A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

EQUITY RESEARCH – NIKE, INC.

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Work project carried out under the supervision of:

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4th of January, 2021

Abstract

Conducted between November 2021 and December 2021, the objective of this equity analysis was to determine the intrinsic value of NIKE, Inc. to recommend an investment decision. Utilizing quantitative and qualitative information, financial forecasts of NIKE, Inc.'s key metrics and performance were made. Upon completion of the forecasts, a Discounted Cash-Flow model was applied to reach a target price. The report concludes that NIKE, Inc.'s business outlook is favorable, thus resulting in a buy recommendation, with a target share price of $202.63.

Valuation, NIKE, Inc., Apparel and Footwear, BUY

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MASTER’S IN MANAGEMENT

NIKE, INC.

COMPANY REPORT

APPAREL AND FOOTWEAR

4 JANUARY 2021

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NIKE Just Keeps Doing It

Consumer Direct Offense to keep Nike on the top

- Upon analysing NIKE’s financials and industry trends, as well as building valuation models, a **target share price** of **$202.63** was determined. Thus, compared to the current actual price of **$169.06**, a **BUY** recommendation is made.

- NIKE, Inc. has emerged from the pandemic as an even stronger player in the apparel and footwear market than it previously was. The company achieved record revenues for FY2021.

- COVID-19 has impacted the company’s business ever since the pandemic has started. Store closures, stores operating on reduced hours and global supply chain disruptions have barred NIKE from attaining even more impressive results.

- The Consumer Direct Offense strategy initiated in FY2018 crucially allowed the company to become more agile. NIKE’s consumer-led digital transformation, its relentless push for innovation and sports being back are key drivers for revenue growth.

- Shorter-term financial goals for NIKE were revised down due to the global supply chain issues, but mid to longer-term objectives through FY2025 previously established remain achievable.

Company description

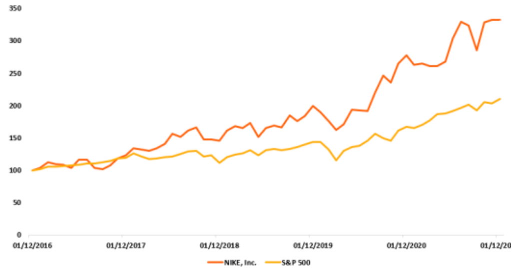
Nike was founded by Phill Knight and Bill Bowerman in 1964, under the name “Blue Ribbon Sports”. Headquartered in Beaverton, Oregon, it officially became “NIKE, Inc.” in 1971, and has grown to become the world’s largest seller of athletic footwear and apparel. Its stock is traded on the New York Stock Exchange.

Recommendation:	**BUY**
Price Target FY22:	**$ 202.63**
Price (as of 10-Dec-21)	**$ 169.06**

Reuters: NKE.N, Bloomberg: NKE:US

52-week range ($)	$125.44 - $179.10
Market Cap ($B)	$267.59
Outstanding Shares (m)	1.578
Fiscal Year End	May 31st

Source: Bloomberg



Source: Bloomberg

(Values in $ millions)	2021	2022E	2023F
Revenues	44,538	47,325	53,697
Revenues Growth	19%	6%	13%
Gross Profit	19,962	21,448	24,872
Gross Profit Margin	45%	45%	46%
EBITDA	7,667	6,955	8,670
EBITDA Margin	17%	15%	16%
EBIT	6,923	6,153	7,760
EBIT Margin	16%	13%	14%
Net Profit	5,727	4,789	6,051
Net Margin	13%	10%	11%

Source: NIKE, Inc.’s Annual Report; Own Estimates

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1. Company Overview

1.1. Company History

NIKE, Inc. is a North American company that designs, develops, markets, and sells athletic apparel, footwear, accessories, equipment, and services across the world. It is the globe's leading seller of athletic footwear and apparel, possessing the most valuable brand of all sports businesses[1]. Its world headquarters are in Beaverton, Oregon.

The company was founded in 1964, as "Blue Ribbon Sports" (BRS), by University of Oregon coach Bill Bowerman and his track athlete Phill Knight. At first, BRS only had operations in the Oregon area, acting as a distributor of Onitsuka Tiger shoes, the company now known as ASICS Corporation. By 1966, the first BRS retail store opened in Santa Monica, California, and in the following year the company broaden retail and distribution operations to cove the whole of the eastern coast of the United States.

Figure 1 Blue Ribbon Sports Logo

In 1971, BRS closed ties with Onitsuka Tiger. In that same year, the company launched its first originally designed shoe, which contained the now world-famous Swoosh, and rebranded as NIKE. By 1980, NIKE's market share in the U.S. athletic footwear market was of 50%, and in December 1980, NIKE went public.

The decade of the 1980s was full of landmark events for NIKE. The company began operating in international markets in 1981 and expanded its product line to cater to different sports. Moreover, in this decade two of Nike's most iconic silhouettes were released. The Air Jordan 1, the signature shoe named after Michael Jordan that came after he signed his endorsement deal in 1984, and the Air Max 1, designed by Tinker Hatfield in 1987, which was the first shoe with the visible air bubble. In 1988, Dan Wieden, cofounder of Nike advertisement agency Wieden+Kennedy invented the slogan "*Just Do It*.". In conjunction, these factors, helped Nike surpass $1 billion in revenue for the first time in FY1986.

Figure 2 Nike Air Max 1

Throughout the years, NIKE, Inc. made several acquisitions of footwear and apparel companies. It acquired six different companies over the years, but it has divested its participation in all of them other than Converse. Currently, the only brands in the company's portfolio are the Nike brand, the Jordan brand, and Converse.

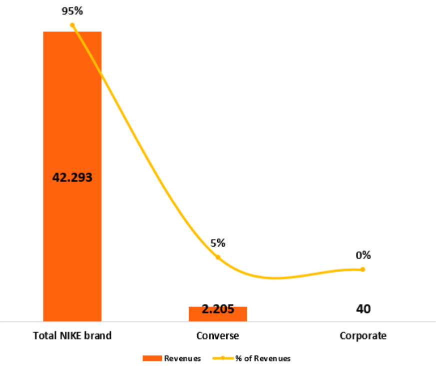
More recently, NIKE, Inc.'s acquisition strategy has been more centred around its Consumer Direct Offense strategy, with acquisitions being more focused on digital and technology companies. Datalogue was the most recent example of

[1] Brand Finance, "Most Valuable Apparel Brand? Nike Just Does It Again"

this shift in focus, with the machine learning and data integration platform having been bought in February 2021.

1.2. Business Overview

Graph 1 NIKE, Inc. Revenues by Brand

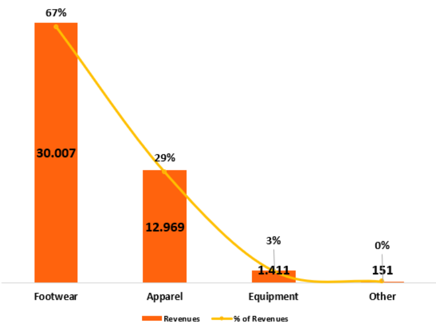


Source NIKE, Inc. Annual Report

NIKE, Inc. separates its business by brands, reporting separate stand-alone results for the Nike brand and Converse. Jordan brand products are reported within the Nike brand operating results. In FY2021 total Nike brand accounted for 95% of the consolidated revenues of NIKE, Inc., with $42,293 million. Converse made sales of $2,205 million, representing the remaining 5% of revenues. A residual amount of $40 million was assigned to the Corporate segment, which in essence represents the gains and losses made on foreign currency hedges managed through the company's central foreign exchange risk management program.

The company also separates its business by product category and distribution channels. This allows it to have a better perspective of performance in different markets and how it is reaching its consumer targets.

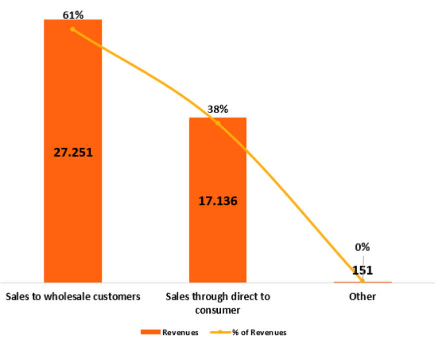
Graph 2 NIKE, Inc. Revenues by Product Category



Source NIKE, Inc. Annual Report

Regarding product category, NIKE separates its revenues by footwear, apparel, equipment and other. Footwear is the main source of NIKE revenues, representing almost two thirds of the consolidated revenues for FY2021 ($30,007 million). It is the clear main driver of revenue growth, having grown more than $5,000 million compared to the previous year. Apparel is the second most important segment, with sales of $12,969 million (29% of revenues), increasing from $11,042 million in FY2020. That represents a growth rate of 17.5%, which still falls shy of footwear's growth of 20.3%. Lastly, equipment and other represented 3% and close to 0% of sales, respectively. In absolute terms, the sales values were $1,411 million and $151 million, respectively. Although this represents an increase when compared to the previous fiscal year, these segments have been steadily decreasing in value over the years, having lost importance both in relative and absolute value.

Graph 3 NIKE, Inc. Revenues by Distribution Channel



Source NIKE, Inc. Annual Report

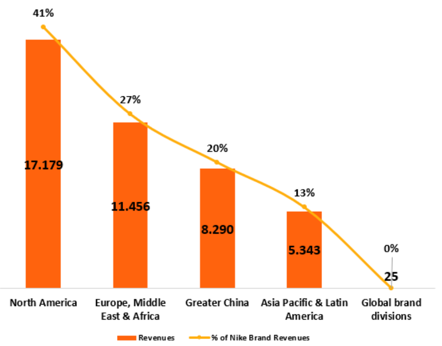
Observing the sales by distribution channel, in FY2021 the majority of NIKE's sales were still made to wholesale customers (61%), with $27,251 million being sold through this channel. The company remains committed on building momentum with its strategic wholesale customers, such as Foot Locker and DICK's Sporting Goods, which offer differentiated retail experiences. Nonetheless, with the Consumer Direct Offense strategy, more and more emphasis has been placed on NIKE's sales through direct-to-consumer. NIKE Direct, as this distribution channel is named by the company, encompasses the company's own retail stores and its digital platforms, and it was responsible for

Table 1 Nike Brand Currency Neutral Digital Commerce Growth

Currency neutral digital commerce sales growth	2019	2020	2021
North America	29%	45%	73%
EMEA	28%	50%	67%
Greater China	47%	49%	26%
APLA	61%	62%	73%
Total NIKE brand	35%	49%	60%

Source NIKE, Inc. Annual Report

Graph 4 Nike Brand Revenues by Geography



Source NIKE, Inc. Annual Report

Table 2 Nike Brand Geographic Segments Growth

Annual growth of revenues	2021	CAGR 2017 - 2021
North America	19%	3%
EMEA	23%	9%
Greater China	24%	17%
APLA	6%	4%
Total NIKE brand	-4%	7%
Converse	19%	2%
Total growth of revenues	**-4%**	**7%**

Source NIKE, Inc. Annual Report

Table 3 Nike Brand Footwear Production Origin

Nike brand apparel production	2021
Vietnam	30%
China	19%
Cambodia	12%

Source NIKE, Inc. Annual Report

Table 4 Nike Brand Apparel Production Origin

Nike brand footwear production	2021
Vietnam	51%
Indonesia	24%
China	21%

Source NIKE, Inc. Annual Report

$17,136 million of sales, that is, 38% of revenues. This channel grew 32% year-on-year on a reported basis, or 30% on a currency neutral basis, compared to a growth of just 12.1% of sales to wholesalers on a reported basis. This growth was supported primarily by the digital commerce growth, which on currency neutral terms was of 60% for the Nike brand, and now represents roughly half of the Nike brand's direct to consumer sales. Nonetheless, it is important to highlight that comparable stores sales also grew 4% as they slowly start to rebound from the adversities of the pandemic.

Within the Nike brand, a geographical segmentation of results is made. North America is still the principal market for the brand, with sales of $17,179 million, representing 41% of the brand's income. Although this is a market which seems more mature, with a compound average growth rate (CAGR) of 3% through FY2017 - FY2021, it still is quite distant from the second most important region for the Nike brand, Europe, Middle East & Africa (EMEA), in which there were sales of $11,456 million (27% of revenues). Greater China is the highest growth geography, with a CAGR of 17% through FY2017 - FY2021, registering sales of $8,290 million in the last fiscal year, amounting for 20% of brand sales. The fourth segment, Asia Pacific & Latin America (APLA), totalled 13% of sales. Global Brad Divisions include licensing and other miscellaneous Nike brand revenues that are not within any specific regional segment.

To minimize production costs, virtually all of Nike's footwear and apparel production takes place outside the United States. Concerning footwear, Nike is supplied by 191 factories spread across 14 countries, operated by more than 15 independent contract manufacturers. Four of these contracted manufacturers were responsible for more than 10% of Nike brand footwear production, and in conjunction they amassed around 61% of the brand's total shoe production. The largest of the factories produced 9% of Nike brand's shoes, with factories in Vietnam, Indonesia, and China producing 51%, 24% and 21% of the Nike brand footwear, respectively. In what comes to apparel, the supply base is more diversified. There were 344 factories in 33 different countries supplying the Nike brand, with the biggest single factory accounting for 8% of FY2021 apparel production. Nevertheless, Vietnam was, again, the geography where most of production took place, behind 30% of Nike brand apparel production, followed by China (19%) and Cambodia (12%). There remained a high dependence on a small number of contract manufacturers too, with the top five responsible for roughly half of global apparel production (51%), and two of these manufacturers accounting for over 10% of production. The raw materials necessary for production of footwear and apparel are in most cases available in the countries in which manufacture occurs, and they are bought by the contract manufacturers.

NIKE faced Vietnam and Indonesia factory closures in Q1.

Raw material shortages are affecting the company's business.

Labour shortages and port/rail congestion resulted in higher transit times.

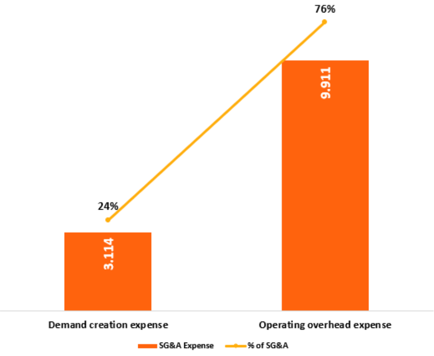
Some wholesale orders through summer 2022 have been cancelled by NIKE.

The supply chain headwinds that are presently affecting the global economy can significantly impact NIKE's business. In fact, the company's management itself has already revised down its revenue and margin gain goals for FY2022 on its Q1 earnings call, blaming the more negative outlook solely on supply chain concerns. Even though demand levels have rebounded from the shock first felt when the COVID-19 pandemic hit, the supply chain issues that also started to be felt at the same time have deteriorated. NIKE saw many of its manufacture factories in Vietnam and Indonesia close down in Q1 due to the pandemic spread. Indonesian production has returned to full operational capacity earlier. However, in Vietnam, according to local authorities, only in the beginning of November NIKE factories returned to full operations[2]. The company reported in September that it incorporated a 10-week loss of production due to these shutdowns in its short-term outlook. Here, it is also important to highlight that China's strict policy with concerns to preventing COVID-19 spreading may lead to unexpected factory closures in one of NIKE's main supply regions at any time. To add on to these issues, there is a global shortage of rubber and plastic[3], key materials for the manufacturing of sneakers and apparel. Moreover, transit times have worsened, contrarily to what was initially expected. The congestion of ports and rail transportation, along with the labour shortages are placing bottlenecks preventing inventories from reaching the shelves and consumers. On November 2nd, the number of container ships in port around Los Angeles and Long Beach (102) remained almost the same as the record number registered on October 28th (108). Plus, container rates have increased 282% on average, with the expectation being that rates remain high until additional transportation capacity is arranged[4]. Matt Friend, NIKE's CFO, revealed that it now takes twice as long as it did before the pandemic for inventories to move from Asia to North America, rising from 40 to 80 days. EMEA is other geographic segment that suffered most from transit time increases. Greater China benefits from being closer to most of the production locations, so transit time growth is not as concerning for this segment. Yet, this also correlates to the region having less inventory currently in-transit compared to North America and EMEA. Therefore, Greater China is expected to suffer a bigger impact of the lost weeks of production during Q2, while North America and EMEA are expected to be affected with a delay, being more impacted in Q3. NIKE has made strategic plans to incur on more air freight expense for the holiday season, which will diminish its margins on product sales, attempting to fight these inventory transit issues. Nonetheless, despite the company's best efforts, report have begun to appear that NIKE has cancelled

[2] Reuters, "Vietnam Says Its Nike Manufacturers Back to Full Operations"
[3] Footwear News, "I Went Shopping at Nike, Ugg & Foot Locker in NYC, Experts Say the Worst Shoe Shortage is Yet to Come"
[4] Bloomberg Intelligence, "Retailers Won't Shake Supply Chain Woes"

some of its wholesale partners' orders referent to this year's holiday season, as well as spring and summer 2022[5].

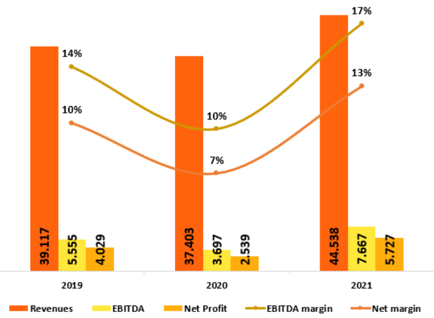
Graph 5 NIKE, Inc. Selling, General & Administrative Expenses



Source NIKE, Inc. Annual Report

NIKE increased spending on digital marketing and technologies.

Graph 6 NIKE, Inc. Profitability Measures



Source NIKE, Inc. Annual Report

Within general and administrative expense, in FY2021, as NIKE was faced with many retail store closures or working on reduced hours, along with a cancellation of sporting events, demand creation expense decreased 13% on a year-on-year basis. These expenses relate mainly to marketing and advertising initiatives for NIKE's brands and its retail operations. This decline was partially counterposed by an increase in digital marketing investment. As for operating overhead expenses, they grew 4% due to the focus that NIKE has taken on digital initiatives. Several investments were made on strategic technologies, particularly related to the NIKE Direct channel, as part of the effort to restructure the company's operations, which more than offset the lower spending on bad debt and travel and related expenses.

Analysing the overall profitability of NIKE, Inc., the company has remained profitable throughout the past fiscal years, with revenue movements being followed by similar trends in EBITDA, EBITDA margin, net profit, and net margin. In FY2020, when the COVID-19 pandemic arrived, the demand shock that was felt in conjunction with the restrictions on the supply chain in Q4 led to lower annual revenues, which in turn resulted in smaller EBITDA, net profit, and profitability margins compared to FY2019. The reduced efficiency resulted from the difficulties felt in the last quarter of the year, such as incremental tariffs in the United States, factory cancellation charges, bigger amounts of inventory obsolescence reserves, and harmful rate impacts of supply chain costs on a lower volume of wholesale shipments. Despite of this, NIKE rebounded in FY2021, navigating the pandemic and reaching record revenue numbers. Revenue grew 19% versus FY2020, with EBITDA margin and net margin expansions of 7% and 6%, respectively. Higher full-price product margins and the annualization of COVID-19 impacts were key for this recovery. All in all, net profit more than doubled, standing at $5,727 million (126% year-on-year increase).

1.3. Brand Overview

As previously mentioned, NIKE, Inc. possesses three different brands in its portfolio: the original Nike brand, the Jordan brand, and Converse.

- Nike Brand

Born in 1971, as BRS rebranded, the Nike brand is the world's most valuable apparel brand. It was valued at $32 billion in 2017 by Brand Finance. The

[5] COMPLEX, "Nike Hits One Sneaker Store with Major Cancelations Before Christmas"

Swoosh, as well as the "*Just Do It*" slogan are some of the most familiar global marketing symbols. The Nike brand product offerings are focused in six main categories: Running, NIKE Basketball, Football (Soccer), Training, Sportswear, and the Jordan Brand. It also offers products designed for other athleisure uses, namely American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling, among others. Its product creation and marketing are aligned with a newly announced consumer construct of Men's, Women's, and Kids'.

Figure 3 Nike Swoosh and Slogan

- The Jordan Brand

The Jordan Brand was created in 1984 as a result of the partnership established between NIKE, Inc. and Michael Jordan. Upon endorsing Jordan, NIKE granted the player a signature Jordan Brand shoe line. The "Jumpman" 's cultural impact exceeded all initial expectations. Nowadays it commercializes athletic and casual footwear, apparel, and accessories, maintaining a predominant focus on basketball items. Its operating results are reported within the Nike brand operating results.

Figure 4 Jordan Brand "Jumpman" Logo

- Converse

Two years after filing for bankruptcy, in 2003 Converse was acquired by NIKE for $315 million[6]. The historical American brand was founded in 1908, and in its peak in the 1970s and 1980s dominated the basketball sneaker market with the Chuck Taylor All Star. In the 1980s and 1990s the shoe became widespread on the music scene as well. At the time of purchase Converse's sales were of roughly $200 million, but in FY2021 they were of $2,205 million, with an operating profit of $543 million, proving NIKE's investment was a bargain. Presently, Converse designs, markets and licenses casual footwear, apparel, and accessories under several trademarks, still including the classic Chuck Taylor All Stars.

Figure 5 Converse Logo

1.4. Consumer Direct Offense

The Consumer Direct Offense (CDO) strategy was started in FY2018. Initially powered by the Triple Double, NIKE intended to double up its innovation capabilities, its speed in creating and delivering products, and its direct connections with consumers. More recently, this strategy moved to a second step: Consumer Direct Acceleration, which is more focused on increasing the company's digital and technological end-to-end capacities. All in all, through the CDO strategy NIKE intends to leverage the digital to be closer to the costumer,

[6] Forbes, "Was Nike's Acquisition of Converse a Bargain or a Disaster?"

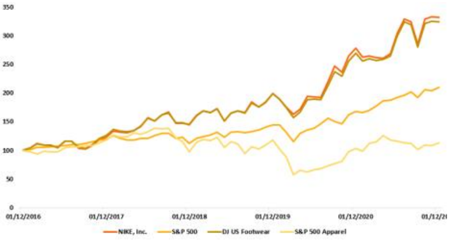
prioritising more its direct-to-consumer sales and sales through some exclusive wholesaler partners, in order to create a better NIKE membership experience globally.

1.5. Share Performance

NIKE, Inc. went public on an IPO that took place in December 1980. To avoid loss of control, two classes of stock were created: class A shares, which were to be held by NIKE's team and are not available on the open market; and class B shares, the regular company shares. Holders of class A shares have the voting rights to elect three quarters of the company board (9 directors), while class B shareholders can only vote on the election of the remaining three directors. Class A stock is convertible to common class B stock on a 1:1 ratio.

Two million class B shares initially went public at a price tag of $22 per share. Ever since then, there have been seven 2:1 stock splits[7]. The company has been listed on the New York Stock Exchange (NYSE), Presently, it is included in the Standard & Poor's 500 Stock Index (S&P 500), and the Dow Jones Industrial Average (replacing Alcoa in 2013). Within these indices, NIKE is part of the Standard & Poor's Apparel, Accessories & Luxury Goods Index, as well as the Dow Jones U.S. Footwear Index. These sub-indices include companies operating in two of NIKE's business lines, but they do not comprise all business lines nor all competitors of the company.

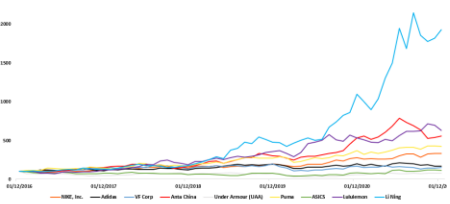
Graph 7 NIKE, Inc. Performance vs. Market Indices



Source Bloomberg

Analysing the 5-year stock performance of NIKE class B shares versus the aforementioned indices, it becomes evident that the company has outperformed the market. NIKE share price exhibited a strong CAGR of 27.2%, while the S&P 500 and the S&P 500 Apparel, Accessories & Luxury Goods Index offered CAGR of 16% and 2.4%, respectively. The DJ U.S. Footwear Index closely followed NIKE's returns (26.5% CAGR), but that stems from the company being one of only three companies which integrate this index (the others being Deckers Outdoor Corporation and Skechers U.S.A., Inc.). So, the price and returns of NIKE stock heavily influence the index's performance.

Graph 8 NIKE, Inc. Performance vs. Peer Companies



Source Bloomberg

Comparing the stock performance to that of its competitors, there were four which displayed better results, while the other four had lower performances. The Chinese players Anta and Li Ning, the American lululemon, and the German Puma all had higher cumulative returns. Their CAGR for the 5-year period was 41%, 80.7%, 44.5% and 33.7%, respectively. The Chinese corporations' growth was much due to their ability to successfully capitalize on the growth of their domestic market's apparel and footwear demand, imposing themselves as the

[7] The Motley Fool., "If You Invested in Nike's IPO, This Is the Staggering Amount of Money You'd Have Now"

strongest players in China alongside NIKE and adidas. Regarding adidas, VF Corporation, Under Armour (UAA), and ASICS, these four competitors revealed a CAGR much lower than NIKE's, at 11.2%, 8.6%, -4.1%, and 3.2%, respectively. NIKE was able to outgrow these companies in value. Specifically comparing the company's performance versus adidas, its main competitor, the stock performance was more than twice better, showing NIKE has increased more in value atop the athletic apparel and footwear market.

1.6. Shareholder Structure

As of the end of FY2021, NIKE, Inc. had a total of 305 million convertible class A shares and 1,273 million class B shares outstanding.

Table 5 NIKE, Inc. Class A Shareholders

Current shareholder structure - class A	
Swoosh, LLC	76,55%
Phill Knight	13,44%
Travis Knight	7,02%

Source Bloomberg

Regarding the class A shares, approximately 77% were owned by Swoosh, LLC, which was created by Phill Knight and is controlled by his son, Travis Knight, to hold the majority of his class A shares. Moreover, Phill owns an extra 13.4%, and Travis possesses an extra 7% of this stock. In total, the Knight family controls 97% of all class A shares, effectively controlling NIKE, Inc. despite it being a publicly traded company.

Table 6 NIKE, Inc. Class B Shareholders

Current shareholder structure - class B	
Institutional	87,46%
Insider	0,24%
Other	12,30%

Source Bloomberg

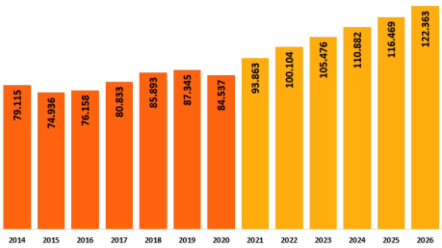
As for the class B shares, its ownership base is much more diversified, with there being close to 23,000 different holders of record. Institutional players control 87% of these outstanding shares, with Vanguard Group, Inc. (8.3%), BlackRock, Inc. (7%), and State Street Corp (4.3%) controlling the biggest stakes. Insiders of the company have 0.24% of outstanding class B shares. Mark Parker, the Executive Chairman, has the biggest position among all insiders (0.1%). In geographical terms, class B shares are spread across the world, but with a significant concentration on NIKE's home country, the United States (74%). The United Kingdom (7.5%) and Canada (3.7%) are the countries where the next largest stakes are at.

As of June 2018, NIKE's Board of Directors initiated a 4-year share repurchase program of $15 billion. The program would be temporarily suspended between Q4 FY2020 and Q3 FY2021, as the COVID-19 pandemic arrived, and the company bolstered its liquidity in response. Since Q4 FY2021 the program has resumed again, with NIKE reporting that until May 31st, 2021, it had already bought back 50 million shares for an average price per share of $93.33, equivalent to a total cost of around $4.7 billion incurred.

2. Macroeconomic Context

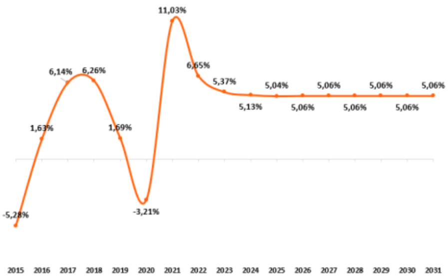
2.1. COVID-19 and Economic Recovery

Graph 9 Global GDP Output (Historical and Forecasted)



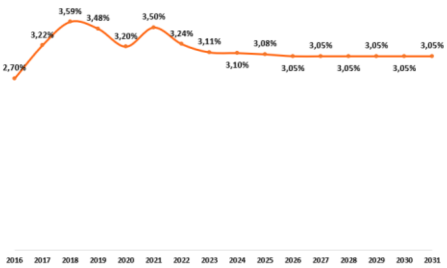
Source IMF – World Economic Outlook Database, April 2021

Graph 10 Global GDP Output Growth Rate (Historical and Forecasts)



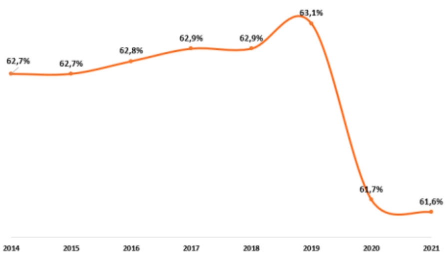
Source IMF – World Economic Outlook Database, April 2021; Own Estimates

Graph 11 Global Inflation Rate (Historical and Forecasts)



Source IMF – World Economic Outlook Database, April 2021; Own Estimates

Graph 12 U.S. Labour Force Participation Rate



Source Bureau of Labour Statistics

The first case of new coronavirus was detected in 2019, in the city of Wuhan, China. Ever since, the disease became globally widespread, severely halting economic activity in the world. In 2020, according to data from the IMF, global GDP output dropped by 3.2%.

It was initially expected that as soon as vaccine rollouts began the world economy could resume at the previous *status quo*. However, the difficulty poorer countries have had acquiring the vaccines, along with the scepticism towards the shot in some advanced economies have significantly slowed down the anticipated number of inoculations. Currently, around 60% of total U.S. population has been completely immunised, and less than 50% of the world population has been totally vaccinated[8]. To pair with this, the virus keeps mutating with newer strains appearing that are more transmissible and resistant to the vaccine. Notably, the most recent Omicron variant seems to be better at avoiding the body's immune system responses, whether its antibodies induced by vaccination or previous infection[9]. Lockdowns and travel restrictions have remained a reality, being decreed by governments around the world, with each country seeming to be fighting the pandemic at its own pace. China, where it all started, seems to now be in a more stable state than most of its Asian neighbours, such as Vietnam and Indonesia, which had full lockdowns up until recently. Nonetheless, the country has adopted a particularly strict zero-tolerance stance, which could lead to new shutdowns at any time. In Europe, with the winter and the festive season arriving, the number of cases has been ticking upwards, and some countries are starting to send people back home again. Furthermore, with the appearance of the new variant, new travel bans are being imposed.

All these constraints have led to unprecedented supply chain headwinds. Weeks of production and retail sales have been lost due to pandemic closures. Ports and railways are more congested than ever. It now takes much longer for a product to go from the factory to hitting retail, with many companies having high volumes of inventory stuck in-transit. To add on, the new mask and vaccine mandates, along with general fear of infection, have resulted in labour shortages across the world, despite the abundance of jobs appearing. For example, in the U.S., labour participation rate remains below what it was pre-COVID-19 (61.6% as of October 2021 vs 63%).

It is unclear when the economy will truly go back to normal, but it is certain that the pandemic-caused disruptions have remained longer than expected. As per the IMF World Economic Outlook Database, the global GDP is forecasted to

[8] Our World in Data, "Coronavirus (COVID-19) Vaccinations"
[9] The New York Times, "Will the Vaccines Stop Omicron? Scientists Are Racing to Find Out"

rebound in 2021 and grow 11.03%, surpassing pre-pandemic levels, and 6.65% in 2022, breaking the barrier of $100.000 billion. By 2026, global GDP growth is forecasted to be 5.06%, and the world inflation rate is calculated to be 3.05%.

2.2. Economic Protectionism

In 2018, the Trump administration began imposing protectionist measures that resulted in higher tariffs for Chinese and European imports to the U.S.. Trump advocated that these measures would reduce the U.S. trade deficit, while also imposing changes on “unfair” Chinese trade practices and the theft of intellectual property. However, each round of tariffs and barriers implemented by the Americans was met with retaliatory Chinese action. In September 2019, the trade war hit its peak point. In January 2020 an agreement was reached between the countries, but tensions are high still, resulting in a “Cold War” like environment.

Both countries suffered negative consequences from the trade war. American consumers now face higher prices, as manufacturers have higher costs. Moreover, companies have looked to shift their supply chains away from China into other Asian countries, with fears of the escalation of the trade war.

NIKE was one of the many companies caught amid this conflict. A substantial amount of the company’s contract manufacturers operate in China, delivering products that are imported to the U.S.. The firm has made moves to ensure it was less reliant on Chinese fabrication, changing production to other factories in other regions. Nevertheless, 21% and 19% of all Nike brand footwear and apparel were still produced in China.

2.3. The Democratic Administration

Joe Biden won the 2020 U.S. elections, defeating former President Donald Trump, marking a shift in political view in the White House.

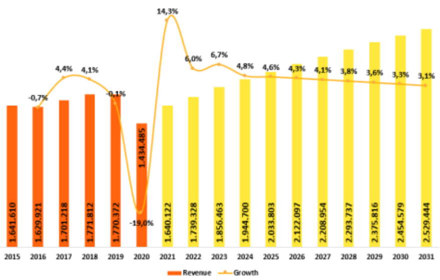
The Trump administration was behind the lay down of protectionist measures and weakening of important strategic alliances. This penalised U.S. multinational corporations. However, it was also under the Republican ruling that the Tax Cuts and Jobs Act of 2017 was approved, reducing the federal corporate tax rate to a flat 21%.

Joe Biden has a contrary approach to many of these issues. The current President’s agenda is focused on amending international relations and recouping some of the bridges burned under Trump, promoting more international trade. However, Biden also already has publicly criticized many major companies, including NIKE, on how much they have paid in federal taxes in previous years[10]. Biden is in favour of changing the corporate tax rate to 28%, while also recommending a minimum 15% corporate tax rate on book income to prevent companies that make profit from escaping U.S. taxation[11]. Furthermore, Biden is supportive of a $15-per-hour minimum wage, much higher than the current $7.25-per-hour rate. Currently, the Democratic party has a majority in the House of Representatives, and also chairs the congressional tax-writing committees, but it would also need a majority in the 50-50 Senate to get these changes approved.

3. Industry Overview

3.1. Industry Analysis

Graph 13 Apparel and Footwear Industry Size and Growth (Historical and Forecasted)



Source Passport – Euromonitor International; Own Estimates

NIKE, Inc. operates in the apparel and footwear industry. This industry is the second largest within the consumer goods universe, with a retail value of $1,434,485 million in 2020. Yet, this sector was one which suffered the most due to the arrival of the pandemic, and revenues are not expected to reach pre-COVID-19 levels until 2023, in current prices. The forecasted revenue for the industry in 2025 is approximately $2,000,000 million. The industry displayed a small dip in value in between 2016 and 2015, but it rebounded with growth rates of over 4% in 2017 and 2018. With the beginning of the pandemic, industry retail value stayed approximately the same in 2019, before dropping 19% in 2020. The lockdowns and restrictions that have taken place, which led to the closure of retail stores or stores working on reduced hours, and consumer fear of contagion in retail spaces triggered an abysmal drop in demand. Apparel and footwear are not considered essential items, and as such, amid the pandemic consumers focused their spending on other key items.

Table 7 Apparel and Footwear Industry Market Shares

Apparel and footwear industry market shares	2020
NIKE, Inc.	3,5%
adidas	2,4%
Inditex	1,6%
Fast Retailing	1,3%
H&M	1,2%
Gap	0,9%
VF Corp	0,7%
Hanesbrands	0,6%
PVH Corp	0,6%
LVMH	0,6%
Private Label	3,5%
Others	68,4%

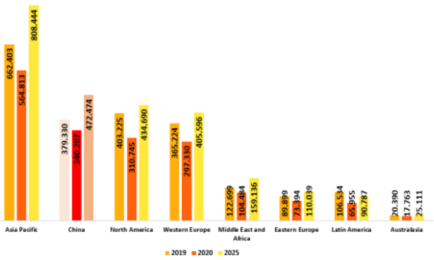
Source Passport – Euromonitor International

The apparel and footwear industry is extremely fragmented. There is a wide range of players taking part in it, competing with different style offerings at varied price points across all the different distribution channels. NIKE, Inc. and the adidas Group were the biggest companies within the space. Each of the sportswear giants captured a 3.5% and 2.4% share of the industry's value, followed by fast fashion firms Inditex (1.6%), Fast Retailing (1.3%) and H&M (1.2%). Also within the top 10 companies of the industry is VF Corp (0.7%), a more direct competitor to NIKE, and the luxury focused LVMH (0.6%) that sells products at higher price points, further accentuating the heterogeneity within the industry. Competition is ferocious, with the top 10 companies only amassing approximately 13% of global industry value. Private labels accounted for 3.5% of

[10] Business Insider, "Biden Roasts 55 Companies Like Nike and FedEx for Paying Less in Taxes Than the Price of a Cup of Coffee"
[11] Bloomberg, "Biden Floats 15% Minimum Corporate Tax in Talks with GOP"

industry sales, and 68.4% is assigned to all other "atomic" companies that capture very small shares of value.

Graph 14 Apparel and Footwear Industry Size by Geographic Region



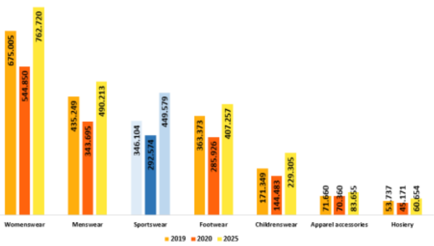
Source Passport – Euromonitor International

In terms of market size, Asia Pacific is the biggest region, with sales of $565 billion in 2020, roughly 40% of the industry's global value share. In particular, Mainland China is responsible for 60% of this area's sales. Moreover, China is expected to be one of the fastest recovering markets in the world. Industry revenue of over $400 billion is predicted for the Chinese market by 2025. Thus, it ranks as the most important apparel and footwear market worldwide.

The second and third most valuable regions are North America and Western Europe. In total, the first garnered a value of $311 billion in 2020, while the latter had a cumulative value of $297 billion. The North American market seems to have been more affected by the pandemic, which brought the size of the two markets closer to one another. However, it is expected to rebound more significantly post-COVID-19, edging close to $400 billion in revenue in 2025, while Western Europe is predicted to have sales below $350 billion.

Asia Pacific and Middle East and Africa (MEA) are the most fragmented regions. International brands are entering these markets to try to capitalize on the opportunity created by the pandemic, with a resurgence of demand appearing. Most local brands still compete by using lower price points to captivate domestic and lower income clients.

Graph 15 Apparel and Footwear Industry Size by Category



Source Passport – Euromonitor International

Analysing the different categories of apparel and footwear, sportswear and childrenswear are anticipated to recover from the negative pandemic impact the fastest. The quicker recovery of Asia Pacific and the increased demand of consumers for more comfortable, athleisure and casual clothing (as they remain at home/working remotely) are trends that favour these categories. Sportswear, NIKE's specialty area, is forecasted grow 11% in 2021. Regarding market size, womenswear is the biggest segment in all regions, and it is forecasted to continue to be so by far, with projected sales of well over $600 billion in 2025. It is followed by menswear (over $400 billion) and footwear (roughly $360 billion).

Consumer shopping habits saw an accelerated shift with COVID-19. The ongoing trend that was placing more emphasis on online and omnichannel consumer experiences was vastly accelerated with the pandemic. As stores were closed, or working on reduced hours, and the consumer could not leave the house, retail store sales dropped 29% in revenue in 2020. Online shopping and e-commerce became a central matter for the industry's companies, which made pivots for this channel. E-commerce had a CAGR of 18% between 2015-2020, while store retailing retracted at a 7% CAGR. Nevertheless, store-based sales still account for approximately 70% of all industry sales, thus continuing to be the most important distribution channel[12].

3.2. Industry Rivals

As was previously mentioned, the apparel and footwear industry is highly fragmented and heterogenous. Therefore, a selection was made of the companies which share the most similarities with NIKE, Inc. to better address the competitive position of the company and its relative performance. The selected competitors were the adidas Group, VF Corp, Anta, Under Armour, Puma, ASICS, lululemon athletica, and Li Ning.

For the purpose of this report, only a select few of the aforementioned list are analysed here, considering different traits such as company size, or specialized market focus. Therefore, the firms discussed here are the adidas Group, Anta, and Under Armour.

▪ 3.2.1. adidas Group

Figure 6 adidas Logo

The adidas Group is the second biggest player in the apparel and footwear industry, also specializing in sports clothing and shoes. Thus, it is NIKE's main competitor. Notwithstanding, NIKE still conserved a healthy lead over the German brand, which it was able to amplify with the pandemic. Adidas' sales diminished by 16% on a year-on-year basis (€19,844 million in FY2020 vs €21,055 million in FY2019), with a consolidated negative total comprehensive income of €97 million. Meanwhile, the American company attained record revenues. These FY2020 results upset adidas' recent growth trends, with the company showing a strong net sales CAGR of 10.2% between 2014 and 2019, which saw it to go from a 1.6% industry value share in 2014 to 2.4% in 2020. The group's success was in large part explained by the revamp of its retro models, as well as its partnerships with prominent celebrities, such as Kanye West and Beyoncé, which created positive brand momentum.

The "three stripes" brand is an especially strong competitor in the domestic European markets. In eastern Europe, the brand is the biggest sportswear player, and in western Europe it had a bigger share of market value than NIKE in 2019. However, it was leapfrogged by "the swoosh" after the pandemic hit in 2020, which shows how NIKE was able to leverage its resources more efficiently during the crisis to create competitive advantages.

In 2006, adidas acquired Reebok for $3.8 billion, a brand focused on operating in the north American market. This deal was made in an attempt to increase the

[12] Passport, "World Market for Apparel and Footwear"

adidas group's weight in NIKE's home market, but it has backfired. In fact, adidas' own brand has made better strides in gaining market share in North America. In August of this year, adidas revealed it would divest in Reebok, selling the brand for $2.5 billion, $1.3 billion less than what it bought it for[13]. This demonstrates NIKE's strength, and how the company has made the right moves to maintain its dominant position versus its main rival.

- 3.2.2. Anta Co Ltd

Figure 7 Anta Logo

Anta Co Ltd is a Chinese sports apparel and footwear producer. Although it is a relatively young player in the market when compared to NIKE and adidas, it is already close to being a top 10 player in the global apparel and footwear industry (currently ranked 12th with a 0.5% market value share). In China, where it still maintains most of its focus, it is the third biggest player with 2.1% market share. In 2020 it has come significantly close to adidas, threatening its position as second biggest player in the Chinese market.

Anta's main growth drivers have been its multi brand acquisition strategy, endorsement strategy and its technology investment. The company acquired FILA in 2009, and recently Amer Sports, which owns Salomon and Wilson, among other brands[14]. Anta has aimed to build a complete portfolio with offerings for all price tiers, while increasing its global presence with more recognizable brands for western consumers. Anta has also stroke numerous endorsement deals, both with superstar athletes, such as Klay Thompson, and institutions, such as the IOC, with which it stroke a uniform supplier deal, and the NBA, with Wilson becoming the league's official game ball as of the 2022 season. As for technological investment, Anta has been strengthening its R&D capabilities, forming its own science laboratory, and constantly introducing digital innovations in its distribution channels.

These endorsement and technology development strategies have also been employed by NIKE for several years by now. For example, the company also has an endorsement deal with the NBA (and with other leagues such as the NFL, MLB, etc.) to be the official uniform supplier. Moreover, it also sponsors some of the biggest global superstars across all sports, like Cristiano Ronaldo, LeBron James, and Serena Williams. This past October, it inaugurated the new facilities for the company's sports research lab, where it has developed cutting edge technologies such as Nike Air or Nike React. Plus, it has already launched digitally connected retail stores, with its Nike Rise stores. So, NIKE not only seems to also be invested in the same growth drivers as Anta, but also it seems

[13] Reuters, "Adidas Ends Reebok Era with $2.5 Billion Sale to Authentic Brands"
[14] Reuters, "China's Anta Sports-led Group Buying Finland's Amer Sports for $5.2 Billion"

to be outdoing the Chinese brand in these areas, striking bigger deals with more exposure and building superior facilities.

- 3.2.3. Under Armour, Inc.

Figure 8 Under Armour Logo

Under Armour was founded in 1996 in the U.S.. As is the case with Anta, it is a relatively younger player, with its domestic market being its most important source of revenue. Just like adidas, with COVID-19 its revenues decreased, having gone from $5,267 million in FY2019 to $4,475 million in FY2020, a 15% drop. Its global share of the apparel and footwear industry value is 0.4%, but in North America that share is of 1.3%.

Under Armour's has seen a decline in its competitive strength over recent years which has much to do with its unfruitful strategy that was focused on retail store expansion[15]. With the pandemic and its imposed lockdowns, reductions of store working hours and traffic in stores, Under Armour could not benefit from this approach. It, too, has now pivoted towards an omnichannel strategy with a bigger digital emphasis. This goes to show the importance of the early movements NIKE has made in creating the most complete and connective omnichannel consumer experience in sportswear. Because it was better prepared, NIKE managed to obtain a 60% currency neutral growth on digital commerce sales in the past FY, which were a key driver for the revenue growth observed.

4. Key Drivers

To make the best possible forecast of NIKE's operations, it is crucial to understand the key drivers that are shaping its industry and its business. These factors can be of internal and external origin.

4.1. COVID-19

The pandemic has permanently changed how apparel and footwear companies operate in the industry. It has been a catalyst that immensely accelerated what were the already ongoing trends of the industry, namely digitalisation, purpose-driven fashion, and the athleisure trend.

COVID-19 has brought unprecedented supply chain constraints too. Not only were there store closures, but also factory shutdowns which have resulted in lost production. There is lack of raw materials too, like rubber and plastic components. Inventory is now retained in traffic for much longer periods than previously. Ports and railways are completely jammed, with record levels of

[15] Forbes, "How Under Armour is Taking On Nike and Adidas in Asia, the New Battleground For Sports Apparel"

container ships in the main ports worldwide. And people are not filling job vacancies, with smaller labour participation also halting the supply chain.

NIKE has made the most of the opportunities raised by the pandemic. It has solidified its position as the biggest apparel and footwear player in the world as it took advantage of the digital movement and the athleisure trend. However, it now faces a lack of supply capability in the short-term, due to the supply chain restrictions, which have led to a lowering of revenue forecasts. NIKE is prioritising its inventory flux to fulfil the orders placed in its direct-to-consumer channels or the orders of some exclusive wholesale retail partners, so it has cancelled orders of other wholesalers. Plus, to meet these orders in time, particularly in the holiday season, the company will invest into air freight capabilities. In the shorter term, this will eat into the margins due to the higher transportation costs. In the longer term, this allows NIKE to maintain its brand image intact and to keep building on its relationship with consumers.

4.2. Digitalisation

Constant innovation and increased global access to technology and the internet have been a central driver for the industry over the last 10 – 15 years. However, with the pandemic, this shift to digital was vastly accelerated, and companies had to take a hard pivot and rapidly augment their digital transformation.

Even though the industry's revenues suffered a severe drop of 19% in 2020, e-commerce achieved record sales across all categories. Digital revenues in the industry have been growing at an incredible pace of well over double digits and are expected to be the principal driver behind industry recovery in 2021. Many consumers still do not feel totally comfortable going back to retail stores, as they fear contagion, and in many countries lockdowns are still a reality.

Digital is a key trend in changing supply chain processes, too. Newer technologies have the ability of making processes more efficient, reducing costs, and increasing speed. Automation, artificial intelligence, machine learning and cloud solutions are the target of heavy investment by industry players. These technologies and data analytics capabilities can allow companies to predict and better place inventory closer to clients even before orders are placed, which then reduces supply chain costs and makes for a better customer experience.

The change towards digital solutions is now essential for any business willing to survive. Strong digital marketing and communication, as well as an engaging, user-friendly virtual shopping experience must be made available to clients.

NIKE has clearly been on the vanguard of this digital movement. This accelerated shift has played into its strengths. In FY2020 and FY2021 the company managed a currency neutral growth of digital sales of 49% and 60%, respectively, much higher than the revenue growth of -4% and 19%. This channel has been central to NIKE's Consumer Direct Offense, with it accounting for more than half (54%) of its direct-to-consumer sales in 2021, up from just 22% in 2016.

Figure 9 Nike SNKRS App Logo

The company has leveraged its digital capabilities to reinforce its customer connections, creating more personalized experiences. Members of NIKE's digital platforms, such as Nike.com or the SNKRS app, have access to exclusive product drops and discounts. With data collection, the company can personalize offerings to better match each client. But NIKE has also offered other digital experiences, such as its PLAYlist, its kids series containing games, challenges and athletic content, or the Nike+ or Nike Run Club fitness apps.

Furthermore, there seems to be no match for NIKE's digital marketing. Its Land of New Football anthem, released for Euro2020, had over 800 million impressions across all channels, enjoying much higher buzz than adidas' commercial, who was the tournaments official sponsor. The same has happened in the past, with NIKE advertisements for major sporting events like the Olympics or the World Cup that stole the spotlight.

NIKE has placed heavy investment in new technologies focused on improving its supply chain as well. In 2021 it acquired Datalogue, a machine learning and data integration firm, after it had acquired Celect in 2019, a company with expertise in data science and demand sensing that uses cloud-based analytics.

- ### 4.2.1. The Metaverse

Within the digital space, a new opportunity of particular interest for the apparel and footwear industry is the metaverse. This virtual universe could, according to Morgan Stanley, provide a revenue opportunity of $57 billion by 2030[16]. While the metaverse is developing, nonfungible tokens (NFTs) and social gaming provide the sorter-term sales opportunities in this space.

NIKE has already made moves to position itself in the metaverse. In 2019, the Jordan brand collaborated with Fortnite, and players were able to buy in-game Jordan shoes for their characters. In October, the company filed several trademark applications for its trademarks, signalling its intent to sell virtual NIKE apparel and footwear. One patent it already owns is for "CryptoKicks", a blockchain technology that grants an NFT to the buyer of a newly released physical shoe.

In November, NIKELAND was launched on Roblox. This mini NIKE world, built with inspiration from the company's real-world headquarters, contains a digital

[16] MarketWatch, "Luxury in the Metaverse? Morgan Stanley Says It Could Become a €50 Billion Market"

Figure 10 NIKELAND on Roblox

showroom where users can dress up their characters with NIKE products. At least for now, all products are free. Nonetheless, this move creates a direct connection between the company and the more than 200 million monthly active Roblox users, of which the vast majority are kids or teenagers. It creates early brand connection with consumers, providing a platform where NIKE could test clients' interests, and gather important technologic experience for preparing future metaverse moves.

4.3. Athleisure and Casualisation

The athleisure trend is at its peak. The growing prioritisation of health and wellness, along with stay-at-home measures, remote and hybrid working systems, and general casualisation of dress standards have led to increased demand for comfortable and versatile clothing. The activewear market, which was valued at $351.2 billion in 2017 is forecasted to reach $546.8 billion in 2024, enjoying a CAGR of 6.5% in 2018-2026, according to Allied Market Research[17]. Thus, sportswear is expected to rebound from the pandemic at a faster pace than the rest of the industry.

To endure COVID-19 lockdowns, as well as general anxiety and stress, consumers have increasingly resorted to physical exercise. People have brought exercise sessions to their own house, as they could not go to gyms, Virtual fitness and workout classes became a widespread phenomenon. According to the World Economic Forum, fitness apps saw downloads grow by 46% in the first half of 2020[18]. At the same time, as activities are gradually reopening, exercising outdoors has become a first concern for many. Running and cycling were the second and third most popular forms of exercise in the world, done by 19% and 13% of adults weekly, as of August of 2021[19].

One of the changes introduced by the pandemic, which consumers seem to believe will stay more permanently, is working remotely. As people stay more time at home, they favour more comfortable attire. However, as there remains the need to use some more formal pieces of clothing even when working remotely, a trend of matching business and comfortable clothing, "biz-leisure", is on the rise.

Overall, there has been a casualisation of work and social dress standards, which feeds into NIKE's positioning in the market. As an athletic apparel and footwear producer, the company specializes in supplying these activewear products that have seen particularly increased demand. Sportswear and the Jordan Brand, which provide the company's sports-inspired lifestyle products,

[17] Allied Market Research, "Global Activewear Market – Opportunities and Forecasts 2018-2024"
[18] World Economic Forum, "Fitness Apps Grew by Nearly 50% During the First Half of 2020, Study Finds"
[19] World Economic Forum, "In Which Countries Do People Exercise Most Around the World – and What Stops Them Doing More?"

were the Nike brand's product categories that grew the most in FY2021, growing 23% and 31% versus FY2020. Furthermore, NIKE already has its own fitness app, Nike+, which enabled it to maintain and build upon its connection with customers during lockdown, further integrating them in the NIKE universe.

4.4. Sustainability and Ethical Consumption

More than ever, consumers are aware of the different sustainability issues affecting the world. Environmental issues like climate change and material waste, and social causes, such as exploration of workers and racism, are now matters on which the apparel and footwear players need to take a stance on. Consumer activism is at an all-time high, with clients redirecting their demand towards companies that share the same values they believe in. The expectation now is that businesses do not act purely on the search of maximum profit.

Figure 11 Nike Space Hippie Shoe, Made with Recycled Materials

Figure 12 EQUALITY Campaign

In this area, NIKE has made good strides, but it has also maintained some dubious behaviour. Regarding the positives, NIKE's Space Hippie collection, that dropped in 2020, highlights the company's ecological effort. Literally made from trash, Space Hippie marked the introduction of new sustainable materials developed by NIKE, like Crater Foam and Space Waste Yam, that are gradually being introduced in all of the company's products. And NIKE has seen positive results come from this line, with a high rate of full price sell-through of these products. Moreover, NIKE also has a history with making social statements with its advertisement campaigns. The company has made commercials advocating for Paralympic and gay athletes, gender issues and female participation in sports (in western and eastern countries) and has taken a stance on racism and social injustice with its "EQUALITY" campaign. Plus, NIKE has stated the intent of investing 1.5% of its previous FY pre-tax income into global communities, having pledged to raise that investment to 2% from FY2022 onwards.

On the other hand, NIKE has been involved in some controversies that can harm its image and connection with consumer, which could lead to lower sales and even fines for breaking the law. For example, German journalists have reported that the company was destroying brand new shoes under its Nike Grind program, instead of recycling them[20]. This initiative was created by NIKE to establish a more circular future and would only transform fabrication scrap, unused material, and end of life shoes. However, with reports like this appearing, consumers might believe it is nothing more than greenwashing. NBA player Enes Kanter also has been calling out NIKE on ethical issues[21], for how the company has not made any comments regarding China's mistreatment of minorities (principally the

[20] The Brussels Times, "Nike Claims to Recycle Shoes at Belgium Factory, Investigation Reveals They Are Destroyed"
[21] COMPLEX, "Enes Kanter Calls Out Nike For "Silence" Over Human Rights Issues in China"

Muslim Uyghurs). Kanter also made accusations of forced labour in Chinese NIKE factories. Although there is no evidence that connects NIKE to such labour practices, these news can still cause reputational damage to the company.

5. Forecasts

5.1. Segment Analysis & Revenue Forecast

NIKE, Inc. has operations in almost all countries in the world. A geographical segmentation of results is made, to better understand where the company is performing better or worse. It is important to highlight that NIKE, Inc. only facilitates data regarding the Nike brand's regional results, not including Converse. Therefore, for the purpose of this analysis it is assumed that Converse brand results have followed, and will follow, similar operational result trends to those of the Nike brand, that is, the percentage of Converse brand sales coming from a certain region is equal to that of the Nike brand.

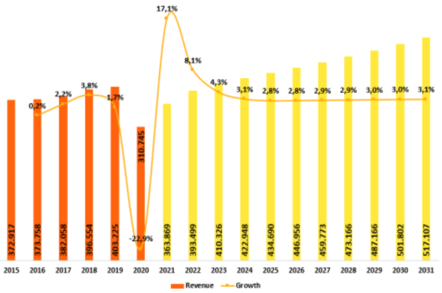
Since NIKE's fiscal year ends on May 31st there is a time lag between when NIKE reports results and reported yearly market sizes and market shares for each region. So, to forecast sales in each region using market share * market size would not accurately reveal FY sales for the company, since it would give a result that would incorporate part of Q3 and Q4 results from the year and revenues from Q1, Q2, Q3 of the next year. Therefore, an analysis was conducted of NIKE, Inc.'s FY revenues as a percentage of the market size on pair with the market share analysis. Then, forecasts were made on how this percentage would develop, and so predicted revenues were calculated by multiplying NIKE, Inc.'s FY revenues as a percentage of the market size * market size.

Assumptions were made that the Nike Brand, Converse, and Corporate reportable segments would maintain the same relative weight as part of total NIKE, Inc. revenue they had in FY2021. Within the Nike brand, it was assumed that its Global Brand Divisions segment revenue would be $0 from FY2022 onwards, with all of the brand's revenue being attributed to regional segments.

Furthermore, it was assumed that due to the supply chain headwinds NIKE would not increase its relative weight in the various geographic markets in FY2022. The difficulties in meeting demand have already been reflected and openly discussed in the company's Q1 results, with the expectation being that these problems shall not be completely resolved until FY2023. Therefore, the company is forecasted to have increased revenues following the rebounding market expansion in FY2022.

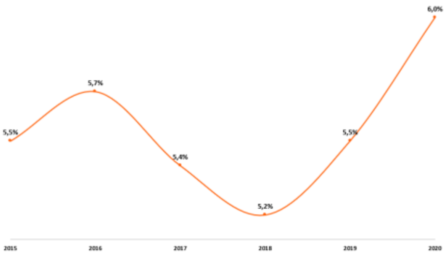
- ### 5.1.1. North America

Graph 16 Apparel and Footwear Industry Size and Growth (Historical and Forecasted) – North America



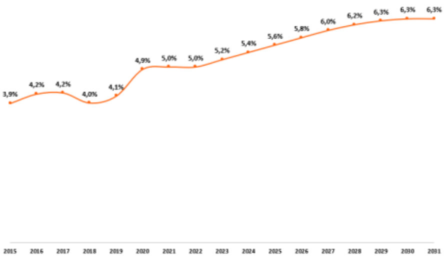
Source Passport – Euromonitor International; Own Estimates

Graph 17 NIKE, Inc. Apparel and Footwear Market Share – North America



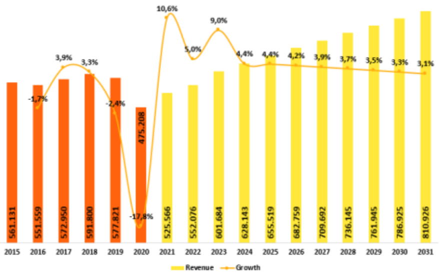
Source Passport – Euromonitor International

Graph 18 NIKE, Inc. Revenues as % of Apparel and Footwear Market Size – North America



Source Own Estimates

Graph 19 Apparel and Footwear Industry Size and Growth (Historical and Forecasted) – EMEA



Source Passport – Euromonitor International; Own Estimates

NIKE's domestic market is its most important one, and the one where it asserts the most dominance in.

North America's apparel and footwear market only grew slightly in 2019, growing 2% vis-à-vis 2018, before dropping 23% in size to $310,745 million in 2020. Nike brand revenues have managed to post better performance than the market in these two years, growing 7% in FY2019 and declining just -9% in FY2020. For FY2021, the Nike brand has reported a growth of 19% in North America sales, hitting $17,179 million in value, while the market is only expected to gain 17% for the year.

Regarding market share, NIKE, Inc. saw its share decrease from 2016 through to 2018, going from 5.7% to 5.2%. However, the company has recouped and seized the opportunity brought by the pandemic, recovering to hit a market share of 5.5% and 6% in 2019 and 2020, respectively. Dividing FY revenues by market size, a similar pattern can be found. In 2016 and 2017, the company's revenues were 4.2% of market size, then dropping to 4.0% the following year, and recuperating to 4.1% and 4.9% in 2019 and 2020.

The North American market is expected to show the biggest annual growth in 2021 (17%), healing from the pandemic at a CAGR of 6.94% through 2021-2025. Market size is forecasted to reach $434,690 million in 2025. At the same time, it is expected that NIKE's revenues will continue to outgrow the market in this period, other than FY2022. Supply chain struggles have meant that North American inventory transit times doubled compared to before COVID-19, which reduced the ability to meet demand (particularly for wholesale) in FY2022, and possibly FY2023. Nonetheless, considering the company's recent historical performance momentum, along with its home market advantage that grants it more brand recognition, and the industry trends that play into its hands, NIKE revenues are expected to represent 5.6% of the North American market in 2025, increasing at a 9.75% CAGR. In Q1's earnings call, NIKE digital was said to already represent 26% of this geography's sales, with repeat buying member activity said to play an important role too.

- ### 5.1.2. Europe, Middle East & Africa

EMEA was the globe's biggest apparel and footwear market, with a market size of $475,208 million in 2020. The region can be subdivided into Western Europe, Eastern Europe, and Middle East & Africa. It showed a modest growth of 3% from 2015 compared to 2019, having a relatively stagnated size, before a drop in value of 18% in 2020. The region is expected to have a slower rebound from the pandemic, only increasing in value by 11% in 2021, and is forecasted to have a CAGR of 6.64% for 2021-2025, the lowest of all geographies. The predicted market value for 2025 is $655,519 million. This expansion is expected to be supported mainly by the Middle East & Africa region, that is expected to show a CAGR of 8.78% for the same period. Eastern Europe, on the other hand, comprises the smallest value of all 3 sub-segments and is projected to grow the least too (4.35% CAGR).

Graph 20 Apparel and Footwear Industry Size (Historical and Forecasted) – EMEA by Subregions

Source Passport – Euromonitor International; Own Estimates

Nike brand revenues in EMEA were $11,456 million in FY2021, making it the second most important segment for the brand. Once again, performance was better than the market. Sales grew 5%, 16% and 6% in FY2017, FY2018 and FY2019, before falling 5% in FY2020, a much more modest decreased compared to that of the market. In FY2021, revenue growth was 23%.

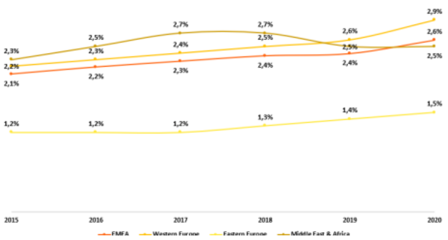
Graph 21 Apparel and Footwear Industry Growth – EMEA by Subregions

Source Passport – Euromonitor International; Own Estimates

Looking at market shares, NIKE enjoyed an overall share of 2.6% in EMEA in 2020, constantly increasing from 2.1% in 2015. Analysing the different sub-regions, one can see that NIKE is particularly strong in Western Europe, where it possessed a 2.9% share of the market in 2020 compared to 2.2% in 2015. In fact, the company has performed so well in this region that it even held a bigger market share than the adidas Group in its domestic market. NIKE also grew in Eastern Europe, from 1.2% in 2015 to 1.5% in 2020, but in the Middle East & Africa its share slightly decreased from 2.7% in 2018 to 2.5% in 2020.

NIKE's EMEA revenues as a percentage of the market have also risen. In 2016, they were just 1.5% of market size, but in 2019 they were 1.8% and hit 2.1% in 2020.

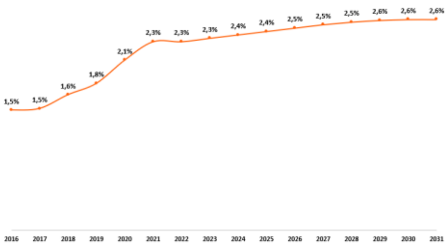
Graph 22 NIKE, Inc. Apparel and Footwear Market Share – EMEA and Subregions



Source Passport – Euromonitor International

Looking at recent market size development, it becomes clear that NIKE's better results in the region have stemmed more than anything from an ability to better penetrate the European market. This is even more evident in Western Europe, where NIKE captured an extra market share of 0.7% in a market that was smaller in value in 2019 than in 2015. However, in the highest growth area, Middle East & Africa, NIKE's value share actually declined. Consumer purchasing power is lower here, which favours companies with lower pricing points. Plus, competition is predicted to increase in this area, as more international brands should break into the space to capitalize on increased demand post-pandemic. Population access to technology and the internet is not as prevalent in this region, too, which does not favour NIKE and its digitally empowered direct-to-consumer strategy.

Graph 23 NIKE, Inc. Revenues as % of Apparel and Footwear Market Size – EMEA



Source Own Estimates

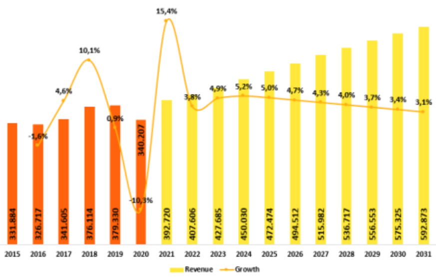
Considering these factors, NIKE's revenues are expected to remain at 2.3% of total industry sales in EMEA in 2022 and grow to 2.4% in 2025. The company is expected to manage to continually penetrate more of the European market, but at slower pace, while also having the capacity of defending its Middle East & Africa market share. Thus, NIKE's EMEA revenues are expected to grow at a CAGR of

9.99%, outperforming market growth due to increasing the percentage of industry revenue captured in Europe.

- ### 5.1.3. Greater China

Greater China has been growing the fastest amongst all Nike brand segments, and it is the one which provides the biggest growth opportunity for the company. In FY2021, Greater China was the third biggest geographic segment of the Nike brand, with $8,290 million in sales. Nike revenue in the Chinese market has grown at a CAGR of 17% through FY2016 - FY2021, immensely outpacing the growth of all other regions, even maintaining a positive growth of 8% in FY2020. In FY2021, annual growth was of 24%. It should continue to grow at a 16.31% CAGR through FY2021 - FY2025, according to the established forecast, which would allow it to surpass EMEA, turning it into the second biggest NIKE segment.

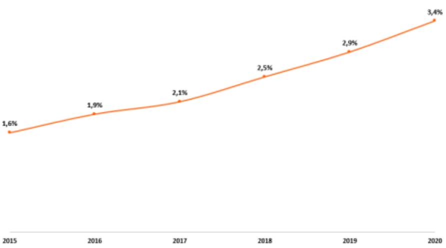
Graph 24 Apparel and Footwear Industry Size and Growth (Historical and Forecasted) – Greater China



Source Passport – Euromonitor International; Own Estimates

The Chinese apparel and footwear market had a size of $379,330 in 2019, before it was hit by the pandemic. In 2020, the market shrunk 10%, to $340,207 million, but it is forecasted to recover from this tumble immediately in 2021, achieving a value of $392,720 million. This anticipated 15% growth places market value above pre-COVID-19 levels. In 2021-2025, the CAGR of the Chinese market is predicted to be 6.79%, setting its 2025 size at $472,474 million, which is bigger than the estimated value of the North America or the Asia Pacific and Latin America markets.

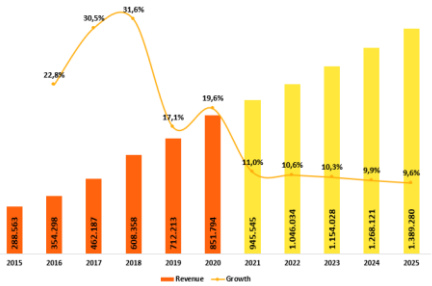
Graph 25 NIKE, Inc. Apparel and Footwear Market Share – Greater China



Source Passport – Euromonitor International

NIKE has made the most of the opportunity of the growing market in China. Its market share has improved 1.8%, from 1.6% in 2016 to 3.4% in 2020, cementing its position as market leader. Inspecting the evolution of NIKE sales as a percentage of market sales, it followed a similar pattern, rising from 1% in 2016 to 2.1% in 2020. Interestingly, the biggest jump NIKE made in these shares was observed in the pandemic years of 2019 and 2020, There was a market share gain of 0.9% in these two years, half of the total increase, and the relative weight of revenues compared to market value grew 0.7%, more than half of the increase.

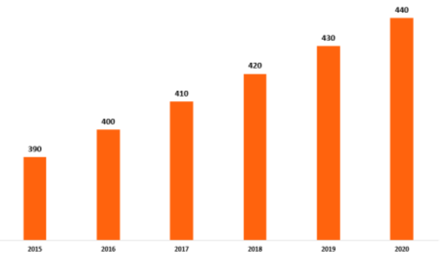
Graph 26 E-commerce in Greater China



Source Passport – Euromonitor International

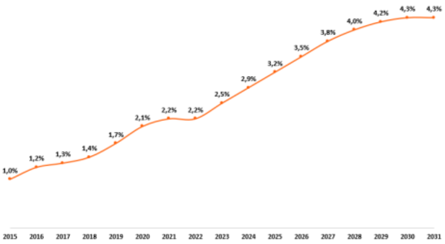
A key driver for NIKE thriving in the Chinese market was its digitally integrated customer-experience and technological edge over competition. China has borne witness to a particularly accelerated growth in e-commerce, which went from a size of $288,563 million in 2015 to $851,794 million in 2020, and NIKE has positioned itself to respond effectively to this increased digital demand. Greater China was the region in which the NIKE Direct channel was more significant, behind 46% of all Chinese sales in FY2021. Various initiatives, such as the launch of the first of its digitally enhanced Nike Rise concept stores in

Graph 27 Population doing physical exercise regularly in Greater China



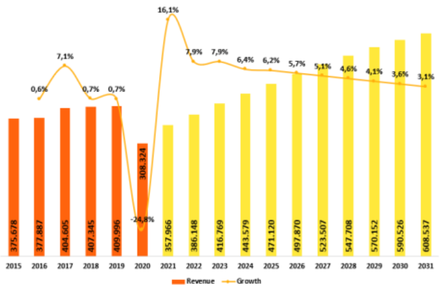
Source Statista

Graph 28 NIKE, Inc. Revenues as % of Apparel and Footwear Market Size – Greater China



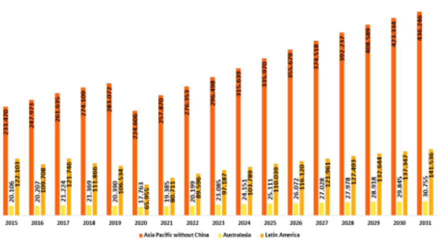
Source Own Estimates

Graph 29 Apparel and Footwear Industry Size and Growth (Historical and Forecasted) – APLA



Source Passport – Euromonitor International; Own Estimates

Graph 30 Apparel and Footwear Industry Size (Historical and Forecasted) –APLA by Subregions



Source Passport – Euromonitor International; Own Estimates

Guangzhou in 2020 have ensured that NIKE is more advanced in its transition to focus more on direct-to-consumer sales in China.

Furthermore, some specific factors are feeding into the athleisure trend in China. The government is pushing for a more active population, making investments in sports infrastructure to support both amateur and professional athletes. The number of Chinese people doing physical exercise regularly has steadily increased, reaching 440 million in 2020, 50 million more than in 2015. Running has become especially trendy, which can be seen from the boom in the number of marathons realized in China. Basketball is now the most popular sport in the region, with football (soccer) showing the biggest growth potential. The NBA is the most watched sports league in the country, even more than any domestic leagues[22], and so NIKE's partnership with the Association has also favoured its brand recognition and sales.

Taking everything in mind, NIKE is expected to increase its revenue relative weight compared to market size from 2.2% in 2021 and 2022 to 3.2% in 2025. The company is expected to keep on capturing share in the fast-growing Greater China market..

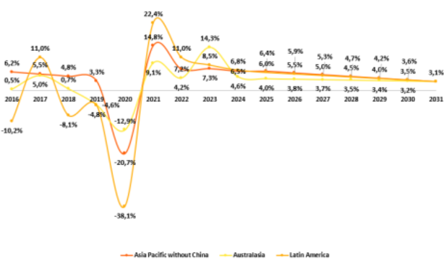
- ### 5.1.4. Asia Pacific & Latin America

Ever since FY2019 Asia Pacific & Latin America has been the geography in which NIKE has made the least revenue. This segment's sales have posted a CAGR of 4.4% in FY2017 - FY2021, but this growth was mainly due to a better performance in 2017 and 2018. From then on sales have only increased approximately $200 million, from $5,166 million in 2018 to $5,343 in 2021. In 2020, revenue dropped 4% to $5,028. Thus, revenue in the region has remained relatively stable.

NIKE's lower growth in APLA is in line with the region's slower market size development. With the exception of 2017, when market value grew 7%, market size expanded at a 1% rate in 2016, 2018 and 2019, until the pandemic came and wiped out roughly a quarter of the market value in 2020. In 2019, the value of the region for the apparel and footwear industry was $409,996 million, while in 2020 it was $308,324 million. The region has been harmed by the poor performance of the Latin American market. Revenue was of $122,103 million in 2015, decreasing to $106,534 million in 2019 and $65,955 million in 2020. Only in 2017 a positive growth of 11% was registered, falling 10%, 8%, 5% and 38% in value in 2016, 2018, 2019 and 2020, respectively. The inflationary pressures in this region have been a principal factor for this development, along with COVID-

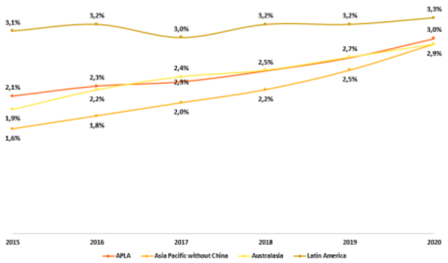
[22] SupChina, "What Are China's Favorite Sports? Is Basketball or Soccer No. 1?"

Graph 31 Apparel and Footwear Industry Growth – APLA by Subregions



Source Passport – Euromonitor International; Own Estimates

Graph 32 NIKE, Inc. Apparel and Footwear Market Share – APLA and Subregions



Source Passport – Euromonitor International

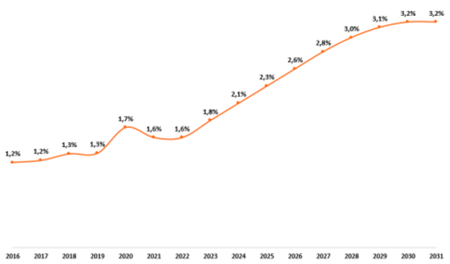
19 in 2020. Australasia is the smallest segment of the region, and it too showed modest growth through 2016-2018. With the pandemic, its value contracted 5% and 13% in 2019 and 2020, being set at $17,763 million in 2020, versus $21,369 in 2021.Asia Pacific is accountable for the biggest portion of the market size, with a value of $224,606 million in 2020. This region was the main driver of growth for APLA, having constantly outperformed the other subregions, except for Australasia in 2020. It maintained growth rates of 6% in 2016 and 2017, 5% in 2018, and a positive evolution of 3% in 2020, despite the pandemic start. In 2021, however, the same trend did not continue, and market value decreased 21%.

NIKE's sales performance in APLA has been better than that of the market because the company has been capable of increasing its market share, expanding in all regions. Overall, NIKE's APLA market share grew from 2.1% in 2015 to 3% in 2020, caused principally by the1.3% jump in market share in the subregion of Asia Pacific, from 1.6% in 2015 to 2.9% in 2020. In 2020 alone, NIKE gained an extra 0.4% share, versus the 2.5% in 2019. In Australasia the company's market penetration also has constantly grown, from a 1.9% share in 2015 to 2.9% in 2020, while in Latin America NIKE's share briefly dipped from 3.3% in 2016 to 3% in 2017, but now the company has recovered to control the same 3.3% share in 2020. Revenues as a percentage of overall APLA market size have followed a similar trend to that of the overall market share, steadily growing from 1.2% in 2016 to 1.3% in 2019 and jumping to 1.7% in 2020. This notable increase was mainly driven by the similar increase witnessed in Asia Pacific market share for the same year.

For the future, the APLA market is forecasted to expand at a CAGR of 8,85% through 2021-2025, hitting a value of $471,120 million in 2025. Latin America is expected to present the biggest CAGR for this period, 10.78%, but it should not surpass 2019 market size until 2025, when it is predicted to be worth $110,039 million. Australasia is expected to not rebound as hard as the two other subregions in 2021 and 2022, growing only 9% and 4%, respectively. However, it is forecasted to bounce back at a 14% in 2023, surpassing pre-COVID-19 levels with revenue of $23,085 million. Its 2021-2025 CAGR is set to be 7.17%. Asia Pacific is anticipated to have a growth of 15% in 2021, with a CAGR of 8.39% for 2021-2025. Market size should surpass 2019 levels by 2023 and is forecasted to be worth $335,970 million in 2025. This is more than what the whole APLA region was worth in 2020.

It is forecasted that NIKE revenue from the APLA segment will have a very attractive CAGR of 15.48% for 2021-2025. The company has been able to better

Graph 33 NIKE, Inc. Revenues as % of Apparel and Footwear Market Size – APLA



Source Own Estimates

penetrate the market in recent years, and it is predicted to continue to do so. This FY2022, the company has already made some moves to achieve this. In Q1 2022, NIKE Digital has grown over 60% on a currency neutral basis. The launch of the NIKE app in Mexico and six southeast Asian countries played a key role in this. Other events, such as the opening of a Nike Rise concept store in Seoul in 2021 played their part, too. All in all, NIKE revenues as a percentage of APLA market size are expected to increase from 1.6% in 2022 to 2.3% in 2025. Segment revenue is expected to be $10,326 million in 2025, further approaching the level of EMEA sales in the longer-term.

5.2. Costs Forecasts

- ### 5.2.1. Cost of Sales and Gross Margin

Historically, NIKE's gross margin oscillated around a low of 43.8% and a high of 46.2% in 2014-2019. With the arrival of the pandemic, which affected its Chinese and Southeast Asian dependent supply chain structure, that margin decreased from 44.7% in 2019 to 43.4% in 2020. However, the company already has shown signs of recovery, reporting a gross profit margin of 44.8% in FY2021.

In its last annual report, NIKE outlined a goal of reaching a gross margin in the high 40s by FY2025, vowing to dedicate more focus on improving the cost of its sales. These costs generally consist of inventory, warehousing, shipping, and handling and product designing costs, as well as third-party royalties and certain foreign currency hedge gains and losses.

Graph 34 Gross Margin (Historical and Forecasted)

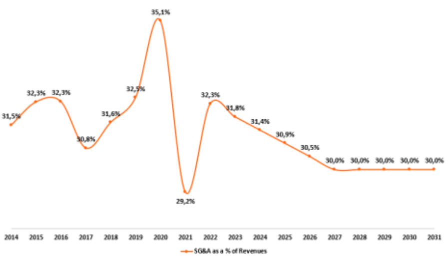
Source NIKE, Inc. Annual Report; Own Estimates

The main drivers behind this margin expansion will be related to the shift to the direct-to-consumer business. As NIKE recurs to less wholesale partners, its margins on product sales naturally increase. Moreover, the company has reported on its Q1 earnings call that it has seen an increased full price realization. On the other hand, the pandemic's widespread disruptions to the supply chain have led to higher logistical costs. With ports and railways full, NIKE has turned to air freight to fulfil holiday season orders, which will decrease the gross margin. Moreover, container rates are at all-time highs, having almost tripled in price.

Taking all these factors into account, and considering the Q1 gross margin expansion of 1.25%, NIKE's gross margin is expected to increase just 0.5% in FY2022, followed by an annual growth of 1% through FY2023 to FY2027. The FY2022 gross margin growth is estimated to regress face to the Q1 results due to the previously mentioned added transportation costs. So, NIKE's gross margin is forecasted to be of 45.3% in FY2022, reaching 48.3% in FY025, thus fulfilling the goals the company set itself.

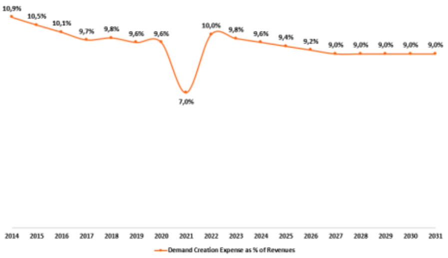
▪ 5.2.3. Selling General and Administrative Expense

Graph 35 SG&A as a % of Revenues (Historical and Forecasted)



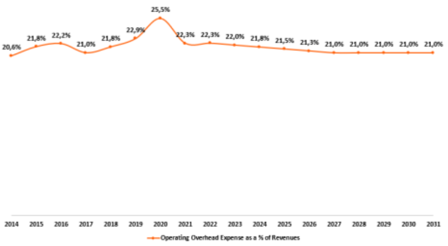
Source NIKE, Inc. Annual Report; Own Estimates

Graph 36 Demand Creation Expense as a % of Revenues (Historical and Forecasted)



Source NIKE, Inc. Annual Report; Own Estimates

Graph 37 Operating Overhead Expense as a % of Revenues (Historical and Forecasted)



Source NIKE, Inc. Annual Report; Own Estimates

NIKE's SG&A expense is divided into two categories. The first is demand creation expense, which encompasses marketing and promotion costs, including endorsements, advertising and media in all platforms, brand events and retail brand representation. The second is operating overhead expense, that is made of wage and benefit expenses, R&D costs, bad debt expense, rent, depreciation and amortization costs and professional services, meetings and travel costs.

NIKE had been slowly decreasing demand creation expense in relative terms between FY2014 and FY2020, reducing it from 10.9% to 9.6% of revenues. However, due to the pandemic, these expenses dropped to just 7% of revenues in FY2021. Although the company invested more in digital marketing, with lockdowns there were less brand events and expense in retail brand representation. Plus, marketing of sports events decreased drastically as there were no such events. For FY2022, demand creation expense is estimated to represent 10% of revenue. It is assumed that expense levels are going to return to normal pre-pandemic levels with the added expense of the extra digital marketing investments that NIKE has made that should not slow down. From FY2023 onwards, demand creation expenses are expected to represent a smaller portion of revenue retracting by 0.2% per year. So, in FY2025, they should be 9.4% of NIKE sales.

Operating overhead expense of NIKE increased by roughly $2,000 million between FY2018 and FY2021. This spike in expense has resulted from the heavy investment that the company has made on its digital capabilities and preparing its shift to the direct-to-consumer channel. Wage related expenses increased, as the company brought in more personnel with tech expertise, and so did the investments in technology. So, the lower expenses with travel and related since the pandemic have been more than offset. For FY2023, it is assumed that operating overhead expense would be 22.3% of revenues, i.e., equal to the historical average percentage of revenues in FY2014 - FY2021. From FY2023 to FY2027, that percentage is predicted to drop by 0.25% yearly. So, in FY2025, these expenses should be 21.5% of NIKE sales.

▪ Other Expense (Income), Net

Other expense (income), net was forecasted to remain set at the same historical percentage of revenues of the FY2014 - FY2021 period for the future.

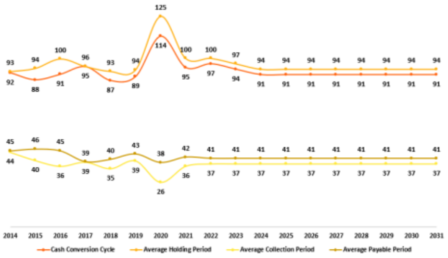
▪ Interest Expense (Income), Net

To analyse the evolution of interest expense (income), net a decomposition was made, analysing interest expense and interest income individually. For interest expense, it was assumed that it would be equal to the historical average percentage of net debt it was equivalent to in FY2014 – FY2021. Thus, it is predicted that it will be equal to 27.5% of net debt from FY2022 onwards. As for net interest, it was assumed that from FY2022 onwards it would be 1% of short-term investments made by NIKE, an assumption that was considered suitable given past historical values.

5.3. Networking Capital

Networking capital estimates were made considering past evolution of NIKE's balance sheet and the pandemic impact on the cash conversion cycle.

Graph 38 Cash Conversion Cycle (Historical and Forecasted)

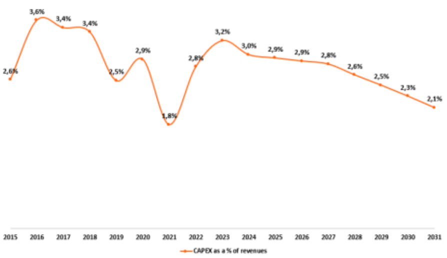


Source Own Estimates

Regarding the cash conversion cycle, it drastically increased in FY2020 due to COVID-19. Although the average collection period decreased 13 days, the inventory holding period increased by 31 days and the average payable period decreased 5 days. In FY2021 the average payable and collection periods returned to levels similar to pre-pandemic values, but the average holding period remained high at 100 days. Considering this evolution, and the supply chain headwinds affecting NIKE's business, it was assumed that for the average collection and payable periods that they would be equal to the average historical periods through FY2017 – FY2019, sitting at 37 and 41 days, respectively. As for the average holding period, it was forecasted that in FY2022 it would be equal to FY2021, decreasing in FY2023 to 97 days, and that from FY2024 onwards it would be 94 days, matching the historical average period through FY2017 - FY2019.

The rest of the relevant networking capital captions were estimated as percentages of revenue. Operating cash was assumed to be 2% of NIKE revenue. Prepaid expenses and other current assets were set to be equal to 4.2% of revenues, its historical average percentage of revenue. Current portion of operating lease liabilities was calculated as the last two FY average percentage of revenues, 1.1%, and accrued liabilities are estimated as 13.4% of revenues, the last three FY average of revenues.

Graph 39 CAPEX (Historical and Forecasted)



Source Own Estimates

5.4. CAPEX

Over the years, NIKE's fixed and intangible assets, net have kept on incrementing, reaching a value of $5,597 million in FY2021. The company has been required to make notable investments in expansion and maintenance CAPEX. However, in FY2021, these expenditures were 1.8% of revenue, much lower than what they were in previous years. For the future, the company set itself the objective of having an annual CAPEX of roughly 3% of revenues until

FY2025. Considering the Consumer Direct Offense is in full swing, with NIKE making heavy investments in technology for its digital and innovation platforms, and the crucial value these investments should have on NIKE's performance, this is a goal that according to the forecast should be fulfilled. So, investment in CAPEX is forecasted to be 2.8%, 3.2%, 3% and 2.9% of revenue in FY2022, FY2023, FY2024 and FY2025, respectively.

6. Valuation

6.1. Discounted Cash Flow Method

The utilised method to calculate the value of NIKE, Inc.'s shares as of 31 December 2021 was the discounted cash flow methodology. The company's cash flows were derived from the aforementioned forecasts on revenues, costs, networking capital expenditures and CAPEX, which were then discounted at an appropriate weighted average cost of capital (WACC).

6.2. Cost of Capital

To evaluate NIKE's WACC, several inputs were included, like the risk-free rate (RF) and the market risk premium (MRP). The considered RF was the 10 Year U.S. Treasury Bond Yield, 1.489%. As for MRP, a value of 5.5% was considered, equal to the average MRP in the United States in 2021[23].

To compute NIKE's cost of debt (RD), the company's outstanding bonds were analysed. A default rate of 0%[24] and a recovery rate of 40%[25] were considered. With this data, a RD of 2.062% was arrived at, and thus a beta of debt of 0.10 was estimated. To compute the levered equity beta of NIKE, a set comprising the following comparable firms was analysed: adidas Group, VF Corp, Anta, Under Armour, Puma, ASICS, lululemon, and Li Ning. From this set of data, along with NIKE's data, a median unlevered beta was obtained, which was then relevered according to NIKE's capital structure. At the same time, NIKE stock's last 5 years monthly excess returns were regressed against the S&P 500's monthly excess returns for the same period, allowing another calculation of the company's levered beta. These two levered betas were then averaged, reaching a result of 0.94. And so, NIKE's return on equity (RE) was calculated as 6.678%. Considering the market E/EV ratio of 100.34% and D/EV ratio of -0.34%, along with the previous data, and a tax rate of 21%, NIKE's estimated WACC was 6.695%.

[23] Source: Statista
[24] Source: Bloomberg Default Risk
[25] Source: Orbis, Bureau van Dijk

6.3. Terminal Growth Rate

NIKE, Inc. has operations which are spread across the world. Currently, its biggest market is North America, but the other regions are expected to have an increased weight in the company's revenues for the future. As such, considering this worldwide presence of the company, the forecasted global inflation rate of 3.05%[26] was used as a proxy for the terminal growth rate of NIKE.

6.4. Valuation Outcome

With all the aforementioned parameters, an enterprise value (EV) of 320,231 million was estimated. The terminal value that was obtained was 248,282 million. To the EV the book value of NIKE's net debt was subtracted, resulting in an equity value of $319,746 million. Dividing this value by the 1,578 million shares outstanding, a price per share target of $202.63 was estimated for the end of 2022. This price translates into a return of more than 10% over the current share price, so a BUY recommendation is issued.

6.5. Sensitivity Analysis

A sensitivity analysis was conducted, to view how WACC and perpetual growth rate changes could affect share value. For the WACC, variations of 0.1% were introduced to see how these would affect the model's results. For growth, since it is dependent on the reinvestment rate and ROIC, changes of 0,2% and 2% were introduced to each of these variables, respectively. With these changes, NIKE's share price ranges between $169,52 and $261,65. As such, hold recommendations could be made based on 8 out of 35 scenarios. Overall, the model supports the buy recommendation nonetheless, with 27 out of 35 different results supporting the purchase of shares.

Table 8 Sensitivity Analysis

Reinvestment rate	3,5%	3,7%	3,9%	4,1%	4,3%	4,5%	4,7%
ROIC	68,3%	70,3%	72,3%	74,3%	76,3%	78,3%	80,3%
Growth	2,39%	2,60%	2,82%	3,05%	3,28%	3,53%	3,78%

		Growth rate						
	202,63	2,39%	2,60%	2,82%	3,05%	3,28%	3,53%	3,78%
WACC	6,495%	186,85	194,80	204,02	214,81	227,59	242,93	261,65
	6,595%	182,21	189,72	198,41	208,55	220,50	234,79	252,14
	6,695%	177,78	184,89	193,09	202,63	213,84	227,18	243,29
	6,795%	173,55	180,29	188,04	197,03	207,55	220,03	235,02
	6,895%	169,52	175,91	183,24	191,72	201,62	213,31	227,29

BUY HOLD SELL

Source Own Estimates

7. Multiple Analysis

The multiples of the same companies that were chosen as peers of NIKE, Inc., which were previously mentioned, were analysed to then extrapolate a possible share price for the company. EV/EBITDA current and through the cycle multiples were analysed, and so were current P/E, P/Sales, P/Book, and EV/Sales multiples. Using the average peer multiples, several share price were attained below the share price attained using the DCF valuation methodology.

Table 9 NIKE, Inc. and Peer Companies' Average Current Trading Multiples

Current Multiples	NIKE, Inc.	Peers Average
P/E	43,63x	47,52x
P/sales	5,78x	4,56x
P/book	18,66x	9,98x
EV/sales	5,77x	4,67x
EV/EBITDA	33,17x	23,39x

Source Bloomberg (12/12/2021)

Considering that NIKE currently trades at higher multiples than most of its peer firms, these average multiples seem to fall short of the fair multiple for NIKE.

[26] Source: World Economic Outlook Database, IMF

Appendix

Financial Statements

Balance Sheet	May 31,																	(in $ millions)
	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
ASSETS																		
Current assets:																		
Cash and equivalents	2.220	3.852	3.138	3.808	4.249	4.466	8.348	9.889	9.945	10.072	10.192	10.318	10.451	10.590	10.716	10.824	10.910	10.968
Short-term investments	2.922	2.072	2.319	2.371	996	197	439	3.587	3.587	3.587	3.587	3.587	3.587	3.587	3.587	3.587	3.587	3.587
Accounts receivable, net	3.434	3.358	3.241	3.677	3.498	4.272	2.749	4.463	4.927	5.591	6.213	6.869	7.562	8.287	8.940	9.505	9.951	10.255
Inventories	3.947	4.337	4.838	5.055	5.261	5.622	7.367	6.854	7.217	7.779	8.200	8.895	9.602	10.316	11.129	11.831	12.387	12.765
Deferred income taxes	355	389	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Prepaid expenses and other current assets	818	1.968	1.489	1.150	1.130	1.968	1.653	1.498	1.966	2.231	2.479	2.741	3.018	3.307	3.568	3.793	3.971	4.092
Total current assets	13.696	15.976	15.025	16.061	15.134	16.525	20.556	26.291	27.642	29.260	30.670	32.411	34.220	36.088	37.939	39.540	40.806	41.667
Property, plant and equipment, net	2.834	3.011	3.520	3.989	4.454	4.744	4.866	4.904	5.244	5.950	6.611	7.311	8.047	8.819	9.514	10.115	10.590	10.913
Operating lease right-of-use assets, net	0	0	0	0	0	0	3.097	3.113	3.613	4.100	4.555	5.037	5.545	6.077	6.556	6.970	7.297	7.519
Identifiable intangible assets, net	282	281	281	283	285	283	274	269	383	434	482	533	587	643	694	738	773	796
Goodwill	131	131	131	139	154	154	223	242	270	306	340	376	414	454	489	520	545	561
Deferred income taxes and other assets	1.651	2.201	2.439	2.787	2.509	2.011	2.326	2.921	2.921	2.921	2.921	2.921	2.921	2.921	2.921	2.921	2.921	2.921
TOTAL ASSETS	**18.594**	**21.600**	**21.396**	**23.259**	**22.536**	**23.717**	**31.342**	**37.740**	**40.073**	**42.971**	**45.580**	**48.589**	**51.734**	**55.002**	**58.114**	**60.804**	**62.931**	**64.377**
LIABILITIES AND SHAREHOLDERS' EQUITY																		
Current liabilities:																		
Current portion of long-term debt	7	107	44	6	6	6	3	0	3	2	2	2	2	2	2	2	2	2
Notes payable	167	74	1	325	336	9	248	2	86	112	67	88	89	81	86	86	84	85
Accounts payable	1.930	2.131	2.191	2.048	2.279	2.612	2.248	2.836	2.931	3.264	3.560	3.861	4.168	4.478	4.831	5.136	5.377	5.541
Current portion of operating lease liabilities	0	0	0	0	0	0	445	467	530	601	668	738	813	891	961	1.022	1.070	1.102
Accrued liabilities	2.491	3.951	3.037	3.011	3.269	5.010	5.184	6.063	6.354	7.210	8.011	8.859	9.752	10.687	11.529	12.257	12.833	13.224
Income taxes payable	432	71	85	84	150	229	156	306	306	306	306	306	306	306	306	306	306	306
Total current liabilities	5.027	6.334	5.358	5.474	6.040	7.866	8.284	9.674	10.210	11.495	12.613	13.855	15.130	16.445	17.715	18.808	19.672	20.261
Long-term debt	1.199	1.079	2.010	3.471	3.468	3.464	9.406	9.413	9.370	9.383	9.461	9.481	9.524	9.578	9.617	9.656	9.687	9.707
Operating lease liabilities	0	0	0	0	0	0	2.913	2.931	3.400	3.858	4.287	4.740	5.218	5.718	6.169	6.559	6.866	7.076
Deferred income taxes and other liabilities	1.544	1.480	1.770	1.907	3.216	3.347	2.684	2.955	2.955	2.955	2.955	2.955	2.955	2.955	2.955	2.955	2.955	2.955
Commitments and contingencies	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Redeemable preferred stock	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total shareholders' equity	10.824	12.707	12.258	12.407	9.812	9.040	8.055	12.767	14.137	15.280	16.265	17.558	18.907	20.305	21.658	22.826	23.751	24.379
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**18.594**	**21.600**	**21.396**	**23.259**	**22.536**	**23.717**	**31.342**	**37.740**	**40.073**	**42.971**	**45.580**	**48.589**	**51.734**	**55.002**	**58.114**	**60.804**	**62.931**	**64.377**

Income Statement	May 31,																	(in $ millions)
	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Revenues	27.799	30.601	32.376	34.350	36.397	39.117	37.403	44.538	47.325	53.697	59.666	65.976	72.627	79.594	85.866	91.287	95.573	98.488
Revenues by:																		
North America	12.299	13.740	14.764	15.216	14.855	15.902	14.484	17.179	18.561	20.160	21.609	23.062	24.589	26.196	27.680	29.007	30.144	31.064
Europe, Middle East & Africa			7.568	7.970	9.242	9.812	9.347	11.456	12.023	13.339	14.173	15.047	15.941	16.848	17.696	18.470	19.156	19.740
Greater China	2.602	3.067	3.785	4.237	5.134	6.208	6.679	8.290	8.596	10.303	12.190	14.215	16.361	18.619	20.547	22.172	23.385	24.098
Asia Pacific & Latin America			4.317	4.737	5.166	5.254	5.028	5.343	5.758	7.188	8.687	10.326	12.075	13.919	15.614	17.037	18.070	18.621
Global brand divisions	125	115	73	73	88	42	30	25	0	0	0	0	0	0	0	0	0	0
Total NIKE brand	26.112	28.701	30.507	32.233	34.485	37.218	35.568	42.293	44.939	50.990	56.659	62.651	68.966	75.582	81.537	86.685	90.756	93.524
Converse	1.684	1.982	1.955	2.042	1.886	1.906	1.846	2.205	2.343	2.658	2.954	3.266	3.596	3.941	4.251	4.519	4.732	4.876
Corporate	3	-82	-86	75	26	-7	-11	40	43	48	54	59	65	71	77	82	86	88
Cost of sales	15.353	16.534	17.405	19.038	20.441	21.643	21.162	24.576	25.877	28.824	31.432	34.096	36.807	39.542	42.658	45.351	47.481	48.929
Gross profit	**12.446**	**14.067**	**14.971**	**15.312**	**15.956**	**17.474**	**16.241**	**19.962**	**21.448**	**24.872**	**28.234**	**31.880**	**35.820**	**40.052**	**43.208**	**45.936**	**48.093**	**49.559**
Total selling and administrative expense	8.766	9.892	10.469	10.563	11.511	12.702	13.126	13.025	15.269	17.083	18.714	20.396	22.125	23.889	25.772	27.399	28.685	29.560
Other expense (income), net	103	-58	-140	-196	66	-78	139	14	26	29	33	36	40	43	47	50	52	54
EBITDA	**4.095**	**4.839**	**5.291**	**5.651**	**5.126**	**5.555**	**3.697**	**7.667**	**6.955**	**8.670**	**10.499**	**12.566**	**14.886**	**17.468**	**18.844**	**20.034**	**20.974**	**21.614**
Earnings before interest and income taxes (EBIT)	**3.577**	**4.233**	**4.642**	**4.945**	**4.379**	**4.850**	**2.976**	**6.923**	**6.153**	**7.760**	**9.488**	**11.448**	**13.655**	**16.119**	**17.389**	**18.487**	**19.355**	**19.946**
Interest expense (income), net	33	28	19	59	54	49	89	262	91	101	110	122	134	146	158	169	177	183
Income tax expense	851	932	863	646	2.392	772	348	934	1.273	1.608	1.969	2.379	2.839	3.354	3.618	3.847	4.027	4.150
NET INCOME	**2.693**	**3.273**	**3.760**	**4.240**	**1.933**	**4.029**	**2.539**	**5.727**	**4.789**	**6.051**	**7.409**	**8.948**	**10.682**	**12.619**	**13.612**	**14.471**	**15.151**	**15.613**
TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**-189**	**1.161**	**-928**	**-531**	**104**	**323**	**-287**	**-324**	**-96**	**-236**	**-219**	**-183**	**-213**	**-205**	**-200**	**-206**	**-204**	**-203**
TOTAL COMPREHENSIVE INCOME	**2.504**	**4.434**	**2.832**	**3.709**	**2.037**	**4.352**	**2.252**	**5.403**	**4.693**	**5.815**	**7.190**	**8.764**	**10.469**	**12.414**	**13.412**	**14.266**	**14.947**	**15.409**

Cash Flow Statement	May 31,																	(in $ millions)
	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F
Operating result		3.680	4.175	4.502	4.749	4.445	4.772	3.115	6.937	6.179	7.789	9.521	11.484	13.695	16.163	17.436	18.537	19.407
Notional taxes		-1.288	-1.461	-1.576	-1.662	-1.298	-1.002	-654	-1.457	-1.298	-1.636	-1.999	-2.412	-2.876	-3.394	-3.662	-3.893	-4.076
Tax adjustments		424	517	702	986	-1.130	203	274	461	-2	-1	-1	0	1	2	2	3	3
NOPLAT		2.816	3.231	3.628	4.073	2.017	3.972	2.735	5.941	4.879	6.152	7.521	9.072	10.820	12.770	13.777	14.647	15.335
Depreciation		518	606	649	706	747	705	721	744	802	910	1.011	1.118	1.230	1.349	1.455	1.547	1.619
Gross FCF		**3.334**	**3.837**	**4.277**	**4.779**	**2.764**	**4.677**	**3.456**	**6.685**	**5.681**	**7.062**	**8.531**	**10.190**	**12.050**	**14.119**	**15.232**	**16.194**	**16.954**
Fixed and intangible assets, nets		3.247	3.423	3.932	4.411	4.893	5.181	5.547	5.597	6.109	6.932	7.702	8.517	9.375	10.275	11.084	11.784	12.338
Net CAPEX	-		-782	-1.158	-1.185	-1.229	-993	-1.087	-794	-1.314	-1.732	-1.782	-1.932	-2.089	-2.248	-2.264	-2.246	-2.173
Networking capital		4.334	4.193	4.988	5.510	5.069	5.022	4.640	4.340	5.243	5.600	5.846	6.367	6.902	7.446	8.033	8.540	8.941
Δ networking capital	-		141	-795	-522	441	47	382	300	-903	-357	-246	-521	-535	-545	-587	-507	-401
Investing CF	-		**-641**	**-1.953**	**-1.707**	**-788**	**-946**	**-705**	**-494**	**-2.217**	**-2.090**	**-2.028**	**-2.453**	**-2.624**	**-2.793**	**-2.851**	**-2.754**	**-2.574**
Core FCF	-		**3.196**	**2.325**	**3.071**	**1.976**	**3.731**	**2.752**	**6.191**	**3.464**	**4.972**	**6.504**	**7.737**	**9.426**	**11.326**	**12.381**	**13.440**	**14.381**
Δ non-operating invested capital	-		1.066	-568	-572	3.136	1.990	-1.657	-3.626	-86	-229	-215	-184	-216	-212	-211	-220	-220
Non-core FCF	-		1.066	-568	-572	3.136	1.990	-1.657	-3.626	-86	-229	-215	-184	-216	-212	-211	-220	-220
TOTAL FCF AVAILABLE FOR INVESTORS	-		**4.262**	**1.757**	**2.499**	**5.112**	**5.721**	**1.095**	**2.565**	**3.378**	**4.743**	**6.288**	**7.553**	**9.210**	**11.114**	**12.169**	**13.220**	**14.161**
Interest expense		-38	-34	-31	-86	-124	-131	-151	-296	-127	-137	-146	-157	-170	-182	-194	-205	-213
Tax shields		13	12	11	30	36	28	32	62	27	29	31	33	36	38	41	43	45
Δ net financial debt	-		-1.689	1.545	1.116	-392	-494	2.262	-1.640	45	37	32	42	44	46	44	38	30
Net change in equity (cash)	-		-2.551	-3.281	-3.560	-4.632	-5.124	-3.237	-691	-3.323	-4.672	-6.205	-7.471	-9.120	-11.015	-12.060	-13.097	-14.023
TOTAL FCF FROM INVESTORS	-		**-4.262**	**-1.757**	**-2.499**	**-5.112**	**-5.721**	**-1.095**	**-2.565**	**-3.378**	**-4.743**	**-6.288**	**-7.553**	**-9.210**	**-11.114**	**-12.169**	**-13.220**	**-14.161**

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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.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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