75%	14,58%	3,14%	5,56%	10,51%
Central & Eastern Europe	12,86%	2,45%	0,70%	3,91%	4,98%
Greater China	5,00%	17,87%	23,41%	11,94%	14,56%
Japan	13,62%	-13,81%	15,10%	16,69%	7,90%
Emerging Markets	3,05%	-1,29%	-5,05%	7,94%	1,16%

Therefore, Nike keeps being the top brand in this business as shown before. It is present in all-american sports, it is the official brand of the NBA, the most recent addition, of NFL, and sponsor the main players of a large number of sports like Cristiano Ronaldo or Lebron James.

Furthermore, by being present in a very large number of countries reaching all continents it is a very international company. As a matter of fact, Nike is present in all continents more specifically is present in 120 countries covering all the 5 continents. Thus, these athlete partnerships give them the recognition they need to be the top brand in specific countries like with Cristiano Ronaldo in Portugal or even partnerships with teams like with the New Zealand rugby national team. Both of these partnerships give them strong positions in these countries and show how large is the portfolio they have.

It is also important to match where most of Nike revenues come from regarding the sector and the country.



Therefore, as both graphs show, Nike has most of its revenues coming from the footwear market and from North America. Thus, these two markets represent close to 50% of Nike’s business and that is something that has to be taken into account throughout all the report.

Moreover, it is important to highlight China and the Emerging Market, with 13,14% and 12,39% of the revenues, as both of these markets will have an important role on Nike’s future.

Overall, Nike has a supported top business, being the top brand in this market. However, Adidas is threatening Nike’s position so, nowadays Nike is improving its business to match customers’ needs and to overcome Adidas’ hype. Thus, Nike is performing and following some strategies, that will be further discussed, that will have an impact in its business and therefore in its share price.

Partnerships

As said before with the approximation of Adidas and Under Armour, Nike had to improve its strategy to keep its strong position and to keep being the top player in this market.

Nike has a lot of partnerships, with athletes, with clubs, with national teams and even with leagues, which give them a strong position in each sport and in some specific countries.

As a matter of fact, nowadays, Nike wants to consolidate its position in some specific markets and to do that, new partnerships has been done. Thus, they have done a deal with NBA where they have the exclusive production of their official jerseys. This was a strong move made by Nike involving high numbers. An 8-year deal with a total amount around \$1 billion, a 245% increase on the previous deal made by Adidas in 2006. Nike deal covers WNBA, the female basketball league, an important issue that will be discussed below, women sector is growing and Nike wants to take advantage of this niche.

Indeed, despite this deal has only started this season, 2017/2018, the deal was announced in 2015, since then Nike faced a high growth in this specific sector. Nike faced a growth of 11,4% on the basketball sector while the second highest growth was by the running sector, with a growth of 4,5%.¹

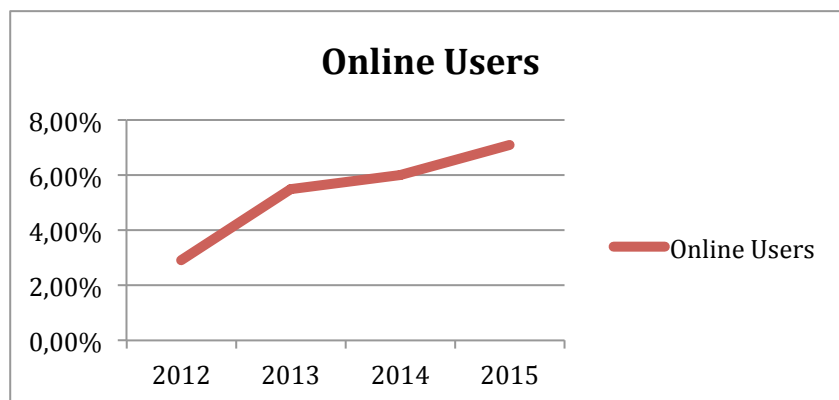
Moreover, Nike has 90% of the basketball market generating sells of around \$640 million only in basketball sneakers, numbers of 2015 the year that this NBA-Nike deal was announced.

On the other hand, this allowed them to consolidate their position in basketball market and to grow their position in North America, by joining the Jordan brand power with this partnership with NBA.

Furthermore as the Chinese people are very attached to the NBA, it was a way of consolidates even more their position in this very important market where everyone wants to be, and to be closer to their culture and people. Just to give an idea around 300 million of Chinese play basketball nowadays, but this topic will be discussed below.

Digital Commerce

Nowadays the Internet is a very important tool that every company has to dominate and to be in it. Moreover, this tool will be even more important to the companies as the tendency is to customers do their shopping online instead of going to the physical store.



Indeed, by looking at this graph people who use the online source to do shopping is increasing year after year. In 2015 the number was already 7,10% based on a study done by PWC back in 2016. The expectation is for online shopping buys increase on a high level and to in 2021 the sales done by the apparel market be 15,5% from the e-commerce.²

¹ Source: ESPN

² Source: EuroMonitor

Moreover, the booming of e-commerce is supported by the increase of the sales value in some countries like the table below show.³

<i>in million</i>	Sales Value 2015	Sales Value 2016	Online Users	Population	% Online Users
China	\$672,00	\$1 000 000,00	721	1380	52,25%
North America	\$341 000,00	\$396 000,00	286,9	324	88,55%
UK	\$114 000,00	\$133 000,00	60	65	92,31%
Japan	\$114 000,00	\$124 000,00	115	126	91,27%
Germany	\$44 900,00	\$52 500,00	71	80,6	88,09%
France	\$35 000,00	\$72 000,00	55	64	85,94%
Brazil	\$1 000,00	\$14 600,00	139	209	66,51%

As a matter of fact, like the table shows the online sales value per country is increasing year after year being China the highest market in the e-commerce area. Thus, Chinese people are considered the pioneers in this market, they are a step ahead regarding the e-commerce market being the people who buy the most through this channel.

Furthermore, it is important to mention that the increase on this market will lead to two effects. First, it will raise the number of customers and thus, the apparel market itself will have an increase on the number of its customers, the market will grow. Second, some people will complement their physical shopping with online shopping, this tendency will lead to cannibalism and the number of customers will not increase but will be a channel substitution.

Moreover, to take advantage of this tendency, Nike in 2015 performed a plan to enter in the online, a plan where the target was to grow 600% on web sales, from \$1 billion to \$7 billion in a five year period. This plan was in line with their target of reaching the \$50 billion in revenues in 2020. Thus, to reach this target the main focus is the online growth, the entering in the e-commerce and to improve their website so they can increase their customer satisfaction, on the internet costumers should be able to find whatever they can and Nike wants to put on their website the physical store experience, an unique experience.⁴

Regarding this plan, Nike is performing some actions that have the goal to reach the purpose target. Thus, this year a deal with Amazon was done, a deal that puts Amazon as an official retailer of Nike. This deal is a way to Nike supports their position in the e-commerce sector, a sector where they want to go strong. Two big companies join and the perspective is for them to have an impact on this sector, mainly regarding the number of Nike sneakers sell, as the counterfeit one will be much more controlled. As it is a recent event numbers resulting of this deal are not public.

Moreover, the launch and the improvement of the Nike+ app is other move made by Nike to reach the purpose target. Indeed, this app is going into the customer's tendency, the tendency is to more and more people do their shopping using their mobile phone. A recent study made by PWC supports this idea, as 34% of people say that the mobile phone will become the main tool of online shopping.

Furthermore, Nike+ app is the main banner of the Nike e-commerce strategy. This strategy supports on creating a tighter bond with customers, create a fitness community and improve the online shopping

³ Source: PWC report

⁴ Source: Bloomberg

experience. Customers need to feel as they are part of a family and need to have an experience while shopping and this strategy followed by Nike matches customers needs, Nike is filling a gap on a market, a creation of a fitness community where everyone feels as they are a part of family, Nike family.

As a matter of fact, it is not a easy thing to do but by being Nike the pioneer on the creation of a community, they are a step ahead of their opponents, it is not an easy thing to create a community and much more difficult is to reply this strategy. Of course that Nike and Adidas has some similarities in their strategy like the 3D printing technology shows, but they also has some big differences being Nike the pioneer on the launch of the Nike fitness community.

With the focus on this strategy, in 2017 Nike was able to reach the \$2 billion in sales through their website, a step closer to their target of \$7 billion by 2020. Moreover, they want to increase customers loyalty to the Nike+ app and improve their experience by the use of both their website and this app. From 2015 to 2017, the year that Nike started with this e-commerce focus strategy the growth was of 100%, a quite interesting fact to prospect their future. Indeed, by reaching this values only in 2017, it is a sign that the target is what they can reach and not only a number. It can be said that it is a realistic target and the expectation is to Nike reach that number.

Back to the basics

One of the keys to the recent hype of Adidas was the return to the basics, the re-launch of the old sneakers like Stan Smith or Superstar that create a kind of homesickness in their customers.

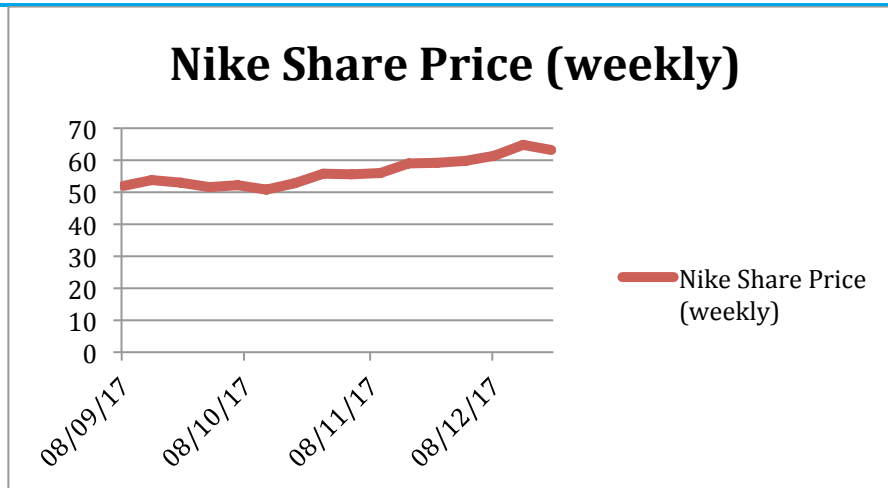
Moreover, this re-launch of old sneakers re created the appetite to see what Adidas have in their shells. Indeed, by following this strategy, Adidas captivated their customers to return to their stores and to get to know more about the new Adidas that has a link to the old Adidas, the Adidas that was a big brand.

in millions	2014	2015	2016
Sales	€ 14 534,00	€ 16 900,00	€ 19 300,00
Revenues	€ 14 534,00	€ 16 915,00	€ 19 291,00
Share Price	€ 56,74	€ 89,91	€ 150,15

The re-launch of Stan Smith occurred in 2014 and as the table supports both the sales and the revenues suffered a big rise in 2015, year after of the launch of this iconic sneaker. Thus, the back to the basics strategy had an immediate impact on Adidas financials and was the trigger to the creation of actual Adidas hype.

Therefore, this year Nike chose to do a quite similar thing with the re-launch of the Nike Air Max 97. More important than launching new shoes with new design, is to people feel comfortable about the brand and using this re-launching is a way to create the homesickness that people need to be more attached to the brand.

Moreover, despite it was a copy of Adidas strategy, and only by this factor puts Nike a step back of Adidas, it is expected to create noise around Nike brand. Thus, the impact that this re-launchment can have is unknown, it either can have a big impact as it had on Adidas or have a bad impact as it is a copy of what Adidas did on a recent past.



5

However, till this point, the re-launchment was on August, it seems to have a positive impact on Nike as their share price is raising day after day and then this strategy seems to not slow what is Nike expected growth for the next years, but a strategy that allows Nike to accomplish their target.

Chinese Market

Chinese market is the actual most important market regarding the sport sector, as it is facing a booming in this sector and is becoming the largest sector in the world.

billion of \$	2012	2013	2014	2015	2016
China					
Sales	\$226,00	\$241,00	\$286,00	\$314,00	\$348,00
Online Sales	\$48,00	\$66,00	\$93,00	\$115,00	\$138,00
Annual Growth		6,64%	18,67%	9,79%	10,83%
Trend			11,48%		
North America					
Sales	\$317,00	\$324,00	\$331,00	\$343,00	\$358,00
Online Sales	\$40,00	\$49,00	\$56,00	\$64,00	\$71,00
Annual Growth		2,21%	2,16%	3,63%	4,37%
Trend			3,09%		

Looking at this table, the potential of the Chinese market is a fact and not only a trend. In fact, this market is growing year after year and when compared to the growth faced by North America, the actual biggest market, it is facing a higher growth, the 5 year trend is 11,48% vs 3,09%.⁶

Moreover, GDP growth prospect for the next 5 years in this country is around 6% per year, a growth much higher from the 2% prospected for USA. In fact, is expected to in 2021 China GDP overcome USA GDP and to keep growing for the following years.⁷

⁵ Source: Bloomberg

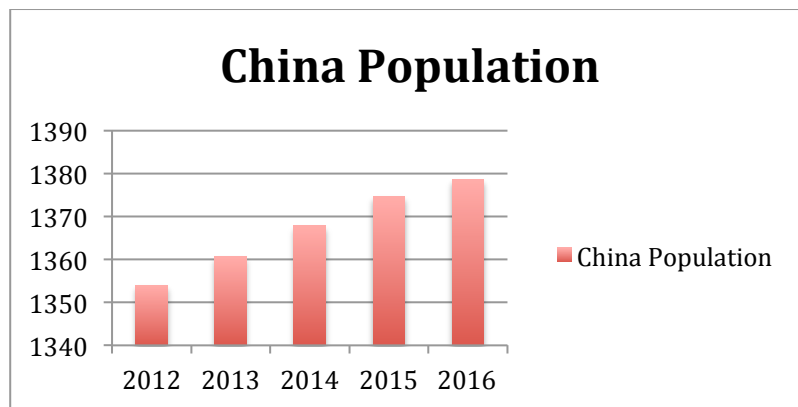
⁶ Source: Daxue Consulting

⁷ Source: OECD

	China	USA
2017	\$15 099 104,00	\$16 401 209,00
2018	\$15 974 175,00	\$16 854 354,00
2019	\$16 843 998,00	\$17 299 339,00
2020	\$17 709 685,00	\$17 743 025,00
2021	\$18 571 708,00	\$18 189 112,00
2022	\$19 430 179,00	\$18 639 481,00

Indeed, the Chinese market is the perfect conjugation of four factors that explains the future boom and explains why top sports brands (Adidas and Nike) want to be in this market:

- Country with the higher number of population
- Booming of health and fitness in the middle class
- Government Investment on sports
- Growing in the sportswear consume



First, as it can be seen on the graph above the population in China is growing every year, being in 2016 1378,665 million people, a huge number mainly when compared to the population in the other top market, North America, which is 579 million in the same year. Thus, China doubles the number of population of North America, which shows how big is this market.⁸

Second, some numbers can support the booming of health and fitness. Indeed, since 2011 in the 70 major Chinese cities, the people who go to the gym went from 4 million to 5 million per year. In addition, Chinese are also more into sport in general mainly basketball as around 300 million people play basketball.⁹

Moreover, the government is supporting this booming as the Chinese government is investing in sports so this boom can be sustainable and not only a fashion. In fact, the country's state council made a 5-year plan with a value of \$225 billion to help improve sports and fitness, focusing on the teenagers. In addition, Government made, as well, a partnership with Nike as well, where in 3 year Nike commit to help expand

⁸ Source: National Statistics of China and USA

⁹ Source: Bleacher Report

physical education for youth in the country. This topic will be further discussed below, as this is one of the big competitive advantages of Nike in this country.¹⁰

Last, the growing in sportswear consume is supported by the first topic table, where the trend of growing around 12% per year is a huge growth for a market. In addition, the growth of the e-commerce where the Chinese people is the pioneer as explained in the e-commerce chapter, can make this market in a even more potential one.

Regarding Nike, in the last quarter their growth was around 9.5%, which shows the growth that Nike is facing in this market. The expectation is to Nike grow around 25% till 2020 and afterwards grow around 15%. Both of these values are aligned with the expectations and potential of this market, which is expected to grow by large margin.

Moreover, it is important to mention that Nike has an important position on China which makes this company a step ahead of all others regarding the benefits they can extract here. Thus, the relation that Nike has with government is a good example of their advantage.

Indeed, Chinese people are very attached to culture, to tradition, and by Nike being the oldest brand in this country and by already being present in Chinese people life regarding both their sport life and their education is a big advantage that this brand has.

Nike vs Adidas China Revenues				
in millions	2013	2014	2015	2016
Nike	\$2 478,00	\$2 602,00	\$3 067,00	\$3 785,00
Adidas	\$2 198,40	\$2 372,70	\$2 740,60	\$3 331,60

Regarding the comparison with Nike’s top competitor, Adidas, in this specific market stands out the fact that both are very close to each other. In fact, Nike and Adidas have very similar revenues but always with Nike on top. Thus, by looking at this table, the competition between this two brands in this market stands out, the details in what both company will do will determine who can be on top in the next years.

Therefore, with Nike’s being present in Chinese schools, being part of their education is a big advantage for them. Chinese people might consider Nike as one of them and by that way Nike increase their market share. In fact, it is expected for Nike increase their market share based on some actions they have made in this market, this entering in Chinese School or the incorporation of Chinese flag in their products sold in China territory are very good examples. Nike does not treat Chinese as other market and that give them an advantage from their competitors, an advantage that allows them to have a return in the next years.

Overall, this is a very important market considered by many as the future of sports market as Chinese people are more attached to this phenomenon, and it is a market where Nike has already its position stabilished being the number 1 company in this country as it can be seen by the markets shares stated above.

¹⁰ Source: Forbes

Women are more into sports

Nowadays, it is a fact that women are gaining their space regarding sports brand, brands like Nike or Adidas are betting in this sector, as they want to reach their purpose targets having this sector an important role.

Nike Revenues					
in millions	2013	2014	2015	2016	2017
Men	\$13 073,00	\$14 001,00	\$14 689,00	\$15 410,00	\$16 041,00
Women	\$4 494,00	\$4 971,00	\$5 732,00	\$6 296,00	\$6 644,00
Young	\$3 251,00	\$3 737,00	\$4 301,00	\$4 560,00	\$4 838,00
Growth in Percentage					
Men		7,10%	4,91%	4,91%	4,09%
Women		10,61%	15,31%	9,84%	5,53%

As the table shows, in the last years women are growing in a very high pace, around 10% per year. Thus, it is an important market to take advantage by sports brand, more specifically Nike.

Therefore, to take advantage of this growth Nike is performing a strategy focusing on the women sector, as this sector has an important role in their \$50 billion target till 2020.

Moreover, this is a very competitive sector where Nike and Adidas are toe-to-toe regarding the leadership in the sector by implementing highly technical products, focus on the clothing design and by having appealing merchandising Nike may can won this specific battle.

However, this will be even more fashionable than the sector that the sport market is, women are not very attached to a brand regarding sports but with products, the one it fit the best, so the expectation is that this will keep a very disputed sector that will be defined on the details.

Therefore, this sector will grow as the previous table stands and it will increment Nike's total revenues but will not give them a large advantage from Adidas, both brands will have their part in this market increment.

Peers

As mentioned before this is a very concentrated sector where Nike and Adidas stands out from the competitors.

This two players fight between them to earn the higher amount of market share and are the two top brands regarding sports market.

Furthermore, despite being a quite recent player, Under Armour was able to enter in this market and start to compete with the other two major brands that have dominated this market for a very long period. However, in the last years the power of the two other brands overcome Under Armour growth and, nowadays, Under Armour is going through some problems as it will be further discussed.

Moreover, this sector is growing and the perspective is to this market reach a total of \$120 billion till 2020 according to the EuroMonitor. Thus, this states the potential of this market and how people are looking to

sports, the interest on this area is growing specially on the fitness area where more people are going to the gym and doing sports in general to keep an active life.¹¹

Adidas

Adidas is the strong opponent of Nike for a long period. Despite they had a few very bad years, with the recent change of the CEO they were able to be back on track and to threaten Nike's comfortable top position in the market.

As a matter of fact, Adidas, in the last years, was the player, which has, grew the most. With the re-launch of old sneakers like Stan Smith or Superstar they capture the attention of customers, the attention that they did not have for a very long time. Indeed, the return to the basics and the bet on high fashion shoes led them to a huge growth.

in millions	2014	2015	2016
Sales	€ 14 534,00	€ 16 900,00	€ 19 300,00
Revenues	€ 14 534,00	€ 16 915,00	€ 19 291,00
Share Price	€ 56,74	€ 89,91	€ 150,15

Indeed, Adidas was able to take advantage of the re-launch of a classic shoe, Stan Smith, and with that create an expectation around this brand. Thus, by selling 8 million pairs in 2015 this increased their revenues and sales as the table shows.

Moreover, with the success of the re-launch of Stan Smith in 2014, in 2015 Adidas take the chance and re-launched other classic shoe, Superstar. In fact, it was other top shoe and in 2016 it reached the 15 million pairs sales and one more time it increased Adidas financials, allowing to reach a share price of €150,15.

Furthermore, other big step that Adidas made was the bought of Reebok, a recognized brand in the world, which, nowadays, have the control of the fitness, more specifically Crossfit, a sport that is having a boom nowadays.

Indeed, this bought was made a few years ago, in 2005 by €3,8 billion, a joining of the number 2 and 3 on the sports market back on the time. Thus, the goal of this acquisition was to compete with Nike, something that only in the recent past years they were able to do.

Crossfit is a sport, which is very in fashion nowadays, by having the Crossfit Games their iconic event. In fact, the Crossfit Games started back in 2007 and is having an international growth, a growth that allowed them to reach 3,5 million people with the transmission of this games in 2014 and allowed to reach 16 000 inscriptions from outside the USA in the same year.¹²

¹¹ Source: EuroMonitor

¹² Source: CrossFit Games

Growth 2012-2013	
Australia	104%
Canada East	129%
Europe	104%
Africa	237%
Asia	210%
Latin America	207%

Furthermore, this sport is having a boom and from 2012 to 2013 its growth was exponential. Thus, the impact expected on sales come from Reebok was a growth that go along with this booming, the Crossfit Games have the main sponsor and partner Reebok, being the official name Reebok Crossfit Games.

Reebok Sales	
2013	€ 1 859,00
2014	€ 1 874,00
2015	€ 2 068,00
2016	€ 2 041,00

However, sales do not reflect the boom of crossfit. Despite it is growing in the last years, it is growing at a very slow pace, a pace much slower than the one presented by the sport itself, supported by the growth in the CrossFit Games. Thus, it can be said that Reebok is not extracting everything they can extract from this sport, there is a potential and there is a long way to go.

Nike vs Adidas North America Revenues				
in millions	2013	2014	2015	2016
Nike	\$11 158,00	\$12 299,00	\$13 740,00	\$14 764,00
Adidas	\$4 254,60	\$2 945,20	\$3 055,90	\$3 776,50

Despite Adidas is growing in the last years, Nike is still on the top of the market. Nike dominates his home market, North America, by a large margin and is being able to grow even more in this market. On the other hand, Adidas is conquering their space but is far from Nike numbers.

Moreover, the tendency is to the market keep this pace by Nike dominating North America and with Adidas cannot be able to threaten this Nike's position.

Nike vs Adidas Western Europe Revenues				
in millions	2013	2014	2015	2016
Nike	\$4 193,00	\$4 979,00	\$5 705,00	\$5 884,00
Adidas	\$5 017,00	\$5 039,00	\$5 038,30	\$5 856,30

Furthermore, in Adidas home market, Europe, Nike is being able to be closer and closer from Adidas and even equalizing Adidas revenues in 2016. In fact, by this numbers it highlights the strenght of Nike where, in the last years, it is trying to be back on track and overcome Adidas potential, overcome Adidas' hype.

Under Armour

Under Armour is the third big player in this market and is the most recent one, it was build in 1996 long way after Nike and Adidas have their positions already stabilised.

Therefore, Under Armour knew since their creation that they would have a long journey to go through to threaten Nike and Adidas position.

Indeed, Under Armour was able to stabilish its position and to have an important role in this market. In 2015 they were able to reach their top share price with \$40,30 and year after year they were able to reach an increase both in their sales and revenues.¹³

in millions	2013	2014	2015	2016
Revenues	\$2 332,10	\$3 084,40	\$3 963,30	\$4 825,30
North America	\$2 193,70	\$2 796,40	\$3 455,70	\$4 005,30
%	94,07%	90,66%	87,19%	83,01%
International	\$138,30	\$268,80	\$454,20	\$741,00
%	5,93%	8,71%	11,46%	15,36%

Moreover, this increase was sustained in a strategy where North America, their home country, was the main country where they want to be, and at first they want to stabilish their position in this market and to conquer their space. Thus, around 80% of their business is from North America.

Furthermore, in 2013 they saw an opportunity window to start focusing on expand themselves to new markets, they start to internationalize their business, and nowadays they are present in all 5 continents having revenues from Latin America, Asia Pacific and EMEA (Europe, Middle East and Africa).

However, this strategy did not have the expected impact on Under Armour. In fact, it put Under Armour in its worst moment since 2013 regarding its share price, whichm nowadays, is around \$15.¹⁴

in millions	2017		
	Q1	Q2	Q3
Revenues	\$1 100,00	\$1 100,00	\$1 400,00
Operating Income	\$8,00	\$(5,00)	\$62,00
Net Income	\$(2,00)	\$(12,00)	\$54,00

As the table shows, during 2017 Under Armour is facing bad results with net loss in 2 of the 3 reported quarters. Despite the revenues theirselves seem to be growing comparing to 2016, net income is showing that the costs they have overcome their revenues, which is not a good sign for the company.

As a matter of fact, this shows that is not easy to enter this market and have success. When Under Armour seemed to overcome the obstacle and entered succesfully in sports market, 2017 shows that is not that easy to have sustained growth in this market. It is a market where brands like Nike and Adidas have their position stabilished and the internationalization path that Under Armour followed show that is not that easy to

¹³ Source: Bloomberg

¹⁴ Source: Bloomberg

compete with this two monsters. The internationalization was a good strategy in theory but the return they have extracted were not that high when comparing to the costs they have incurred.

However, Under Armour still have a word to say in this market. With apps like MyFitnessPal with 165 million users, 2016 numbers, can be a good support to this company enter strongly in the e-commerce sector and therefore grow. It will be an interest fact what this company will do to overcome this bad year but nowadays it shows how strong Nike and Adidas are in this market.¹⁵

How will Nike be able to grow in the next years? (Summary)

In this point is important to support how Nike will grow in the next years and to summarize all that have been said.

As a matter of fact, Nike growth will come from different sources namely E-Commerce, Chinese Market and Women Sector. All of these topics will raise the number of customers present in sports market and Nike will try to canalize this rise into their growth revenue.

Starting by the E-Commerce, in this specific sector the increase of sales through this channel will have a two-way impact:

- 1) Increase on the number of customers
- 2) Cannibalism – this channel will substitute some sales made by the physical store

Therefore, by exploring this channel like previously mentioned, Nike will be able to increase its revenues and to reach a higher number of customers. Thus, by exploring this channel Nike will be a step closer to their target and will be able to extract some benefits, increase on the revenues and decrease of the Capex, as this channel does not involve constructing new stores.

Regarding the Chinese Market, the increase prospected on the number of customers is supported on the increase of both the China population and the interest on sports.

Thereby, by investing and having a good position on this market, Nike will be able to reach their goals and will be able to have higher revenue. The investment on this market is one of the pillars of Nike's strategy and is being done throughout the years, Nike is present in China since 1981 year when they started to produce there.

However, the higher investment in this market will be a two-face investment, as it will mean higher revenues but higher Capex as well. Despite, some revenues will come from e-commerce as stated before, some revenues will come from physical stores, which means more investment in the construction of new stores.

Last, the woman sector is other source of growth in this market. As more woman are into fitness and in sports in general, more customers will this sport market have.

Indeed, in the last years this tendency was a reality as stated before, and by Nike investing in this market it will mean that more customers are reached and thus more sales are expected.

¹⁵ Source: Nick Crocker Interview (Product Manager of MyFitness Pal)

Overall, the tendency of this market is to grow and reach more customers and by, as seen throughout the report, Nike taking advantage of these tendencies their revenues will grow and their share price will grow in the next few years as well.

Valuation

After speak about Nike strategy what will they do and how will they take advantage of the increase on the number of customers in some markets or channels, is important to put word into numbers.

Therefore, in this chapter the forecasts for some specific items, important in the valuation, will be discussed and explained.

Take into account that this numbers are supported in the increase of the number of customers, as explained before and as previously stated, Nike is expected to grow as they have advantage in some important markets that will allow them to be a step ahead of the competitors.

Model

First of all it is important to mention that the Discounted Free Cash Flow model was the one used to determine the future value of Nike. Thus, by using this model the operating cash flows were needed to reach the value, as well as the discounted rate (WACC) and the growth rate in perpetuity.

Cash Flows

Starting by analyzing the cash flows itself, the operating cash flow is expected to grow every year mainly driven by the growth in the revenues and consequently on the EBIT. Indeed, **revenues** are expected to grow at a high rate, around 10% per year till 2020 mainly supported by the 22% growth in China revenues. Stands out the fact that in 2017 the operating cash flow is around \$2 500 million and in 2020 it is expected to be around \$6 700 million.

Revenues

As stated before, Nike expects that its revenues reach the \$50 million in 2020. Indeed, it is a quite optimistic scenario based on what Nike's want to do in the sector, they want to overcome Adidas' hype and want to recover from a quite sleepy years they have been through.

	Revenues			
in millions	2013	2014	2015	2016
Under Armour	\$2 332,10	\$3 084,40	\$3 963,30	\$4 825,30
Adidas	\$18 866,00	\$19 308,20	\$18 775,80	\$21 351,90
Nike	\$25 313,00	\$27 799,00	\$30 601,00	\$32 376,00

Nike's revenues, in general, are higher than the ones presented by their peers, Nike is being able to extract more from the market than their peers. In 2016, despite the Adidas jump in their revenues, Nike still outperform all of their opponents and that is a good sign for the future of this company, a future where Nike is focusing in to still outperform its competitors and to increase even more their revenues.

As a matter of fact, it is expected that their revenues would reach a value close to the \$50 million target, being they \$46.413 million in 2020. The \$50 million target is to optimistic to what really Nike can reach.

This number can be explained by:

- China revenue growth rate at around 25% a year till 2020
- North America growth rate at around 9% a year
- Emerging Market growth rate at 6% a year
- Europe growth rate at 16% a year

Indeed, the revenue growth till 2020 it is concentrated on Chinese market and the European market. This can be explained based on the fact that Nike wants to recover their space in the European market, a market actually dominated by Adidas. As Adidas, in the last years recovered their space in their home market, Nike wants to overcome it and be succesful again in this market, as they started doing in 2016 where both revenues are close.

Therefore, to reach this 16% growth the women sector will have its role as is in Europe that Nike will take advantage of this sector. Thus, by focusing on this sector, Nike will be able to extract returns out of this market, Nike will be able to grow in this market and outperform Adidas in its homeland. For example in UK women sector is expected to grow 8%, which shows how important can be the role of this sector in this forecasted growth.¹⁶

Other important market is the Emerging Markets. Despite this market had a slow impact on Nike's sales in the last years, is expected to recover and to have an annual growth of 6% till 2020. Indeed, the impact of the Olympic games that occurred in Brazil is making Nike to recover revenues growth on Emerging Markets. Despite some of this countries were through some political instability, the impact that events like this have overcome this instability and put people closer to sports in genereal increasing its demand.

Furthermore, the e-commerce bet they have made by targetting the \$7 billion in sales in this sector is expected to be reach. As Nike is expected to improve their website experience and the customer loyalty to their Nike+ app. Thus, it is expected to Nike have 14% of their revenues only from the e-commerce.

Operational Costs

Other important measure that will have a big impact on Nike's valuation is the operating costs cut that Nike wants to perform.

Nike vs Adidas Operating Costs				
	2014	2015	2016	2017
Nike Cost Of Sales	\$15 353,00	\$16 534,00	\$17 405,00	\$19 038,00
Adidas Cost Of Sales	\$10 109,80	\$9 709,20	\$10 970,90	\$11 718,50
Nike Operating Expenses	\$8 351,00	\$9 228,00	\$9 680,00	\$9 661,00
Adidas Operating Expenses	\$8 196,80	\$8 054,20	\$9 123,60	\$9 665,80

¹⁶ Source: EuroMonitor

As presented in this table it can be seen that Nike cost of sales are higher than the Adidas one. Thus, Nike cost of production is higher than the one that its highest competitor can reach. However, this can be due to the fact that Nike has higher number of sales, which can transform these higher sales in higher costs of selling it.

Regarding the operating expenses, both are very similar and their evolution is very similar as well.

Overall, Nike only has higher cost of sales when comparing to Adidas, and the higher number of sales that Nike has throughout the years explains this.

Moreover, Nike's cost of sales is expected to keep the growth that it went through in the last years and in 2018 is expected to grow 7%. In the last 5 years the average growth was 7% and it is expected to this tendency continue in the next years.

Regarding the general and administrative costs it is expected to grow in the next years with the rate performed in the last years, being it of 7%. One more time, it is expected that this costs will follow the tendency presented in the last years.

Therefore, Nike's operating cost will grow at 7% per year. In fact, it is expected to follow the trend as nothing indicates that Nike will be able to reduce these operating costs. Thus, these costs will keep more or less the same that the past present as the operation will remain with the same costs.

Capex

Other important part of the operating cash flow is the Capex item. Indeed, through the next years this item will have a gradual fall throughout the years.

Despite the focus on the e-commerce, indicates that this item will be at a very low level in the next years, the higher presence on China (other Nike future focus) will have a positive impact on Capex.

	2013	2014	2015	2016	2017	2018
Nike Capex	\$(661,00)	\$(900,00)	\$(783,00)	\$(1 158,00)	\$(1 175,00)	\$(1 210,00)
Capex per Sales	2,61%	3,24%	2,56%	3,58%	3,42%	3,20%
Adidas Capex	\$(560,50)	\$(662,90)	\$(515,00)	\$(648,60)	\$(1 048,40)	\$(1 068,30)
Capex per Sales	2,97%	3,43%	2,74%	3,04%	-	-

First, by comparing this Capex values it stands out the fact that Nike, in the last years, is having higher Capex than the one presented by Adidas. However, the forecasted for Adidas in 2017 and 2018 puts both companies in the same level being the difference minimum. Thus, it is expected that Adidas strategy in 2017 and 2018 will mean an increase in their Capex value, which will put them closer to Adidas, a jump that Nike faced in 2016.

Looking to the Capex per sales it stands out the fact that both companies are very similar, both companies are around 3% on their expending on Capex when comparing to their sales. However, it is important to mention that on the one hand the Capex per sales will remain the same in Nike's case but it will be interesting to see what will happen to Adidas. It will be interesting to see if Adidas will be able to keep their Capex per sales level, which will mean higher revenues, or if this value will grow by a high percentage.

	Nike Stores					
	2017	2016	2015	2014	2013	2012
Total number of stores	1142	1045	931	858	753	619
US stores	384	362	339	322	303	246
Non-US stores	758	683	592	536	450	373
New stores	97	114	73	105	134	-

As it can be seen in this table, Nike is opening more a less the same number of stores year after year, being this number around 100 new stores per year. In fact this number is expected to remain the same, mainly due to the fact that new stores in China and Emerging Markets has to be opened for Nike be able to stabilish their position in this markets and therefore be able to reach the prospected values for the revenues in this markets. For example, in 2018 Nike will open a Nike town in Dubai, a huge infrastructure that will mean high costs, and in 2019 will open a new Nike store in New York City.

Furthermore, Nike new stores are revolutionizing the physical stores concept by having a mix with physical and digital. The digital is present even in their stores, which means that Nike is trying to improve physical experience at the same time they are betting on the digital area. Thus, this new stores support the future Capex values.

The strategy followed by Nike will have an impact on the future capex values and thus, Nike's capex will keep the slight yearly rise. In fact, as Nike will need to stabilize its postion in China and in some Emerging Markets, the Capex will keep rising but in a low level as in many markets they are already stabilized and therefore Nike will not need a large number of actions.

WACC

To reach the wacc value and therefore reach the enterprise value the cost of debt, cost of equity, the debt to equity ratio and the tax rate had to be estimated.

Cost of Debt

Regarding the cost of debt it will be of 3.03% throughout the years, till 2018 to 2022. Indeed, as Nike has a rating of A+, by using the formula $Cost\ of\ Debt = Long - Term\ Government\ Bond\ Rate + Defalut\ Spread$ and using the tables to look for the *Default Spread* value matching it with the Nike rating, this 3.03% value will be reached.

Therefore, by Nike has a rating of A+ the default spread associated with this rating is 0.85%. Thus, by add to this value the long-term government bond that is 2.18%, a value of 3.03% is reached.

Moreover, the cost of debt will remain constant over the years because it is not expected that the rating of Nike changes in the next years, the A+ rating will keep being Nike's rating through the years.

Despite, Nike is projected to be even a more succesful company in the future, reaching the goals they have targeted, it is not expected that it reaches that AAA rating, it is very difficult to reach this rating and only a few are able to do it. The forecast is to Nike keep being in this level and thus, the cost of debt keep being in this level as well.

Cost of Equity

To reach the cost of equity the first step was to estimate the beta of the company, more specifically the 2017 beta.

Therefore, to reach these values a regression crossing the Nike and S&P500 returns were used which gave a beta of 0,66. In the regression, the 95% interval of confidence was used where Nike's beta was presented in the interval of:

Levered Beta	
Nike	0,656
95 % confidence interval	1,133
	0,178

Future values of cost of equity were forecasted by comparing to the peers, namely Adidas unlevered beta, and by analyzing the future of this business, the future of Nike's business.

Therefore, it is important to compare **Nike Unlevered Beta, 0,52, with Adidas one, 0,73**. Indeed, although both betas are very close, Adidas has a higher beta explained by the more risk they are facing in the last years with the growth they had based on the hype they were able to achieve in a close time window.

Moreover, with this high exposure to risk, Adidas after a few years where the future was grey were able to recover when nobody expected and grow a lot recovering their space, they exposed themselves to higher risk, which is shown through this higher beta.

However, Nike is facing risk as well as the closer gap between both betas indicates. Thus, with Nike's growth strategy through the next years it expose the company through higher risks but not so high as the one Adidas is facing, the strategy has more basis to reduce the risk that this company is facing.

Moreover, to reach the 9,86% of cost of equity, the CAPM formula was used. Thus, the risk free rate used was the 10-year Treasury bond that is 2,35% and the market S&P500.

D/E Ratio

Nike's Debt to Equity ratio in 2017 is around 28% and in 2018 the forecast is to be around 21% and then rise throughout the years.

To characterize this value it is important to compare it with Nike peers, mainly with Adidas as it is the highest competitor and one that have the closest business.

	D/E Ratio				
	2013	2014	2015	2016	2017
Nike	11,43%	11,14%	9,33%	16,76%	28,02%
Adidas	12,24%	11,00%	16,20%	28,70%	26,25%

As it can be seen in this table both D/E ratio are very close except 2015 values where Adidas had a boom on their debt and therefore the ratio suffered an increase.

Moreover, Nike had a jump on its ratio on 2017, a jump that can be explained by the strategy that Nike wants to follow, a strategy that will put them on the path to reach the \$50 billions in revenues. Thus, by following this path some investments were needed and therefore the debt suffered an increase in this year.

D/E Ratio				
2018	2019	2020	2021	2022
27,67%	26,98%	28,02%	31,16%	36,79%

The forecasted future values are to this ratio keep in 25% level. This is due to the fact of Nike's expansion in China and Emerging Markets where many actions has to be done in order to reach the prospected values for this markets.

Overall, Nike's D/E ratio is in an acceptable level, a level where the main competitor, Adidas, is in too. In fact, both D/E ratios are very similar year over year and it is expected to be very close to each one in the future as both of these companies will fight to increase its position in this market.

Tax

One of the main pillars of Trump's run to the elections was to reduce the corporate tax rate.

Indeed, through the next years it is expected to the corporate tax rate suffer a huge cut. Moreover, it is expected to in 2018 be 15% as it was the rate accepted by the House for the next year.

Moreover, the Republicans want to cut this rate and reach the 15% in the next year. Thus, it is expected to this rate suffer a cut and reach this 15% target in the next year.

As it was one of Donald Trump's main pillars for the elections, it is expected that it will be covered and therefore the tax will reach very low levels, 15%.

Growth Rate in Perpetuity

The growth rate in perpetuity is calculated based on the past years, it is the rate that it is expected that Nike will grow through the years till perpetuity. In other words, it is the rate that Nike will grow after the turbulence in their financials.

Therefore, to calculate this perpetuity rate, GDP forecasted growth rate was used as a basis.

Indeed, GDP has a quite constant growth rate through the past years, which is around 3%. Moreover, Nike through the same years had an annual growth rate around 7%, which demonstrates that Nike beat the GDP annual growth rate through the years. Thus, based on the historical numbers, the expected forecast is to Nike beat GDP and therefore has a higher growth rate in perpetuity than the one forecasted for the GDP.

However, the expectation does not match with the history. As a matter of fact, the expected tendency is to Nike approximates themselves to the GDP, throughout the years Nike growth rate will be closer and closer to the GDP growth rate.

Therefore, by the forecasted GDP growth rate is around 2.50%, is expected that Nike will grow at this rate and thus, the **growth rate in perpetuity be 3%**, a value very close to the one presented by the GDP.

Nike recent past years were based on high growth when compared to the GDP, however the tendency is to, in the future, both be closer to each one.

Financials

Equity Value

Firstly the Equity Value analyze has to be done. As this is one of the most important items in a valuation, the starting point will be the Equity Value value and its evolution throughout the years, regarding the market value.

	2012	2013	2014	2015	2016	2017
Nike	\$95 131,23	\$103 641,47	\$112 730,04	\$121 598,93	\$130 004,12	\$136 518,00

As a matter of fact, Nike's Equity Value is growing year by year as Nike is doing an effort to grow and be a more appealing company, to be a better company in general.

2018	2019	2020	2021	2022
\$146 894,87	\$157 469,29	\$166 841,62	\$174 212,09	\$180 626,55

Moreover, in the forecasted years this growth will keep its pace as it is forecasted that Nike reaches an Equity Value of \$180 626,55 in 2022, the last forecasted year.

Therefore, this growth will have an impact on Nike's share price and on the investment recommendation that will be done in the end of this report.

By looking at this Equity Value, Nike is being able to reach its goal of getting a better company, a better company regarding profitability and a better company regarding the investment side. Nike is being able to accomplish its targets and that is reflected on this Equity Value.

EV/EBITDA

EV/EBITDA is a very useful tool when comparing companies of the same industry.

Furthermore, as it is better on capturing the mood of the market, it is simpler that the DCF model and uses fewer assumptions, it is used as well to valuation methods.

	EV/EBITDA				
	2013	2014	2015	2016	2017
Nike	28,5776	27,8232	25,3741	24,9590	24,7735
Adidas	9,6444	9,2271	9,5934	16,0399	16,0061

By comparing Nike's EV/EBITDA with Adidas one, two things has to be highlighted. First is that Adidas is more closer to 10x EV/EBITDA level, the level that is considered the healthy spot. Second is that Nike is getting closer to Adidas values throughout the years and therefore getting closer to 10x level.

EV/EBITDA				
2018	2019	2020	2021	2022
21,3991	18,4301	16,1162	16,23274	15,8039

Moreover, by looking at this table the tendency mentioned above is supported. Looking by the forecasted values, this ratio will suffer a downgrade, EBITDA will grow at a higher pace than the one forecasted to the Enterprise Value.

Indeed, Nike's EV/EBITDA in 2022 is around 15x, which shows that Nike is improving its performance throughout the years. Despite the past years that Nike underperforms themselves, the future shows that Nike is evolving and the forecast is to they decrease this ratio and putting it in 10x level.

Comparing this ratio with the WACC and therefore the DCF model, the conclusion will be the same, to invest on Nike as this ratio is achieving a good level, this ratio is getting closer to 10x level and therefore is getting proximus to the optimal level.

Return on Invested Capital

First is important to compare Nike ROIC with Adidas ROIC to see how the two competitors are regarding this ratio.

ROIC					
	2013	2014	2015	2016	2017
Nike	19,37%	19,08%	23,32%	24,23%	25,51%
Adidas	17,46%	12,34%	14,33%	19,72%	25,15%

Indeed, by comparing both values both companies' presents similar values. Thus, in 2017 the values only differ from around 0,4%, which shows how close both companies are in this issue.

ROIC				
2018	2019	2020	2021	2022
26,85%	31,54%	38,37%	40,33%	47,71%

Moreover, looking at future values Nike's ROIC will keep its growth throughout the years and therefore the company's efficiency will grow. Thus, this company will be more efficient in the future, Nike is getting better regarding the way the make profit.

Therefore, being ROIC in 2018 26,85% and ends in 2022 on 47,71%, it shows that Nike efficiency is in a quite good level already being the perspective to be on even a higher level.

Indeed, by looking at this ratio, Nike is an appealing company to invest as this ROIC is growing and is already in a good level. The perspective is to grow even more as Nike wants to increase its way of make profit, Nike wants to be more efficient.

Return on Equity

Regarding the ROE, Nike is being able to raise this ratio, more than Adidas.

	ROE				
	2013	2014	2015	2016	2017
Nike	22,12%	24,88%	25,76%	30,67%	34,17%
Adidas	9,26%	10,55%	9,09%	16,77%	17,93%

As a matter of fact, year after year Nike is being able to present investor with higher ROE than Adidas. Despite Adidas is rising this ratio, Nike is also doing it and therefore in 2017 Nike is able to reach a 30,67% while Adidas reach 17,93%.

	ROE				
	2018	2019	2020	2021	2022
	36,26%	41,76%	50,34%	55,09%	67,42%

Moreover, Nike is able to get a ROE of 34% in 2018, which is a very good ROE that shows the improvement in management that has been made in Nike. Moreover, if Nike can reach the targets they compromised, this value can reach huge levels, values close to 65%.

Overall, by using this ratio, investors can look at Nike's management as a team that can extract value from the company. When comparing Nike with the biggest competitor, investors can see that Nike management is being able to extract more value from the company than the competitor year after year.

Risks

Regarding the risks that this investment have a few are important to mention in order to the investor have a better look on everything that surround this investment.

Indeed, invest on Nike has some risks that put this investment on not so bright side as till this point. Thus, it is important to look and dig into the risks explaining each one to give a wide perspective of this investment.

First, the focus on the Chinese market risk. As a matter of fact, Chinese market is the market with the higher growth perspective, it is the market where all companies want to be due to the facts explained above. However, there is the risk that sports get out of fashion in the country, as there is a lot of investment on sports nowadays, there is the risk of get out of fashion and Nike loses one of the main pillars of their strategy.

	Equity Value				
	2018	2019	2020	2021	2022
	\$43 524,54	\$43 892,57	\$44 218,55	\$44 340,81	\$45 064,99

If this bet on the Chinese Market fails the grow in the revenue of this market will be, in the worst scenario, 0% and that 0% growth is reflected on this Equity Values that the two table above show.

Therefore, by comparing this Equity Values with the ones presented in the analysis of the ratio show the impact of the failure on this market can mean to Nike. Thus, despite it has a negative impact that impact is

not that high as the 2022 Equity Value is positive and it means a growth in Nike's Equity Value in the forecasted period. If China strategy fails, Nike will not have the forecasted growth but will still grow.

Secondly, the risk of the people returns to the basics. Nowadays, everything is done online, from shopping to meeting new people, the world is connected through the internet. However, there is the risk that people want to return to the traditional, there is the risk that people miss the shop environment and experience. The focus on the e-commerce seems to be a great strategy, although the future is unpredictable and the next day trend is a mystery.

Equity Value				
2018	2019	2020	2021	2022
\$4 863,35	\$2 002,74	\$(320,35)	\$(2 188,23)	\$(3 207,52)

Therefore, this Equity Values show how important is the e-commerce in Nike's future, e-commerce is the basis of Nike's strategy and is through this channel that Nike prospects its growth in almost all markets. As this channel is growing, as shown before, the focus will be to extract value from this channel.

Moreover, the \$(3 207,52) show how a failure on this bet will mean to Nike. The probability of it happens is not that high, in fact it is very low as this channel is growing a lot, but if it does it will mean a downgrade on Nike's business.

Last, the Adidas' hype, one of the big risk of investing on Nike. It is irrefutable that Adidas is the trend brand in the market and by looking at their share price and how big they have grown the success of their strategy is clear. Despite, Nike is, step by step, overcoming this hype and get back on track by following a good strategy, like the return to the basics like the launch of new editions of old successful sneakers, there is a risk that this strategy is not enough to overcome this hype. As Adidas' last years were so successful it is hard to say if the strategy followed by Nike is enough to overcome this hype and consolidate their leader position.

Equity Value				
2018	2019	2020	2021	2022
\$24 457,06	\$23 375,06	\$22 805,33	\$22 605,98	\$22 889,93

Indeed, if Nike will not be able to overcome Adidas' hype, the Equity Value will suffer a downgrade throughout the years. Thus, it is very important that Nike is able to overcome Adidas' hype and be successful in all of its strategies to remain in the top of the ladder.

Overall, there are risks associated to this investment, however beyond the e-commerce strategy, there is no other risk to reach negative Equity Values. In fact, if Chinese bet fail there will still be a growth and if the overcome on Adidas' hype fail there will be a downgrade but a slight one.

Disclosure/Reccomendation

Our reccomendation is to buy Nike's stock in 2018.

Indeed, by reaching a return of 59,06% in 2018, a value higher than the cost of equity, which is 9.86%, Nike's stock forecast is to this stock outperform the market in the next year.

Moreover, by following the proposed strategy, the expectation is that Nike will have succesful years and will overcome Adidas' hype. Thus, its stock will grow at a high rate, being in the next year close to \$90, a higher value than the one presented nowadays, and its expected to reach \$100 in 2020.

Therefore, the wise investment is to buy Nike's stock for all the reasons presented through the report. Nike woke up and will be back on track to recover their indisputable leader position, a position that has been threatened by Adidas in the last years.

Indeed, by looking at the Nike market share of almost 50% it stands out the fact that Nike dominates this market. Thus, by adding to this the fact that they are committed to reach the \$50 billion in revenues till 2020, Nike wants to bee even bigger and have a higher market share, they are committed to dominate this market and to have an even bigger company.

Overall, Nike's stock will outperform the market throughout the next years, being its top year 2020, the year that it is expected that Nike accomplish all the targets they have put on themselves.

Appendix

Balance Sheet

Consolidated Balance Sheet					
	2013	2014	2015	2016	2017
Working Capital (assets)	\$9 938,00	\$9 601,00	\$11 547,00	\$11 217,00	\$12 540,00
Securities	\$4 735,00	\$5 746,00	\$6 627,00	\$6 247,00	\$6 308,00
Fixed Assets (net)	\$2 452,00	\$2 834,00	\$3 011,00	\$3 520,00	\$3 989,00
Intangible Assets	\$420,00	\$413,00	\$412,00	\$412,00	\$422,00
Total Assets	\$17 545,00	\$18 594,00	\$21 597,00	\$21 396,00	\$23 259,00
Working Capital (liabilities)	\$1 669,00	\$1 930,00	\$2 131,00	\$2 191,00	\$2 048,00
Employee Pensions	\$1 492,00	\$2 143,00	\$1 624,00	\$1 856,00	\$2 316,00
Financial Debt	\$1 267,00	\$1 206,00	\$1 186,00	\$2 054,00	\$3 477,00
Liabilities and other items	\$2 036,00	\$2 491,00	\$3 949,00	\$3 037,00	\$3 011,00
Total Liabilities	\$6 464,00	\$7 770,00	\$8 890,00	\$9 138,00	\$10 852,00
Total Equity	\$11 081,00	\$10 824,00	\$12 707,00	\$12 258,00	\$12 407,00
Total Liabilities and Equity	\$17 545,00	\$18 594,00	\$21 597,00	\$21 396,00	\$23 259,00

Consolidated Balance Sheet					
	2018	2019	2020	2021	2022
Working Capital (assets)	\$13 814,69	\$15 253,34	\$16 799,65	\$17 850,39	\$19 135,52
Securities	\$6 765,20	\$7 222,40	\$7 679,60	\$8 136,80	\$8 594,00

Fixed Assets (net)	\$4 376,93	\$4 712,91	\$4 979,65	\$5 191,42	\$5 359,54
Intangible Assets	\$437,80	\$453,60	\$469,40	\$485,20	\$501,00
Total Assets	\$25 394,62	\$27 642,24	\$29 928,30	\$31 663,80	\$33 590,06
Working Capital (liabilities)	\$2 512,83	\$2 774,52	\$3 055,78	\$3 246,91	\$3 480,67
Employee Pensions	\$2 484,06	\$2 648,85	\$2 812,76	\$2 977,73	\$3 143,74
Financial Debt	\$3 174,68	\$3 360,58	\$3 532,19	\$3 676,31	\$3 813,66
Liabilities and other items	\$2 901,00	\$2 846,00	\$2 757,00	\$2 711,00	\$2 807,00
Total Liabilities	\$11 072,57	\$11 629,95	\$12 157,73	\$12 611,94	\$13 245,07
Total Equity	\$14 339,23	\$15 786,54	\$16 127,22	\$15 174,69	\$13 361,11
Total Liabilities and Equity	\$25 411,80	\$27 416,49	\$28 284,95	\$27 786,64	\$26 606,18

Income Statement

Income Statement					
	2013	2014	2015	2016	2017
Revenues	\$25 313,00	\$27 799,00	\$30 601,00	\$32 376,00	\$34 350,00
North America	\$11 158,00	\$12 299,00	\$13 740,00	\$14 764,00	\$15 216,00
Western Europe	\$4 193,00	\$4 979,00	\$5 705,00	\$5 884,00	\$6 211,00
Central & Eastern Europe	\$1 229,00	\$1 387,00	\$1 421,00	\$1 431,00	\$1 487,00
Greater China	\$2 478,00	\$2 602,00	\$3 067,00	\$3 785,00	\$4 237,00
Japan	\$771,00	\$876,00	\$755,00	\$869,00	\$1 014,00
Emerging Markets	\$3 832,00	\$3 949,00	\$3 898,00	\$3 701,00	\$3 995,00
Global Brand Divisions	\$115,00	\$125,00	\$115,00	\$73,00	\$73,00
Converse	\$1 449,00	\$1 684,00	\$1 982,00	\$1 955,00	\$2 042,00
Corporate	\$(17,00)	\$3,00	\$(82,00)	\$(86,00)	\$75,00
Operating Costs	\$21 642,00	\$23 704,00	\$25 762,00	\$27 085,00	\$28 699,00
Cost of Sales	\$14 279,00	\$15 353,00	\$16 534,00	\$17 405,00	\$19 038,00
Demand Creation Expense	\$2 745,00	\$3 031,00	\$3 213,00	\$3 278,00	\$3 341,00
Operating Overhead Expense	\$4 618,00	\$5 320,00	\$6 015,00	\$6 402,00	\$6 320,00
EBITDA	\$3 671,00	\$4 095,00	\$4 839,00	\$5 291,00	\$5 651,00
Depreciation	\$418,00	\$518,00	\$606,00	\$649,00	\$706,00
EBIT	\$3 253,00	\$3 577,00	\$4 233,00	\$4 642,00	\$4 945,00
Interest	\$(3,00)	\$33,00	\$28,00	\$19,00	\$59,00
EBT	\$3 256,00	\$3 544,00	\$4 205,00	\$4 623,00	\$4 886,00
Income Taxes	\$805,00	\$851,00	\$932,00	\$863,00	\$646,00
Net Profit from Discontinued	\$21,00				
Net Profit	\$2 472,00	\$2 693,00	\$3 273,00	\$3 760,00	\$4 240,00
Net Profit without Discontinued	\$2 451,00				

Income Statement					
	2018	2019	2020	2021	2022
Revenues	\$37 810,28	\$41 747,80	\$45 980,01	\$48 855,83	\$52 373,18
North America	\$16 585,44	\$18 078,13	\$19 705,16	\$21 084,52	\$22 560,44
Western Europe	\$6 645,77	\$7 110,97	\$7 608,74	\$7 760,92	\$7 916,14
Central & Eastern Europe	\$1 724,92	\$2 000,91	\$2 321,05	\$2 483,53	\$2 657,37
Greater China	\$5 296,25	\$6 620,31	\$8 275,39	\$9 682,21	\$11 328,18

Japan	\$1 084,98	\$1 160,93	\$1 242,19	\$1 254,62	\$1 267,16
Emerging Markets	\$4 234,70	\$4 488,78	\$4 488,78	\$4 199,00	\$4 199,00
Global Brand Divisions	\$78,88	\$85,24	\$92,11	\$99,53	\$107,55
Converse	\$2 082,84	\$2 124,50	\$2 166,99	\$2 210,33	\$2 254,53
Corporate	\$76,50	\$78,03	\$79,59	\$81,18	\$82,81
Operating Costs	\$30 760,33	\$32 565,46	\$34 056,44	\$35 634,57	\$37 306,05
Cost of Sales	\$20 370,66	\$21 389,19	\$22 030,87	\$22 691,79	\$23 372,55
Demand Creation Expense	\$3 512,47	\$3 692,75	\$3 882,27	\$4 081,53	\$4 291,01
Operating Overhead Expense	\$6 877,20	\$7 483,52	\$8 143,30	\$8 861,25	\$9 642,50
EBITDA	\$7 049,95	\$9 182,34	\$11 923,57	\$13 221,26	\$15 067,13
Depreciation	\$822,07	\$859,98	\$875,44	\$880,50	\$877,92
EBIT	\$6 227,88	\$8 322,36	\$11 048,13	\$12 340,75	\$14 189,21
Interest	\$123,43	\$122,95	\$130,55	\$137,19	\$141,68
EBT	\$6 104,44	\$8 199,41	\$10 917,58	\$12 203,56	\$14 047,53
Income Taxes	\$1 404,02	\$1 639,88	\$1 637,64	\$1 830,53	\$2 107,13
Net Profit from Discontinued					
Net Profit	\$4 700,42	\$6 559,53	\$9 279,94	\$10 373,03	\$11 940,40

Consolidated Equity

Consolidated Equity					
	2013	2014	2015	2016	2017
Balance May 31	\$10 319,00	\$11 081,00	\$10 824,00	\$12 707,00	\$12 258,00
Stock Exercise (Option)	\$322,00	\$445,00	\$639,00	\$680,00	\$525,00
Repurchase stock	\$(1 657,00)	\$(2 628,00)	\$(2 534,00)	\$(3 238,00)	\$(3 249,00)
Dividends	\$(727,00)	\$(821,00)	\$(931,00)	\$(1 053,00)	\$(1 159,00)
Conversion of Stock	-	-	-	-	-
Issuance of new shares	\$65,00	\$78,00	\$84,00	\$94,00	\$108,00
Stock Compensation	\$174,00	\$177,00	\$191,00	\$236,00	\$215,00
Forfeiture of shares from employees	\$(12,00)	\$(12,00)	-	-	-
Transactions with shareholders	\$(1 835,00)	\$(2 761,00)	\$(2 551,00)	\$(3 281,00)	\$(3 560,00)
Net Income for the period	\$2 472,00	\$2 693,00	\$3 273,00	\$3 760,00	\$4 240,00
Other income	\$125,00	\$(189,00)	\$1 161,00	\$(928,00)	\$(531,00)
Total Income	\$2 597,00	\$2 504,00	\$4 434,00	\$2 832,00	\$3 709,00
Total Equity	\$11 081,00	\$10 824,00	\$12 707,00	\$12 258,00	\$12 407,00

Consolidated Equity					
	2018	2019	Forecasted 2020	2021	2022
Balance May 31	\$12 407,00	\$14 339,23	\$15 786,54	\$16 127,22	\$15 174,69
Stock Exercise (Option)	\$552,72	\$581,91	\$612,63	\$644,98	\$679,04

Repurchase stock	\$(3 736,00)	\$(4 295,99)	\$(4 939,92)	\$(5 680,37)	\$(6 531,80)
Dividends	\$(1 305,66)	\$(1 470,88)	\$(1 657,01)	\$(1 866,68)	\$(2 102,90)
Conversion of Stock					
Issuance of new shares	\$122,80	\$139,63	\$158,77	\$180,53	\$205,27
Stock Compensation	\$240,00	\$267,91	\$299,06	\$333,84	\$372,66
Forfeiture of shares from employees	-	-	-	-	-
Transactions with shareholders	\$(4 126,13)	\$(4 777,42)	\$(5 526,46)	\$(6 387,70)	\$(7 377,73)
Net Income for the period	\$5 199,12	\$6 605,62	\$8 120,28	\$8 346,03	\$8 967,83
Other income	\$859,24	\$(380,89)	\$(2 253,14)	\$(2 910,85)	\$(3 403,68)
Total Income	\$6 058,36	\$6 224,73	\$5 867,14	\$5 435,18	\$5 564,15
Total Equity	\$14 339,23	\$15 786,54	\$16 127,22	\$15 174,69	\$13 361,11

Cash-Flow Map

(in millions \$)	2013	2014	2015	2016	2017
EBIT	\$3 253,00	\$3 577,00	\$4 233,00	\$4 642,00	\$4 945,00
Notional Income Taxes	\$(813,25)	\$(858,48)	\$(1 481,55)	\$(1 624,70)	\$(1 730,75)
Tax Adjustments	\$9,00	\$(0,44)	\$539,75	\$755,05	\$1 064,10
NOPLAT (or NOPAT)	\$2 448,75	\$2 718,08	\$3 291,20	\$3 772,35	\$4 278,35
Depreciation	\$418,00	\$518,00	\$606,00	\$649,00	\$706,00
Gross Free Cash Flow	\$2 866,75	\$3 236,08	\$3 897,20	\$4 421,35	\$4 984,35
Net Capex	\$(661,00)	\$(900,00)	\$(783,00)	\$(1 158,00)	\$(1 175,00)
Change in Net Working Capital	\$(1 147,00)	\$598,00	\$(1 745,00)	\$390,00	\$(1 466,00)
Operating Free Cash Flow	\$1 058,75	\$2 934,08	\$1 369,20	\$3 653,35	\$2 343,35
Change in Securities (in cash)	\$(713,00)	\$(1 011,00)	\$(881,00)	\$380,00	\$(61,00)
Change in Employee Pensions (in cash)	\$175,00	\$651,00	\$(519,00)	\$232,00	\$460,00
Change in Intangible Assets	\$81,00	\$7,00	\$1,00	\$-	\$(10,00)
Change in Liabilities	\$95,00	\$455,00	\$1 458,00	\$(912,00)	\$(26,00)
Non-Operating Free Cash Flow	\$(362,00)	\$102,00	\$59,00	\$(300,00)	\$363,00
Total Free Cash Flow Available to Investors	\$696,75	\$3 036,08	\$1 428,20	\$3 353,35	\$2 706,35
Interest	\$3,00	\$(33,00)	\$(28,00)	\$(19,00)	\$(59,00)
Tax Shields	\$(0,75)	\$7,92	\$9,80	\$6,65	\$20,65
Change in Financial Debt	\$990,00	\$(61,00)	\$(20,00)	\$868,00	\$1 423,00
Excess Cash	\$(1 045,00)	\$(2 914,00)	\$(2 790,00)	\$(2 671,00)	\$(1 942,00)
Net Change in Equity (in Cash)	\$(644,00)	\$(36,00)	\$1 400,00	\$(1 538,00)	\$(2 149,00)
Total Cash Flows From Investors	\$(696,75)	\$(3 036,08)	\$(1 428,20)	\$(3 353,35)	\$(2 706,35)

(in millions \$)	2018	2019	2020	2021	2022
EBIT	\$6 227,88	\$7 872,91	\$9 660,81	\$9 931,88	\$10 668,03
Notional Income Taxes	\$(934,18)	\$(1 180,94)	\$(1 449,12)	\$(1 489,78)	\$(1 600,20)

Tax Adjustments	\$(810,19)	\$164,79	\$1 360,33	\$2 205,36	\$3 098,81
NOPLAT (or NOPAT)	\$4 483,51	\$6 856,76	\$9 572,01	\$10 647,46	\$12 166,63
Depreciation	\$822,07	\$902,02	\$971,26	\$1 026,23	\$1 069,87
Gross Free Cash Flow	\$5 305,58	\$7 758,78	\$10 543,27	\$11 673,69	\$13 236,51
Net Capex	\$(1 210,00)	\$(1 238,00)	\$(1 238,00)	\$(1 238,00)	\$(1 238,00)
Change in Net Working Capital	\$(809,86)	\$(1 176,96)	\$(1 265,05)	\$(859,61)	\$(1 051,37)
Operating Free Cash Flow	\$3 285,72	\$5 343,82	\$8 040,23	\$9 576,08	\$10 947,13
Change in Securities (in cash)	\$(457,20)	\$(457,20)	\$(457,20)	\$(457,20)	\$(457,20)
Change in Employee Pensions (in cash)	\$168,06	\$164,79	\$163,91	\$164,97	\$166,01
Change in Intangible Assets	\$(15,80)	\$(15,80)	\$(15,80)	\$(15,80)	\$(15,80)
Change in Liabilities	\$(110,00)	\$(55,00)	\$(89,00)	\$(46,00)	\$96,00
Non-Operating Free Cash Flow	\$(414,94)	\$(363,21)	\$(398,09)	\$(354,03)	\$(210,99)
Total Free Cash Flow Available to Investors	\$2 870,78	\$4 980,61	\$7 642,14	\$9 222,05	\$10 736,14
Interest	\$(111,26)	\$(126,97)	\$(136,11)	\$(144,21)	\$(150,58)
Tax Shields	\$16,69	\$19,04	\$20,42	\$21,63	\$22,59
Change in Financial Debt	\$490,69	\$285,62	\$253,15	\$199,08	\$173,26
Excess Cash	\$(1 886,00)	\$(2 000,00)	\$(2 000,00)	\$(2 000,00)	\$(2 000,00)
Net Change in Equity (<i>in Cash</i>)	\$(1 380,89)	\$(3 158,31)	\$(5 779,60)	\$(7 298,55)	\$(8 781,41)
Total Cash Flows From Investors	\$(2 870,78)	\$(4 980,61)	\$(7 642,14)	\$(9 222,05)	\$(10 736,14)

Disclaimers

This report was prepared by Gonçalo Barroso Duarte, a Masters in Finance's student of Nova School of Business & Economics ("Nova SBE"), within the context of the Field Lab – Equity Research.

This report is issued and published exclusively for academic purposes, namely for academic evaluation and masters graduation purposes, within the context of said Field Lab – Equity Research. It is not to be construed as an offer or a solicitation of an offer to buy or sell any security or financial instrument.

This report was supervised by a Nova SBE faculty member, acting merely in an academic capacity, who revised the valuation methodology and the financial model.

Given the exclusive academic purpose of the reports produced by Nova SBE students, it is Nova SBE understanding that Nova SBE, the author, the present report and its publishing, are excluded from the persons and activities requiring previous registration from local regulatory authorities. As such, Nova SBE, its faculty and the author of this report have not sought or obtained registration with or certification as financial analyst by any local regulator, in any jurisdiction. In Portugal, the author of this report is not registered with or qualified under COMISSÃO DO MERCADO DE VALORES MOBILIÁRIOS ("CMVM", the Portuguese Securities Market Authority) as a financial analyst. Rosário André - as the academic supervisor of the author - is registered as a financial analyst with CMVM. No approval for publication or distribution of this report was required and/or obtained from any local authority, given the exclusive academic nature of the report, with the exception of CMVM, which regulates the issuance and publication of equity research reports.

The additional disclaimers also apply:

USA: Pursuant to Section 202 (a) (11) of the Investment Advisers Act of 1940, neither Nova SBE nor the author of this report are to be qualified as an investment adviser and, thus, registration with the Securities and Exchange Commission (“SEC”, United States of America’s securities market authority) is not necessary. Neither the Author nor Nova SBE receive any compensation of any kind for the preparation of the Reports.

Germany: Pursuant to §34c of the WpHG (*Wertpapierhandelsgesetz*, i.e., the German Securities Trading Act), this entity is not required to register with or otherwise notify the *Bundesanstalt für Finanzdienstleistungsaufsicht* (“BaFin”, the German Federal Financial Supervisory Authority). It should be noted that Nova SBE is a fully-owned state university and there is no relation between the student’s equity research reports and any fund raising programme.

UK: Pursuant to section 22 of the Financial Services and Markets Act 2000 (the “FSMA”), for an activity to be a regulated activity, it must be carried on “by way of business”. All regulated activities are subject to prior authorization by the Financial Conduct Authority (“FCA”). However, this Report serves an exclusively academic purpose and, as such, was not prepared by way of business. The author - a Masters’ student - is the **sole and exclusive responsible** for the information, estimates and forecasts contained herein, and for the opinions expressed, which exclusively reflect his/her own judgment at the date of the report. Nova SBE and its faculty have no single and formal position in relation to the most appropriate valuation method, estimates or projections used in the report and may not be held liable by the author’s choice of the latter.

The information contained in this report was compiled by students from public sources believed to be reliable, but Nova SBE, its faculty, or the students make no representation that it is accurate or complete, and accept no liability whatsoever for any direct or indirect loss resulting from the use of this report or of its content.

Students are free to choose the target companies of the reports. Therefore, Nova SBE may start covering and/or suspend the coverage of any listed company, at any time, without prior notice. The students or Nova SBE are not responsible for updating this report, and the opinions and recommendations expressed herein may change without further notice.

The target company or security of this report may be simultaneously covered by more than one student. Because each student is free to choose the valuation method, and make his/her own assumptions and estimates, the resulting projections, price target and recommendations may differ widely, even when referring to the same security. Moreover, changing market conditions and/or changing subjective opinions may lead to significantly different valuation results. Other students’ opinions, estimates and recommendations, as well as the advisor and other faculty members’ opinions may be inconsistent with the views expressed in this report. Any recipient of this report should understand that statements regarding future prospects and performance are, by nature, subjective, and may be fallible.

This report does not necessarily mention and/or analyze all possible risks arising from the investment in the target company and/or security, namely the possible exchange rate risk resulting from the security being denominated in a currency either than the investor’s currency, among many other risks.

The purpose of publishing this report is merely academic and it is not intended for distribution among private investors. The information and opinions expressed in this report are not intended to be available to any person other than Portuguese natural or legal persons or persons domiciled in Portugal. While preparing this report, students did not have in consideration the specific investment objectives, financial situation or particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in any security, namely in the security covered by this report.

The author hereby certifies that the views expressed in this report accurately reflect his/her personal opinion about the target company and its securities. He/ She has not received or been promised any direct or indirect compensation for expressing the opinions or recommendation included in this report.

[If applicable, it shall be added: *“While preparing the report, the author may have performed an internship (remunerated or not) in [insert the Company’s name]. This Company may have or have had an interest in the covered company or security”* and/ or *“A draft of the reports have been shown to the covered company’s officials (Investors Relations Officer or other), mainly for the purpose of correcting inaccuracies, and later modified, prior to its publication.”*]

The content of each report have been shown or made public to restricted parties prior to its publication in Nova SBE’s website or in Bloomberg Professional, for academic purposes such as its distribution among faculty members for students’ academic evaluation.

Nova SBE is a state-owned university, mainly financed by state subsidies, students tuition fees and companies, through donations, or indirectly by hiring educational programs, among other possibilities. Thus, Nova SBE may have received compensation from the target company during the last 12 months, related to its fund raising programs, or indirectly through the sale of educational, consulting or research services. Nevertheless, no compensation eventually received by Nova SBE is in any way related to or dependent on the opinions expressed in this report. The Nova School of Business & Economics does not deal for or otherwise offer any investment or intermediation services to market counterparties, private or intermediate customers.

This report may not be reproduced, distributed or published, in whole or in part, without the explicit previous consent of its author, unless when used by Nova SBE for academic purposes only. At any time, Nova SBE may decide to suspend this report reproduction or distribution without further notice. Neither this document nor any copy of it may be taken, transmitted or distributed, directly or indirectly, in any country either than Portugal or to any resident outside this country. The dissemination of this document other than in Portugal or to Portuguese citizens is therefore prohibited and unlawful.