

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the
NOVA – School of Business and Economics.

NIKE BORN TO BE A LEADER – The e-commerce
trend and the end of the affiliation with different
wholesale customers

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Abstract

This equity research has the purpose to forecast the value of Nike and its position within the industry. The company has been witnessing a growth of its operating results which makes it a market leader between its main competitors. As a result of our assumptions and estimates, we forecast a target price of US\$184 as of FY22, with an expected share return of 11,11% for shareholders, resulting in BUY recommendation.

Nike, Footwear, E-Commerce, Valuation

This report is part of the Nike born to be a leader report (annexed) and should be read as an integral part of it.

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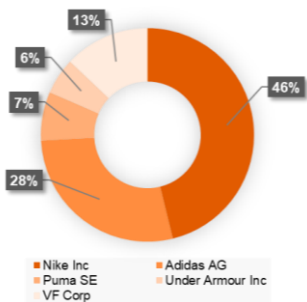
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Company Overview

Company Description

Nike Inc is a multinational with headquarters in Beaverton, Oregon, United States, founded in 1964, currently being the main seller in the footwear and apparel market. The principal business activity of the company is the design, development, advertising, and selling of footwear, apparel, as well as equipment and accessories, namely bags, socks, eyewear, sports balls, digital devices, timepieces, bats, and gloves. Besides Nike Brand, the firm also wholly owns some brands, Jordan and Converse, and a subsidiary, Nike IHM Inc, which sells various plastic products to other manufacturers. Even though most products are for athletic purposes, a large range is worn for leisure and casual uses (source: Nike annual report).

Exhibit 1: Market Share in 2020



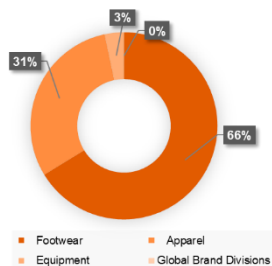
Source: Company Data

One of the major strengths of the company is its partnerships and licensing contracts with college and professional team and league logos. Innovation and high quality are the key factors when developing and manufacturing its products.

In the fiscal year 2020, Nike accounted for 75.400 employees and generated more than 37 billion dollars in revenues, which corresponds to a market share of 46,17%. Nike has outperformed all its competitors, followed by Adidas with 27,98%. Even in Europe, the Middle East, and Africa where Adidas has a large market position since 2018 Nike has achieved higher revenues figures.

Business Overview

Exhibit 2: Revenues per product category



Source: Company Data

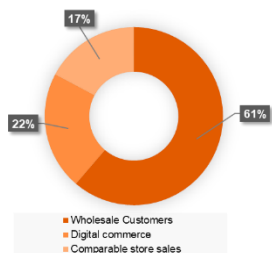
The company breakdown its operations into different categories: brands, distribution channels, and geographical regions.

Nike Brand is the biggest source of revenues, contributing to approximately 95% over the years. Converse represents the remaining 5%.

In terms of product categories, the largest part of revenues is generated by footwear, in terms of percentage it represents 66% of Nike Brand in 2021, with a CAGR of 7,12% over the last 5 years. Additionally, there are two other categories: apparel (30% of Nike Brand sales in 2021) and equipment (the smallest category accounting for only 3% of the annual revenues). The fastest-growing category was footwear, from 2020 to 2021, this class grew 20,24%.

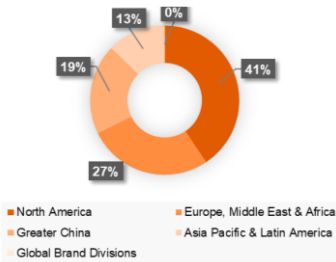
Nike has two distribution channels: directly to consumers (DTC) - through digital platforms and self-owned retail stores (Nike Direct operations) - and retailers around the world. In 2021, the wholesale channel represents 58,15% of total revenues, however, this value has been decreasing over the years since 2019, at that time wholesale was 64,99% of sales. According to Mr. Donahoe, CEO of Nike, the company is working in delivering a very personalized experience to its consumers and, therefore, Nike will start selling only to fewer retailers, to have more control of its brand. Hence, by 2025 it is expected that wholesale customers represent around 36% of the total. Nowadays Nike Direct totalizes only 36,76% but will continue to increase, essentially through digital commerce, which is becoming the big priority of Nike. From 2016 to 2021, digital commerce had a CAGR of 39,87%, being 20,43% of total Nike brand sales in 2021, when in 2016 the segment amounted to 5,25%. Regarding self-owned retail stores, the company owns a total of 1048 (325 of these stores inside the United States and the remaining 723 in the international market), this channel totalized 16,32% of total Nike revenues in the last fiscal year available

Exhibit 3: Revenues per distribution channel



Source: Company Data

Exhibit 4: Revenues per geography



Source: Company Data

(2021). In a global view, since 2018 Nike has been closing some of these stores and focusing on their innovation and quality, to provide the best consumer experience. In this respect, Nike is switched to digitally enabled stores, which has been creating a positive impact on sales, after a year where the majority of stores were closed due to the COVID-19 pandemic.

Geographically, the Nike brand is presented in several regions. Currently, the company has the following breakdown: North America (41%), EMEA (27%), Greater China (19%), Asia Pacific, and Latin America (13%).

Regarding manufacturing, Nike is supplied by 191 footwear factories established in 14 countries, the major one accounting for approximately 9% of total shoe production in 2021. More specifically, Vietnam manufactured 51% of Nike brand footwear, Indonesia 24%, and 21% in China. Additionally, in terms of apparel factories, there are 344 that provided Nike, once again, Vietnam accounted for 30% of total apparel manufacture.

■ North America

Nike has already a significant position in North America, with 48,39% of the market share in 2020. This explains the less impressive growth in this area, from 2016 to 2019 the CAGR was 1,59%. Since almost all society is already served, there is not much room to grow. So, in the long term, we believe that the group will be capable to maintain its competitive advantage in this geographic segment, with a slight increase in its market share.

■ Europe, Middle East, and Africa

Europe, the Middle East, and Africa is a region with a lot of competitiveness because Adidas, Nike's major competitor, has a relevant position in the European market. So, it might be extremely difficult for Nike to have a predominant position there. Nevertheless, Nike in the last years has been able to sell more than its arch-rival. Taking this into account, we believe that its market share will be enhanced in the future, reaching a value of around 46%, when currently amounts to 39,80%.

■ Asia Pacific (including China) & Latin America

From 2016 to 2021, the CAGR of Greater China was 16,98%, being the region with the strongest growth, followed by Europe, the Middle East, and Africa with a CAGR of 8,65%. As in China, there is a substantial admiration for NBA, Nike became a market leader in this country. However, Nike recently expressed its concern about the fact that cotton in China's Xinjiang region is produced with forced labour. This declaration had a negative connotation for the Chinese government and Chinese social media and, it is taking the form of potential boycotts in China. Consequently, we expect that the growth tendency will be affected, implying even a slow decrease in the market share of this country. As a result, we can affirm that the Asia Pacific is an area where cultural questions are huge barriers when approaching the market.

Exhibit 5: Market Share Evolution



Source: Company Data and Analyst Estimates

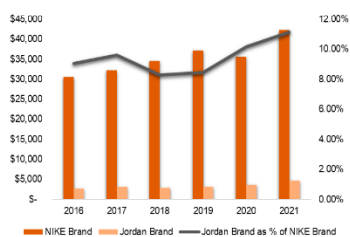
Brand Overview

Nike Inc. is composed of Nike Brand, Jordan Brand, and Converse which help the group to be a market leader, by taking a position in different areas of the apparel and footwear industry as basketball and lifestyle.

■ Nike

Nike is one of the most popular brands around the world, it offers numerous products for different preferences and is present in many locations, being able to capture a huge market share. Nike divides into six key categories - Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training, and Sportswear (sports-inspired lifestyle products). The company sells products designed for kids as well as for other sports (American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling, and other outdoor activities). Besides that, Nike, as a brand that likes to be connected with the consumers and keep them engaged, offers fitness and activity apps. In 2021, Nike Brand generated 42 billion dollars and grew at a CAGR of 6,75% since 2016.

Exhibit 6: Sales of Jordan Brand



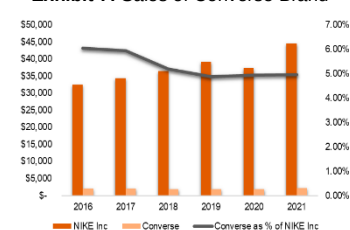
Source: Company Data

■ Jordan Brand

Jordan Brand was created by Nike in 1984 for the basketball player Michael Jordan who made this brand one of the top drivers of revenues for Nike. In 2021, Jordan Brand represented 11,14% of Nike Brand's total sales. This brand is mostly focused on basketball athletic and casual footwear, apparel, and accessories. Since 2016, Jordan Brand grew at a CAGR of 11,34%.

■ Converse

Exhibit 7: Sales of Converse Brand

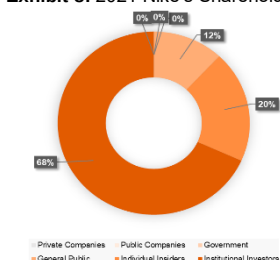


Source: Company Data

Converse was founded in 1908, being a remarkable brand since then. It started focusing on basketball shoes, with their most famous Chuck Taylor All-Star. Today, they are not only for basketball uses and were adapted to many different styles, without changing their appeal, turning them into iconic shoes. In 2003, after Converse filed for bankruptcy, Nike bought the company for 305 million dollars, being their only wholly-owned subsidiary brand. This was one of the best investments that Nike made as at the time, Converse revenues were just 200 million dollars and, at the moment, Converse presents revenues of around 2 billion dollars, thus the company grew at a CAGR of 14%. Since 2016, Converse Brand only grew at a CAGR of 2,44%. Converse is not the best driver of Nike's revenues since it simply represents 4,95% of total sales as of 2021.

Shareholder Structure and Dividend Policy

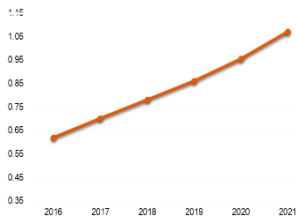
Exhibit 8: 2021 Nike's Shareholder



Source: Nasdaq.com

Nike's shareholder structure splits into institutional investors, private investors, directors, and executive officers, and others. As of 2021, Nike had 1573 million shares outstanding of which institutional investors owned 68,3% of them. The Vanguard Guard represents Nike's second-largest shareholder accounting for 6,6% of common stock and BlackRock, Inc owns 6,0% of Nike's shares. The largest shareholder, Philip Knight, holds 17% of shares outstanding, which is considered a good sign as he is Nike's Top Key Executive. Publicly traded shares account for

Exhibit 9: Dividends Evolution



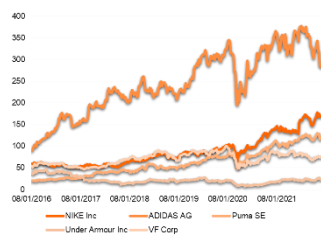
Source: Company Data

almost 12% of shares outstanding, which does not give them enough power to vote, although they can still have an impact on company policies.

Since 2016, Nike had a relatively stable increasing dividend policy, as you can see on exhibit 9 and it was able to increase its dividends per share from 0,62 dollars to 1,07 dollars in 2021, which gives a positive sign to investors since it proves that the company is in a healthy financial state. The payout ratio has been fluctuating, but Nike was able to increase it from 2016 to 2021. As a mature company, we believe that Nike will be able to keep paying dividends and increase this amount throughout the years, achieving a dividend payout ratio of 51,76% in 2030.

Share Performance

Exhibit 10: Share Price Evolution of Nike and its peers



Source: Bloomberg

Nike started to be publicly traded in 1980 and was chosen to be listed on New York Stock Exchange (NYSE). Now, Nike is part of several indices such as the S&P 500, Russel 1000, Dow Jones Industrial Average, among others. From 1980 to 1995, the stock had a stable growth. Afterward, it has been increasing over the years. At the beginning of the fiscal year 2016, Nike's share price was \$55,2. At the end of fiscal 2021, it was \$154,49. During these 6 years, the stock had a CAGR of 18,71%, higher than S&P 500 (12,27%), Russel 1000 (7,86%), and Dow Jones Industrial Average (11,54%), so Nike had a better performance than the indexes it belongs to. When compared to its peers, Nike was able to outperform Adidas (ADD YY), Under Armour (UAA US), and V.F Corporation (VFC) which had a CAGR of 17,30%, -9,14%, and 5,98%, respectively. Puma (PUM DE) was the only one that outperformed Nike with a CAGR of 20,20%. This reflects Nike's good performance that it has been developing throughout the years.

Nike Strategy

At the beginning of the fiscal year 2018, Nike established one key strategy – Consumer Direct Offense – to have a better connection with its consumers. Nike intended to use the **digital** in order to achieve its goal, as it is a good approach to understand its key markets. In fact, Nike has been able to use the e-commerce on its advantage, since digital sales are stronger than ever (20,43% of total sales) and we believe they will be able to keep growing it to 47,70% in 2030, as Nike has been making a lot of investments on data and analytics, demand sensing, insight gathering, inventory management, and other areas. The move into digital will be one of the drivers of Nike sales once it will be possible to target more customers. This key strategy also intends to give a **faster product delivery**, which we agree has not been fully accomplished and it will also not be possible in the 2022 fiscal year due to the shipment shortage that is happening around the world. Nevertheless, we believe that Nike will be able to achieve it in the long-term, having a positive impact on its sales, since they will be able to provide a better customer experience. Nike also wants to **accelerate innovation and product creation**. Therefore, the company plans to reduce its styles by 25% and to present a wider selection of its key franchises. This has already started to be implemented with, for example, one key pair of shoes – Nike Air Force. We believe that Nike will be able to meet its goals since it had always been a leader when it comes to product innovation, which will have a positive impact on the company's sales.

Another strategy that Nike is implementing is the **Nike Direct organization**, which brings together Nike.com, Direct-to-Consumer retail, and Nike+ digital products, to improve and expand Nike's

membership experience globally. This strategy is key to Nike's revenues as the company intends to have 60% of sales driven by Nike Direct until 2025. We believe that Nike will be able to accomplish this goal but only during the fiscal year of 2027. Nevertheless, this strategy is one of the best ones for Nike's revenues growth because it allows the company to improve its profit margin and, consequently, to have better operating results. This strategy implemented by Nike has a strong positive impact on our valuation.

- Partnerships

Partnerships are the best way to maximize the sales growth of the firm. It is an opportunity for Nike to make itself known and to expand even further. Nike has been made a lot of partnerships with singular athletes, national teams, and leagues. The firm has settled the contract to be the representative brand of NBA, NBA Development League, and WNBA, starting in the 2017-2018 basketball season. This allowed Nike to consolidate its position in North America, but also in China due to the Chinese people's passion for the NBA. Adidas, the last official brand representing the NBA, had a tiny gain from it, after a decade of being the apparel supplier of American basketball, the firm's share of United States basketball footwear was about 3% compared to 96% of Nike. Additionally, Nike will continue to provide all 32 NFL teams until 2028.

Besides that, the company recently made the largest and longest partnership in history, a 10-year deal with U.S. Soccer, in order to outfit the men's and women's national teams and also the youth, futsal, Paralympic, and beach teams. In the top paid endorsement contracts to sports players, Michael Jordan comes in first with \$60 million yearly, followed by Tiger Woods with \$20 million per year, and, in third place Rafael Nadal with \$10 million yearly. The company is also partnering up with some of the most strong and prominent women in the world, like Megan Thee Stallion, aiming to inspire and encourage female athletes.

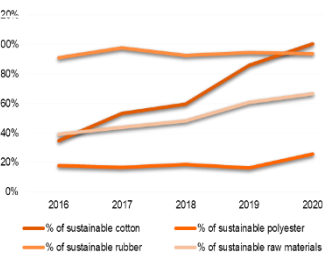
All these initiatives allow Nike to boost its brand awareness and to preserve its dominant position. Therefore, we believe that the efforts and expenses in sponsorships will maintain the same evolution in the future.

Nike's budget is uniformly distributed by several sports. However, Adidas prioritizes football as its headquarters are in Europe where football is the main successful export product and the only one to gain global exposure. Therefore, Adidas spends 75% of its partnership budget on football, while Nike devotes 50%. The major difference is that Adidas focuses on deals with individual basketball players, for instance, Trae Young and James Harden, instead of agreements with leagues like Nike. Nevertheless, Adidas also manufactures NHL jerseys. In 2020, Nike's deal value totaled \$1.673,4 million, while Adidas spent less, \$1.405 million in total. Despite this, as a percentage of revenues, Nike does not expend as much as Adidas.

- Sustainability

As consumer preferences are shifting towards more conscious consumption, focus on sustainability, is Nike's concern to move to a zero strategy if the company wants to survive in this new world. Nike has already established a plan to reduce its impact on carbon emissions, energy, and water usage since only its materials account for more than 70% of any product's footprint. As a result, Nike had become a more sustainable brand in the past few years as it was able to produce sustainable apparel products with at least 50% of recycled content and sustainable

Exhibit 11: Use of sustainable materials as % of total raw materials



Source: Bloomberg

shoes with at least 20% of recycled content by weight. Since 2020, 100% of the cotton used in all Nike's products is organic, recycled, or better cotton; all of Nike's AirMI facilities in North America are powered by 100% renewable wind energy; Nike was able to reduce 35% in energy use and carbon emission in textile dyeing and finishing. Since 2016, Nike increase the percentage of sustainable materials (cotton, polyester, and rubber) used in their products from 39,10% to 66,38%, which represents a CAGR of 14,14%. All these key achievements were essential to contribute to a zero-strategy focused on consumer preferences.

This is a key part of Nike's strategy as it will drive the company's revenues and it has an impact on the cost of sales. However, in terms of gross margin, the impact is lower. Sustainable materials are more expensive, and these products imply costly ecological procedures, nevertheless, they usually are sold at higher prices and consumers are willing to pay more to have access to more sustainable and high-quality products, which positively contributes to the company's revenues.

The goals for 2025 are to reduce its carbon footprint by 65% in owned and operated spaces and by 30% across its extended supply chain; to reach 100% of renewable energy in all owned or operated facilities; to reduce 10% of waste per unit; to reduce 25% in freshwater use per kg, among others. We believe the company will be able to meet its targets which will have a positive impact on Nike's operating results and will help the company to grow and to target a lot newer customers.

Valuation

Discounted Cash Flow Model

Exhibit 12: DCF Valuation Output

DCF Valuation	
WACC	4.35%
Growth Rate	2.56%
Enterprise Value	\$ 302,354
Debt and debt equivalents	\$ -12,811
Equity Value	\$ 289,542
Shares Outstanding (millions)	1573
Target price FY2022	\$ 184.1
Current price	\$ 163.9
Upside	11.11%

Source: Analyst Estimates

The valuation of Nike was based on a DCF approach as we believe it is the best methodology to include all the assumptions and growth drivers we considered about Nike's business, which can provide extremely detailed information.

Therefore, we forecasted the cash-flows of our DCF model for the next 9 years. Hence, our forecast period starts in 2022 and ends in 2030. With our model, we projected a discounted **terminal value** of \$361.293 million that was estimated considering our WACC and long-term growth rate (2,56%). This resulted in an **operating enterprise value** of \$292.349 million which, after adding up the value of non-operating items of \$10.005 million, generates an **enterprise value** of \$302.354 million. With **debt and debt equivalents** of \$12.811 million, our equity value equals \$289.542 million. Considering that we are assuming the company will have the same amount of shares it has as of 2021 (1573 million of shares outstanding), we were able to estimate a target share price of 184 dollars per share. As Nike's current price is 166,90 dollars, our recommendation for prospective investors is to **BUY** Nike shares, as it represents a total return of 11,11%, which includes expected dividends of 0,275 dollars.

Revenues

One of the most crucial parts of the valuation is to forecast revenues since many other captions depend on it. The evolution of revenues will depend on the average selling price, demand size, and, implicitly, on fashion trends, which affect consumer preferences. The tendency is for the population to increase health consciousness, leading to larger participation in sports activities,

which will imply a very positive impact on sportswear companies. It is important to note that, in general, Nike sales are higher in the first and third quarters due to the launch of new collections.

In this sense, we believe that Nike will emerge from the crisis in a stronger position, maintaining its advantage in relation to other competitors. So, we forecasted that Nike will reach \$56 billion by 2025 and \$65 billion by 2030, derived from the ability to expand its margins.

More specifically, we expect that the digital channel will represent 42,40% of sales by 2025 and around 48% by 2030, consequently, because of this large growth, direct-to-consumer which is currently 36,76% of the business, will be about 59% by 2025. In absolute terms, e-commerce sales will correspond to \$23.938 million in 2025 and \$30.875 million in 2030. This high online growth will be derived from the total number of website visitors, which in our perspective will substantially increase in the next years due to the evolution of Internet users. Nowadays, the majority of the population already have access to the Internet (59,68%) and we believe that by 2030 this value will increase to 86,57%. The Internet is an important tool to corporations as the trend is to customers shop online instead of in physical stores. This tendency became more notorious after COVID-19 when the paradigm of society has changed drastically.

Currently, wholesale customers contribute most to sales, about 58% of total revenues. However, this percentage is decreasing over time, and we assumed that the negative evolution will continue in the future because Nike desires to provide a consistent premium shopping experience to its customers, and therefore, the firm will try to sell most of its products directly in its own channels. Thus, sales to retailers will amount to, approximately, 32,5% in 2030, which represents a value of \$21.015 million, less than the current \$25.898 million.

Additionally, the experience of going to a physical store will also evolve and innovate due to the fact that Nike wants to alter the concept of their stores in the following years for Nike Live-style stores. This strategy will be enough to expand revenues of physical own stores, achieving \$9.620 million in 2030, 32,32% higher than the revenues of \$7.270 million recorded in the last available fiscal year (2021). Nevertheless, its importance in total sales will vary from 16,32% in 2021 to 14,86% in 2030.

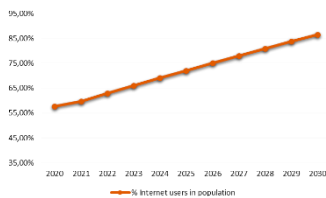
As it is possible to see in exhibit 14, the digital will observe a high growth in the future, becoming the preferred channel for consumers. The variation of other distribution channels will be practically irrelevant when compared to this one.

The Converse sales were also anticipated using the same two drivers mentioned above (price and quantity sold). Finally, for Corporate and Global Brand Divisions, as both represent a tiny percentage of revenues, we assumed for the future the last reported fiscal year.

▪ Average Selling Price

In order to estimate the current prices, we reviewed the products offering, available on the Nike website. In this sense, the average current selling prices of \$92 for Nike and \$88 for Converse were computed based on the relevance of each product category in the last available fiscal year and, we assumed that these percentages will remain in the future. Regarding Nike Brand, footwear will represent 66,29% of total sales, apparel 30,44%, and equipment only 3,27%. In the case of Converse, footwear will have a greater weight accounting for 90,07% of revenues, which is in line with the major importance that consumers give to shoes.

Exhibit 13: Internet Penetration



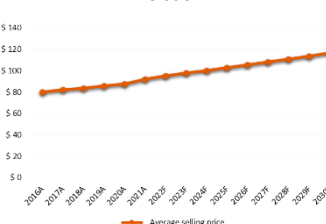
Source: Statista

Exhibit 14: Revenues Evolution



Source: Company Data and Analyst Estimates

Exhibit 15: Average Selling Price Evolution



Source: Nike Website and Analyst Estimates

As a simplification, the average selling price was considered equivalent for both digital commerce and owned retail stores and, therefore, we are implicitly inferring that consumer preferences are identical across channels as well as the existing inventory.

Referring to the last distribution channel, it is a popular practice in the footwear industry for wholesale customers to get 50% of the final price, we also used this approach in our model, achieving a value of \$46 for 2021.

From 2016 to 2021, Nike's unit prices CAGR was approximately 3%, so we estimate the growth trend to remain at a rate of 2,56%, which is the expected global inflation.

■ Demand Size

This value driver was predicted differently in each distribution channel. However, all channels had one similar impact, the supply chain issues due to COVID-19, which will negatively influence the quantity sold in 2022 by 2%. The total quantity sold grew in the last three years with a CAGR of 3,86%, nevertheless, physical stores affected it negatively with a CAGR of -4,57% and wholesale customers had almost zero contribution to this value. On the contrary, digital commerce observed a CAGR of 43,63% from 2018 to 2021, being Nike's sales growth driver.

Regarding **own stores**, the demand size was predicted based on two factors: the total number of stores and the expected GDP growth. Since Nike intends to open 150 to 200 stores, with some innovative characteristics such as small footprint and digitally enabled, in North America, Africa, and the Middle East and close some of the traditional stores, we forecasted the revenues in order to keep pace with this change. Therefore, the CAGR of the total quantity sold from 2021 to 2025 will be 3,55% with an absolute value ranging from 79 million annually to 91 million. Thereafter, we assumed that only a few traditional stores will close, without any new openings due to the growing preference for online, consequently, the CAGR from 2025 to 2030 will decrease to -1,92%, and the demand volume in 2030 will be approximately 82 million.

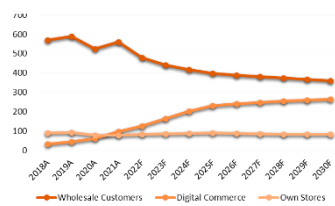
Since Nike has been culling the number of retailers it deals with, we anticipate a decrease in **wholesale customer** quantities, with a more significant reduction in the next two years. This shift is part of Nike's strategy, mentioned before as the consumer direct offense, and it will imply a CAGR in the following 9 years of -4,84%, in accordance with revenues decline.

Lastly, the amount sold in **e-commerce** will depend on the conversion rate (4,30%) and estimated pageviews of nike.com. Hence, there will be a sharp rise until 2025 and then the quantity will slightly expand, as the variation in the global internet penetration rate and GDP. To demonstrate this, the amount of products sold was expected to be 99 million units in 2021 and 232 million in 2025 with a CAGR of 23,86%. While, from 2025 to 2030, the CAGR will be equal to 2,60%.

Gross Margin

Gross margin has been the major weakness of Nike. Since 2016, this ratio has been decreasing from 48,25% to 46,49%, which can be explained by a bigger growth in the cost of sales compared to the growth of revenues. Although this value is very high, relative to most companies, when compared to its peers, Nike is the worst, representing the lowest gross margin since 2019. This can be explained by the performance of Global Brand Divisions and Converse segments, because NIKE Brand's gross margin in 2021, equals 53,67% which is much higher than 46,49%.

Exhibit 16: Quantity Sold per segment



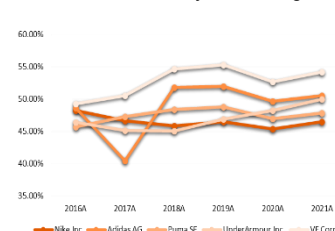
Source: Analyst Estimates

Exhibit 17: Gross Margin evolution



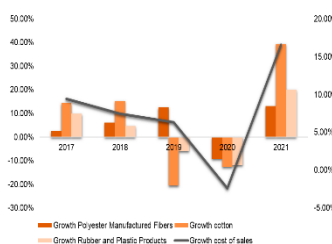
Source: Company Data and Analyst Estimates

Exhibit 18: Industry Gross Margin



Source: Company Data and Bloomberg

Exhibit 19: Raw Materials Prices vs Cost of Sales Evolution



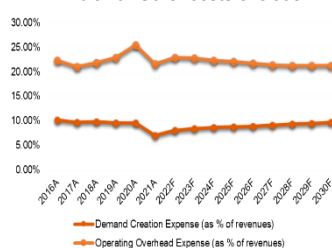
Source: Company Data and FRED Economic Data

Still, our strongest segment, which is footwear, is the one that presents the lowest gross margin (48,23%) within NIKE Brand whereas apparel presents the strongest gross margin (57,83%). We believe that in 2022, Nike's gross margin will be even worse (42,50%) due to its supply chain issues, which are lowering its volume production and slowing the delivery of its products, and as the cost of raw materials, especially cotton and rubber is nearly 18% higher than one year ago.

Since 2016, Nike's cost of sales evolution shows correlation with these two raw materials, therefore, we believe they will evolve in the same direction. After 2022, we expect Nike to be able to improve its gross margin as these problems are expected to cease. Also, we believe that Nike will raise its market share, which consequently will enhance its revenues. As a result, its revenues will be expected to increase more than the increase in the cost of sales, with a gross margin in 2030 of 44,84%.

Other Costs

Exhibit 20: Other costs evolution



Source: Company Data and Analyst Estimates

One of the most important aspects of a brand like Nike, a market leader in a competitive industry, is to keep its connection with the consumers, keep them engaged and interesting in their brand and sustain its popularity. Thus, marketing expenses are crucial for Nike to maintain or increase its competitiveness. We believe that Nike will increase its marketing expenses, included in demand creation expense caption, to 16% of revenues in 2022 and decrease it to 4,5% of their revenues in 2030. As Nike is moving towards a direct-to-consumer strategy, it will need to invest more in advertising and promotion costs in the next few years. After that period, we consider that Nike will not have to invest so much in marketing expenses since they will have already a vast market share and consumers will be already engaging with the company and its brand.

The operating overhead expense consists mostly of wage and benefit-related expenses and other costs related to rent and stores. Thus, as Nike is growing its business, these costs necessarily need to increase to follow up the company. As a percentage of revenues, we believe operating overhead expenses will be kept steady till 2030, fluctuating between 23% and 21%, as there are no reasons to believe that this percentage needs to be different.

Financials

Multiples

The idea behind this method is that companies should trade at a similar multiple if they are part of the same industry and have identical performance. In this sense, several multiples were used: Enterprise Value to EBITDA (EV/EBITDA), Enterprise Value to EBIT (EV/EBIT), Enterprise Value to Revenues (EV/Revenues), and Price to Earnings ratio (P/E). It is important to mention that our valuation was based on forward-looking multiples instead of backward-looking multiples as the company's value is not related to sunk costs, but with future profits.

Firstly, we identified similar companies based on the global presence, operating performance, and market segments, then we ranked those peers considering a set of criteria: Gross Margin, EBITDA Margin, EBIT Margin, and Net Debt to Equity ratio (book value), which allowed to compare the capital structure, growth, and profitability of Nike in relation to its competitors. Thus, only firms with extreme values were removed from the analysis, resulting in a final group

Exhibit 21: Similar Companies

Companies Selection	
NIKE Inc	
Adidas AG	
VF Corp	
Puma SE	
Under Armour Inc	
Lululemon Athletica Inc	
Tapestry Inc	
Deckers Outdoor Corp	
Columbia Sportswear Co	
Capri Holdings Ltd	
Crocs Inc	
LVMH SE	
Fast Retailing Co Ltd	

Source: Analyst Assumptions

composed of eight peers, as it is possible to see in exhibit 21.

The P/E ratio was not considered in the valuation because it is impacted by a firm's capital structure and earnings volatility. Regarding EV/Revenue, it can be a useful approach when valuing corporations with unstable or negative profits.

Lastly, the biggest drawback of EV/EBITDA is the fact that it does not include capital expenditures, and therefore, can overvalue the estimation. As a result, we can conclude that EV/EBIT is the most acceptable multiple since this industry is capital-intensive, so identified by the high level of investments. Nevertheless, the average of EV/EBIT multiples results in a very low share price of \$106,14. This can be explained by Nike's position within the industry, as the most valuable footwear brand in the world and, therefore, presents superior multiples values when compared to other companies.

Looking more deeply into Nike's peers, it is imperative to realize that Puma SE is the most truly similar company, followed by Adidas AG. Puma has a 4,33% EBIT margin deviation, a 2,51% EBITDA margin deviation and a 3,54% gross margin deviation.

Based on the relative approach, we reached the conclusion that the market is overestimating the company and we would provide a sell recommendation. However, this refutes our DCF outcome, which is the most accurate method and the one we considered in the final assessment.

Ratios

Exhibit 23: Nike and Adidas ratios

	Current Ratios	
	Nike	Adidas
ROIC	40,42%	11,66%
ROA	21,78%	9,51%
ROE	44,86%	29,00%
EBIT Margin	15,78%	9,91%

Source: Bloomberg and Analyst Calculations

By analysing exhibit 23, we can conclude that Nike is by far more profitable than Adidas in terms of the value generated from its investments, with a larger ROA, ROE, and ROIC. This means that Nike is using its capital better to generate profits, when compared to its main opponent. As it is possible to observe, currently Nike produces a ROIC of 40,42%, a very high value in contrast to the cost of capital (4,35%). This indicates that Nike is creating 36,07% of value for each dollar that the company invests in capital. In the next fiscal year, we expect that this value will reduce significantly due to the problems in the production and distribution which Nike has been facing. Nevertheless, we believe Nike will still be able to surpass Adidas. From that moment onwards, the evolution will be consistently positive, providing a good signal to its investors.

Even with an EBIT margin above Adidas, Nike has at the same time a lower gross margin. This can be explained by higher variable costs in percentage of revenues but offset by smaller other costs.

NIKE, INC.

FOOTWEAR AND APPAREL

STUDENTS: BRUNA FARIA | DIANA CAMINHO

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COMPANY REPORT

17 DECEMBER 2021

Nike born to be a leader

- Based on our DCF valuation model, we expect a target price of **\$184** with an upside of **11,11%**, including expected dividends of **\$0,275**, in comparison with the current price of **\$163,90**. Therefore, the market is underestimating Nike stock thus we advise a BUY recommendation for Nike investors.
- Nike has shown a great path over the last few years presenting a revenues' CAGR of 6,59% from 2016 to 2021, resulting in considerable growth each year except for 2020, in which Nike presented a negative evolution of -4,38% on company sales due to COVID-19. Nevertheless, Nike was still able to perform better than its main competitors.
- Supply issues are affecting Nike's operating results due to a shipment and production shortage. Hence, the company needs to react quickly to maintain its leadership position.
- Additionally, Nike will focus on delivering customized service to its clients based on its key strategies of moving towards dominance of Nike Direct Operations and, consequently, to more digital commerce. For this purpose, Nike already started to cut off the affiliation with some wholesale partners and it is expected to continue this track.

Company description

Nike Inc is an American multinational with headquarters in the United States. The company dedicates to the design, manufacturing, and selling of footwear, apparel, and equipment is the leading seller in this industry with total revenue of more than 44,5 billion dollars in 2021.

Recommendation: **BUY**

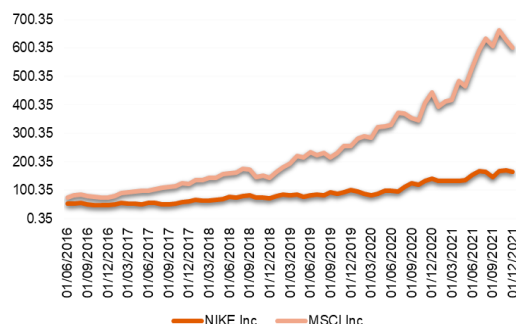
Price Target FY22: **184 \$**

Price (as of 15-Dec-21) **163,90 \$**

Bloomberg: NKE:US

52-week range (\$)	125,44 – 179,10
Market Cap (\$m)	271.107
Outstanding Shares (m)	1.573
Total Share Return	11,11%

Source: Bloomberg



Source: Bloomberg

(Values in \$ millions)	2021	2022E	2023F
Revenues	44.538	45.220	48.652
Gross Margin (%)	46,49%	42,50%	43,05%
EBITA	7.081	4.311	4.814
EBIT	7.028	4.258	4.761
EBIT Margin (%)	15,78%	9,42%	9,79%
NOPLAT	5.483	3.270	3.751
Net Debt	4.266	5.929	6.104
ROIC (%)	40,42%	24,50%	28,81%
Payout Ratio	29,54%	56,43%	51,37%

Source: Company Data

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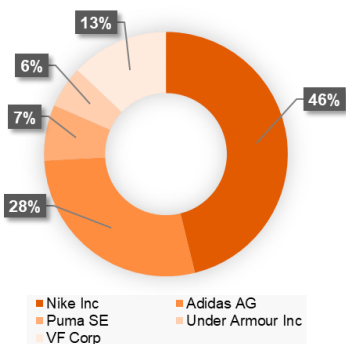
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Company Overview

Company Description

Nike Inc is a multinational with headquarters in Beaverton, Oregon, United States, founded in 1964, currently being the main seller in the footwear and apparel market. The principal business activity of the company is the design, development, advertising, and selling of footwear, apparel, as well as equipment and accessories, namely bags, socks, eyewear, sports balls, digital devices, timepieces, bats, and gloves. Besides Nike Brand, the firm also wholly owns some brands, Jordan and Converse, and a subsidiary, Nike IHM Inc, which sells various plastic products to other manufacturers. Even though most products are for athletic purposes, a large range is worn for leisure and casual uses (source: Nike annual report).

Exhibit 1: Market Share in 2020



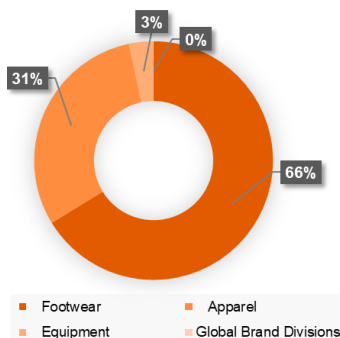
One of the major strengths of the company is its partnerships and licensing contracts with college and professional team and league logos. Innovation and high quality are the key factors when developing and manufacturing its products.

In the fiscal year 2020, Nike accounted for 75.400 employees and generated more than 37 billion dollars in revenues, which corresponds to a market share of 46,17%. Nike has outperformed all its competitors, followed by Adidas with 27,98%. Even in Europe, the Middle East, and Africa where Adidas has a large market position since 2018 Nike has achieved higher revenues figures.

Source: Company Data

Business Overview

Exhibit 2: Revenues per product category

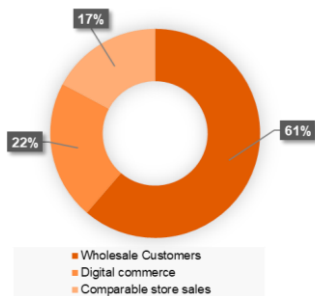


Source: Company Data

The company breakdown its operations into different categories: brands, distribution channels, and geographical regions.

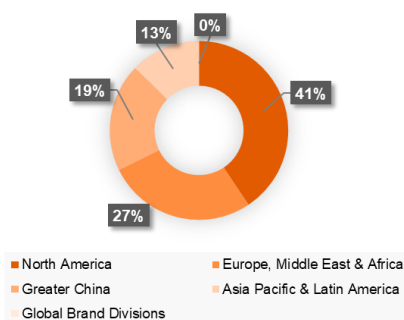
Nike Brand is the biggest source of revenues, contributing to approximately 95% over the years. Converse represents the remaining 5%.

In terms of product categories, the largest part of revenues is generated by footwear, in terms of percentage it represents 66% of Nike Brand in 2021, with a CAGR of 7,12% over the last 5 years. Additionally, there are two other categories: apparel (30% of Nike Brand sales in 2021) and equipment (the smallest category accounting for only 3% of the annual revenues). The fastest-growing category was footwear, from 2020 to 2021, this class grew 20,24%.

Exhibit 3: Revenues per distribution channel

Source: Company Data

Nike has two distribution channels: directly to consumers (DTC) - through digital platforms and self-owned retail stores (Nike Direct operations) - and retailers around the world. In 2021, the wholesale channel represents 58,15% of total revenues, however, this value has been decreasing over the years since 2019, at that time wholesale was 64,99% of sales. According to Mr. Donahoe, CEO of Nike, the company is working in delivering a very personalized experience to its consumers and, therefore, Nike will start selling only to fewer retailers, to have more control of its brand. Hence, by 2025 it is expected that wholesale customers represent around 36% of the total. Nowadays Nike Direct totalizes only 36,76% but will continue to increase, essentially through digital commerce, which is becoming the big priority of Nike. From 2016 to 2021, digital commerce had a CAGR of 39,87%, being 20,43% of total Nike brand sales in 2021, when in 2016 the segment amounted to 5,25%. Regarding self-owned retail stores, the company owns a total of 1048 (325 of these stores inside the United States and the remaining 723 in the international market), this channel totalized 16,32% of total Nike revenues in the last fiscal year available (2021). In a global view, since 2018 Nike has been closing some of these stores and focusing on their innovation and quality, to provide the best consumer experience. In this respect, Nike is switched to digitally enabled stores, which has been creating a positive impact on sales, after a year where the majority of stores were closed due to the COVID-19 pandemic.

Exhibit 4: Revenues per geography

Source: Company Data

Geographically, the Nike brand is presented in several regions. Currently, the company has the following breakdown: North America (41%), EMEA (27%), Greater China (19%), Asia Pacific, and Latin America (13%).

Regarding manufacturing, Nike is supplied by 191 footwear factories established in 14 countries, the major one accounting for approximately 9% of total shoe production in 2021. More specifically, Vietnam manufactured 51% of Nike brand footwear, Indonesia 24%, and 21% in China. Additionally, in terms of apparel factories, there are 344 that provided Nike, once again, Vietnam accounted for 30% of total apparel manufacture.

■ North America

Nike has already a significant position in North America, with 48,39% of the market share in 2020. This explains the less impressive growth in this area, from 2016 to 2019 the CAGR was 1,59%. Since almost all society is already served, there is not much room to grow. So, in the long term, we believe that the group will be capable to maintain its competitive advantage in this geographic segment, with a slight increase in its market share.

▪ Europe, Middle East, and Africa

Europe, the Middle East, and Africa is a region with a lot of competitiveness because Adidas, Nike's major competitor, has a relevant position in the European market. So, it might be extremely difficult for Nike to have a predominant position there. Nevertheless, Nike in the last years has been able to sell more than its arch-rival. Taking this into account, we believe that its market share will be enhanced in the future, reaching a value of around 46%, when currently amounts to 39,80%.

▪ Asia Pacific (including China) & Latin America

From 2016 to 2021, the CAGR of Greater China was 16,98%, being the region with the strongest growth, followed by Europe, the Middle East, and Africa with a CAGR of 8,65%. As in China, there is a substantial admiration for NBA, Nike became a market leader in this country. However, Nike recently expressed its concern about the fact that cotton in China's Xinjiang region is produced with forced labour. This declaration had a negative connotation for the Chinese government and Chinese social media and, it is taking the form of potential boycotts in China. Consequently, we expect that the growth tendency will be affected, implying even a slow decrease in the market share of this country. As a result, we can affirm that the Asia Pacific is an area where cultural questions are huge barriers when approaching the market.

Exhibit 5: Market Share Evolution



Source: Company Data and Analyst Estimates

Brand Overview

Nike Inc. is composed of Nike Brand, Jordan Brand, and Converse which help the group to be a market leader, by taking a position in different areas of the apparel and footwear industry as basketball and lifestyle.

▪ Nike

Nike is one of the most popular brands around the world, it offers numerous products for different preferences and is present in many locations, being able to capture a huge market share. Nike divides into six key categories - Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training, and Sportswear (sports-inspired lifestyle products). The company sells products designed for kids as well as for other sports (American football, baseball, cricket, golf, lacrosse,

skateboarding, tennis, volleyball, walking, wrestling, and other outdoor activities). Besides that, Nike, as a brand that likes to be connected with the consumers and keep them engaged, offers fitness and activity apps. In 2021, Nike Brand generated 42 billion dollars and grew at a CAGR of 6,75% since 2016.

Exhibit 6: Sales of Jordan Brand



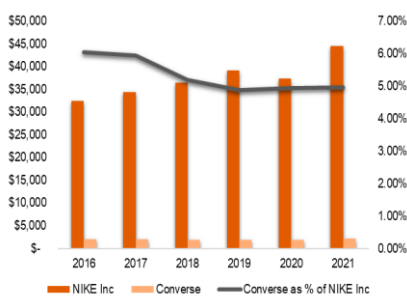
Source: Company Data

■ Jordan Brand

Jordan Brand was created by Nike in 1984 for the basketball player Michael Jordan who made this brand one of the top drivers of revenues for Nike. In 2021, Jordan Brand represented 11,14% of Nike Brand's total sales. This brand is mostly focused on basketball athletic and casual footwear, apparel, and accessories. Since 2016, Jordan Brand grew at a CAGR of 11,34%.

■ Converse

Exhibit 7: Sales of Converse Brand

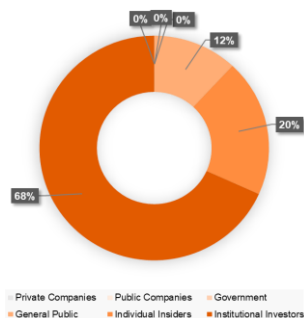


Source: Company Data

Converse was founded in 1908, being a remarkable brand since then. It started focusing on basketball shoes, with their most famous Chuck Taylor All-Star. Today, they are not only for basketball uses and were adapted to many different styles, without changing their appeal, turning them into iconic shoes. In 2003, after Converse filed for bankruptcy, Nike bought the company for 305 million dollars, being their only wholly-owned subsidiary brand. This was one of the best investments that Nike made as at the time, Converse revenues were just 200 million dollars and, at the moment, Converse presents revenues of around 2 billion dollars, thus the company grew at a CAGR of 14%. Since 2016, Converse Brand only grew at a CAGR of 2,44%. Converse is not the best driver of Nike's revenues since it simply represents 4,95% of total sales as of 2021.

Shareholder Structure and Dividend Policy

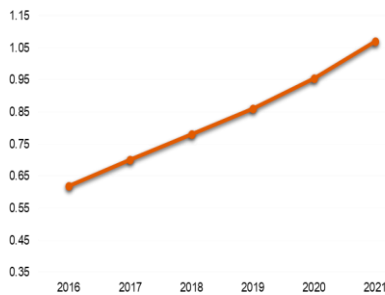
Exhibit 8: 2021 Nike's Shareholder Structure



Source: Nasdaq.com

Nike's shareholder structure splits into institutional investors, private investors, directors, and executive officers, and others. As of 2021, Nike had 1573 million shares outstanding of which institutional investors owned 68,3% of them. The Vanguard Guard represents Nike's second-largest shareholder accounting for 6,6% of common stock and BlackRock, Inc owns 6,0% of Nike's shares. The largest shareholder, Philip Knight, holds 17% of shares outstanding, which is considered a good sign as he is Nike's Top Key Executive. Publicly traded shares account for almost 12% of shares outstanding, which does not give them enough power to vote, although they can still have an impact on company policies.

Exhibit 9: Dividends Evolution

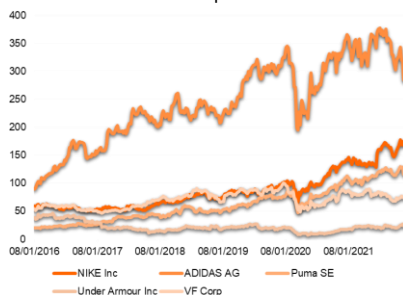


Source: Company Data

Since 2016, Nike had a relatively stable increasing dividend policy, as you can see on exhibit 9 and it was able to increase its dividends per share from 0,62 dollars to 1,07 dollars in 2021, which gives a positive sign to investors since it proves that the company is in a healthy financial state. The payout ratio has been fluctuating, but Nike was able to increase it from 2016 to 2021. As a mature company, we believe that Nike will be able to keep paying dividends and increase this amount throughout the years, achieving a dividend payout ratio of 51,76% in 2030.

Share Performance

Exhibit 10: Share Price Evolution of Nike and its peers



Source: Bloomberg

Nike started to be publicly traded in 1980 and was chosen to be listed on New York Stock Exchange (NYSE). Now, Nike is part of several indices such as the S&P 500, Russel 1000, Dow Jones Industrial Average, among others. From 1980 to 1995, the stock had a stable growth. Afterward, it has been increasing over the years. At the beginning of the fiscal year 2016, Nike's share price was \$55,2. At the end of fiscal 2021, it was \$154,49. During these 6 years, the stock had a CAGR of 18,71%, higher than S&P 500 (12,27%), Russel 1000 (7,86%), and Dow Jones Industrial Average (11,54%), so Nike had a better performance than the indexes it belongs to. When compared to its peers, Nike was able to outperform Adidas (ADD YY), Under Armour (UAA US), and V.F Corporation (VFC) which had a CAGR of 17,30%, -9,14%, and 5,98%, respectively. Puma (PUM DE) was the only one that outperformed Nike with a CAGR of 20,20%. This reflects Nike's good performance that it has been developing throughout the years.

Nike Strategy

At the beginning of the fiscal year 2018, Nike established one key strategy – Consumer Direct Offense – to have a better connection with its consumers. Nike intended to use the **digital** in order to achieve its goal, as it is a good approach to understand its key markets. In fact, Nike has been able to use the e-commerce on its advantage, since digital sales are stronger than ever (20,43% of total sales) and we believe they will be able to keep growing it to 47,70% in 2030, as Nike has been making a lot of investments on data and analytics, demand sensing, insight gathering, inventory management, and other areas. The move into digital will be one of the drivers of Nike sales once it will be possible to target more customers. This key strategy also intends to give a **faster product**

delivery, which we agree has not been fully accomplished and it will also not be possible in the 2022 fiscal year due to the shipment shortage that is happening around the world. Nevertheless, we believe that Nike will be able to achieve it in the long-term, having a positive impact on its sales, since they will be able to provide a better customer experience. Nike also wants to **accelerate innovation and product creation**. Therefore, the company plans to reduce its styles by 25% and to present a wider selection of its key franchises. This has already started to be implemented with, for example, one key pair of shoes – Nike Air Force. We believe that Nike will be able to meet its goals since it had always been a leader when it comes to product innovation, which will have a positive impact on the company's sales.

Another strategy that Nike is implementing is the **Nike Direct organization**, which brings together Nike.com, Direct-to-Consumer retail, and Nike+ digital products, to improve and expand Nike's membership experience globally. This strategy is key to Nike's revenues as the company intends to have 60% of sales driven by Nike Direct until 2025. We believe that Nike will be able to accomplish this goal but only during the fiscal year of 2027. Nevertheless, this strategy is one of the best ones for Nike's revenues growth because it allows the company to improve its profit margin and, consequently, to have better operating results. This strategy implemented by Nike has a strong positive impact on our valuation.

▪ Partnerships

Partnerships are the best way to maximize the sales growth of the firm. It is an opportunity for Nike to make itself known and to expand even further. Nike has been made a lot of partnerships with singular athletes, national teams, and leagues. The firm has settled the contract to be the representative brand of NBA, NBA Development League, and WNBA, starting in the 2017-2018 basketball season. This allowed Nike to consolidate its position in North America, but also in China due to the Chinese people's passion for the NBA. Adidas, the last official brand representing the NBA, had a tiny gain from it, after a decade of being the apparel supplier of American basketball, the firm's share of United States basketball footwear was about 3% compared to 96% of Nike. Additionally, Nike will continue to provide all 32 NFL teams until 2028.

Besides that, the company recently made the largest and longest partnership in history, a 10-year deal with U.S. Soccer, in order to outfit the men's and women's national teams and also the youth, futsal, Paralympic, and beach teams. In the top paid endorsement contracts to sports players, Michael Jordan comes in first with \$60 million yearly, followed by Tiger Woods with \$20 million per year, and, in

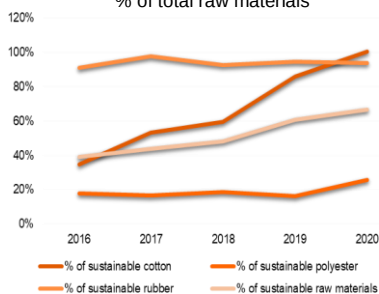
third place Rafael Nadal with \$10 million yearly. The company is also partnering up with some of the most strong and prominent women in the world, like Megan Thee Stallion, aiming to inspire and encourage female athletes.

All these initiatives allow Nike to boost its brand awareness and to preserve its dominant position. Therefore, we believe that the efforts and expenses in sponsorships will maintain the same evolution in the future.

Nike's budget is uniformly distributed by several sports. However, Adidas prioritizes football as its headquarters are in Europe where football is the main successful export product and the only one to gain global exposure. Therefore, Adidas spends 75% of its partnership budget on football, while Nike devotes 50%. The major difference is that Adidas focuses on deals with individual basketball players, for instance, Trae Young and James Harden, instead of agreements with leagues like Nike. Nevertheless, Adidas also manufactures NHL jerseys. In 2020, Nike's deal value totaled \$1.673,4 million, while Adidas spent less, \$1.405 million in total. Despite this, as a percentage of revenues, Nike does not expend as much as Adidas.

▪ Sustainability

Exhibit 11: Use of sustainable materials as % of total raw materials



Source: Company Data

As consumer preferences are shifting towards more conscious consumption, focus on sustainability, is Nike's concern to move to a zero strategy if the company wants to survive in this new world. Nike has already established a plan to reduce its impact on carbon emissions, energy, and water usage since only its materials account for more than 70% of any product's footprint. As a result, Nike had become a more sustainable brand in the past few years as it was able to produce sustainable apparel products with at least 50% of recycled content and sustainable shoes with at least 20% of recycled content by weight. Since 2020, 100% of the cotton used in all Nike's products is organic, recycled, or better cotton; all of Nike's AirMI facilities in North America are powered by 100% renewable wind energy; Nike was able to reduce 35% in energy use and carbon emission in textile dyeing and finishing. Since 2016, Nike increase the percentage of sustainable materials (cotton, polyester, and rubber) used in their products from 39,10% to 66,38%, which represents a CAGR of 14,14%. All these key achievements were essential to contribute to a zero-strategy focused on consumer preferences.

This is a key part of Nike's strategy as it will drive the company's revenues and it has an impact on the cost of sales. However, in terms of gross margin, the impact is lower. Sustainable materials are more expensive, and these products

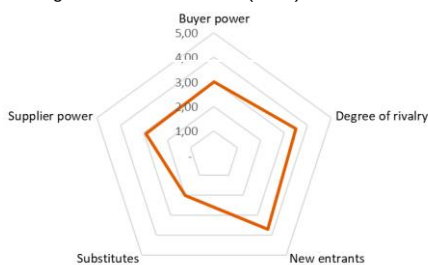
imply costly ecological procedures, nevertheless, they usually are sold at higher prices and consumers are willing to pay more to have access to more sustainable and high-quality products, which positively contributes to the company's revenues.

The goals for 2025 are to reduce its carbon footprint by 65% in owned and operated spaces and by 30% across its extended supply chain; to reach 100% of renewable energy in all owned or operated facilities; to reduce 10% of waste per unit; to reduce 25% in freshwater use per kg, among others. We believe the company will be able to meet its targets which will have a positive impact on Nike's operating results and will help the company to grow and to target a lot newer customers.

Industry Overview

Sector Analysis

Exhibit 12: Forces driving competition in the global footwear market (2018)



Source: Marketline 2020

The sector analysis is crucial in order to assess the future of the companies in the sector, based on the economic and financial state.

Nike is inserted in the consumer discretionary sector, more specifically in the footwear, apparel and accessories industry. Companies in this sector sell nonessential goods and services, therefore, tend to be more susceptible to the business cycle, which means a noticeable price sensitivity on the part of consumers. Since consumers tend to postpone these types of purchases in times of weak economic growth, companies need to be as innovative as possible.

In particular, the footwear, apparel, and equipment industry is seasonal and quite susceptible to fast fashion trends. The rapid change of styles and trends leads to a wide diversity of products available and, consequently, a high degree of differentiation in the market.

The sector has gained more prominence in recent years, the increase of health and fitness clubs, the importance of social media that encourages the practice of sports and the major recognition of sports stars have contributed to this positive stage.

Currently, the footwear market size amounts to \$391.350 million and it expects to expand by 11,70% per year until 2025, more specifically, it will reach \$609.162 million in 2025, driven by the rapid urbanization and growing preference for a healthy lifestyle. This will give the possibility for Nike sales to keep pace with this growing movement.

Nevertheless, the US footwear market is the highest in the world due not only to the number of buyers but also to consumption habits. For example, on average a citizen of the US purchases almost eight pairs of shoes per year. This implies a large number of consumers in the market and, as a result, a lower individual power. In 2021, the United States totaled a revenues value of \$81.254 million, followed by China with \$58.878 million. However, it is estimated that by 2025, China will come in first with a total value of \$106.645 million due to its high economic growth, while the United States will appear in second with \$105.123 million. In addition, China is presently the largest shoe supplier to the United States, with more than 50% of the total imported.

The barriers of entry are high since there are well-established companies like Nike and Adidas that can leverage large economies of scale. These companies can control prices, taking advantage of longstanding relationships with retailers, suppliers, and distributors. As a result, it is difficult for new entrants to survive and expand their operations, to avoid competition a good solution is entering the market as a niche player.

To conclude, clients look for quality, advanced materials, and technologies. So, in the future, only companies that manage to provide this over time will have loyal customers and will be successful in the market.

Peer Companies

The industry where Nike operates is highly competitive and it is composed of several players. In this sense, only the top competitors with similar products and targeting the same consumers were evaluated. Consequently, Adidas, Under Armour, Puma, and VF Corporation were the peers that we considered in our analysis.

▪ Adidas AG

Adidas AG was founded in 1924 in Germany and has its headquarter in Herzogenaurach. It is a multinational that designs and produces footwear, clothing, and accessories. Adidas is the second major sportswear manufacturer in the world, losing its position only to Nike. In 2005, the firm acquired Reebok sportswear company. In 2020, Adidas' revenue was 22 billion dollars, a decrease of 14,40% from the previous year. In terms of gross margin, in 2020 reached 49,66%. In 2020, Adidas Group accounted for 62.285 employees, while in 2019 there were 2.909 more workers.

Figure 1: Adidas Logo



- Under Armour Inc

Figure 2: Under Armour Logo



Under Armour Inc is an American company, with its global headquarters positioned in Baltimore, Maryland. Under Armour is specialized in manufacturing footwear, sports, and casual apparel. In 2020, the company sales totalized approximately \$4.475 million, which represents a decrease compared with past sales, its gross profit margin ascends to 47,88%. Under Armour's revenues start to decline some time ago due to mismanagement and an extremely promotional environment that diluted its brand premium. However, since March 2020, the company returned on offense and made considerable progress.

- Puma SE

Figure 3: Puma Logo



A German company that was founded in 1948, produces and designs athletic and casual shoes, apparel, and accessories. Puma is the third-largest sportswear company globally.

The firm has been public and listed on Frankfurt Stock Exchange since 1986. As of 2020, Puma's revenues were \$5.979 million and the company employed more than 14.374 people worldwide at that time, with a CAGR of 10,48% from 2016 to 2020.

- VF Corporation

Figure 4: VF Corp Logo



VF Corporation is headquartered in Denver, Colorado, being a global apparel and footwear company. In the last year available, 2020, its revenues totalized roughly 10,5 billion dollars, 2,16% higher than in 2019. Additionally, VF Corporation had a gross margin of 55,3 percent. Is important to note that 2018 was an exceptional year for VF Corp due to a spun-off from Kontoor brands.

In terms of performance, the leading position of Nike in the industry is unquestionable. Nike is by far the one with higher revenues, in 2020, the value was superior in 14.737 million dollars compared to its direct opponent Adidas.

Macroeconomic Environment

Economic Drivers

Exhibit 13: Global Inflation and GDP Growth Evolution and Forecasts



Source: OECD Data and World Bank Data

From 2020 to 2021, we were able to see an increase in the world GDP of 5,85%. This GDP growth was due to the slowdown of the economy in 2020, because of COVID-19, so the increase from 2020 to 2021 was higher. For forecasted GDP, OECD data was used as it seemed the most reliable source, achieving a value of 1,93% GDP growth in perpetuity. Regarding the world population, we used projections made by Worldometers, which reaches a growth of 0,84% in 2030. This leads to a GDP per capita growth rate at a steady state of 1,14%.

Regarding the global inflation rate, we used data from the World Bank for previous years. For forecasted values, we derived the expected inflation from the term structure of government bond rates. We used, as a nominal rate, a US 10-year government treasury bond and, as a real rate, a US 10-years TIPS, which yields a value of 2,56% for our inflation rate. However, as we are witnessing inflation growing at high levels, we believe that our estimated expected inflation was not reliable for 2021 and 2022, so we used projections from the International Monetary Fund for these two years. We believe that after that period, inflation will stabilize at 2,56%.

Risks

Nike is a multinational company that faces several risks daily, which can have a material negative impact on their sales, financial condition, and operating results. Below, we identify some key risks that, in case of an event, could undermine our forecasts of Nike's operations.

After the fiscal year of 2020, everyone realized that a pandemic could actually happen and that is one of the biggest risks of a business. COVID-19 affected Nike's business a lot since factories shut down, people were afraid of the unknown and revenues declined abruptly, as a result of an increase in unemployment rates, cancelation of sports events, decrease in retail traffic due to stores shutdowns, and reduction in opening hours, among other factors. The risk of COVID-19 is lower at the moment, since vaccination is happening all over the world, and we are getting back to normality. However, there is always a risk of

another lockdown or another virus outbreak. Therefore, a brand like Nike needs to be prepared for certain events as to focus even more on e-commerce.

Another risk, that is a constant in Nike's business, is the Global Economic Conditions since most products sold by Nike are manufactured and sold outside the US. This leaves Nike with exposure to fluctuations in foreign currency exchange rates relative to the US dollar. They already hedge its position on some foreign currencies to diminish and delay the effects of its fluctuations, but they cannot completely eliminate this risk. Nike is also exposed to fluctuations in the inflation rate and changes in credit rating or macroeconomic conditions. As a consequence of the last risk, Nike could be incapable to access financing in the credit and capital markets at acceptable rates, which will negatively impact the company's flexibility of getting debt to finance their projects. Prices and availability volatility of raw materials and commodities are other risks that can have a direct impact on Nike's costs of sales, gross margins, and profitability. Despite Nike does not buy itself the raw materials but rather the manufacturers that do not prevent it from influencing Nike's operating results. In fact, there is a possibility of contract manufacturers not being able to obtain financing to acquire raw materials, in case of a big increase in prices. In such circumstances, there might happen delays or non-delivery of Nike's products shipments.

Nike's industry faces high levels of competition, which could represent a risk to them, especially from its main peers – Adidas, Under Armour, Puma, and V.F Corporation. In case of Nike does not respond and anticipate its competitors' actions in time, it could have an impact on their costs, making them increase, which inevitably leads to lower demand. This would leave Nike in a situation where it will be forced to suggest retail prices for its products. Inherent, there is always the risk of losing market share to its competitors, so it is important for Nike to be always aware of what actions its peers are taking into place.

Changes in Consumer Preferences are also a constant and Nike needs to anticipate and respond to them. If Nike fails to adjust the products' offer, by developing new products, with different styles and designs and fails to influence its target with the marketing it has implemented, based on the trends and shifts in consumer preferences, it can present a decrease in its sales, an excess of inventories and a decrease in its profit margins.

One more key risk that is worth mentioning, is the Changes in Trade Policies and Import/Export Regulations. As we know, Nike is present in many countries, which unavoidably, brings political risks associated with that. Geopolitical conflicts, political unrest, civil strife, terrorist activity, acts of war, public corruption, expropriation, and other economic or political uncertainties in the United States or

internationally can have a negative impact or even interrupt the sale of Nike's products or other business operations that Nike has at those countries. Moreover, changing the foreign trade policies and laws can result in restrictions and economic disincentives on international trade and there is also a risk of failure to comply with such regulations.

Nike is also exposed to another risk, one that it is suffering in its fiscal year 2022 and it can happen at any moment. As the company has a Concentrated Source Base of Contract Manufacturers to supply a significant portion of footwear products and do not own or operate any footwear manufacturing facilities, any shut-down or slow-down in the manufacture of these products will affect Nike's inventories and sales.

Valuation

Discounted Cash Flow Model

Exhibit 14: DCF Valuation Output

DCF Valuation		
WACC		4.35%
Growth Rate		2.56%
Enterprise Value	\$	302,354
Debt and debt equivalents	\$	-12,811
Equity Value	\$	289,542
Shares Outstanding (millions)		1573
Target price FY2022	\$	184.1
Current price	\$	163.9
Upside		11.11%

Source: Analyst Estimates

The valuation of Nike was based on a DCF approach as we believe it is the best methodology to include all the assumptions and growth drivers we considered about Nike's business, which can provide extremely detailed information.

Therefore, we forecasted the cash-flows of our DCF model for the next 9 years. Hence, our forecast period starts in 2022 and ends in 2030. With our model, we projected a discounted **terminal value** of \$361.293 million that was estimated considering our WACC and long-term growth rate (2,56%). This resulted in an **operating enterprise value** of \$292.349 million which, after adding up the value of non-operating items of \$10.005 million, generates an **enterprise value** of \$302.354 million. With **debt and debt equivalents** of \$12.811 million, our equity value equals \$289.542 million. Considering that we are assuming the company will have the same amount of shares it has as of 2021 (1573 million of shares outstanding), we were able to estimate a target share price of 184 dollars per share. As Nike's current price is 163,90 dollars, our recommendation for prospective investors is to **BUY** Nike shares, as it represents a total return of 11,11%, which includes expected dividends of 0,275 dollars.

Revenues

One of the most crucial parts of the valuation is to forecast revenues since many other captions depend on it. The evolution of revenues will depend on the average selling price, demand size, and, implicitly, on fashion trends, which affect

consumer preferences. The tendency is for the population to increase health consciousness, leading to larger participation in sports activities, which will imply a very positive impact on sportswear companies. It is important to note that, in general, Nike sales are higher in the first and third quarters due to the launch of new collections.

In this sense, we believe that Nike will emerge from the crisis in a stronger position, maintaining its advantage in relation to other competitors. So, we forecasted that Nike will reach \$56 billion by 2025 and \$65 billion by 2030, derived from the ability to expand its margins.

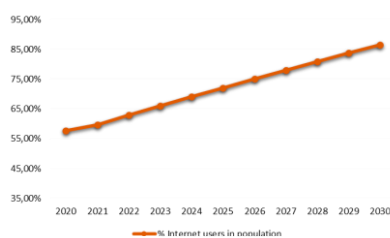
More specifically, we expect that the digital channel will represent 42,40% of sales by 2025 and around 48% by 2030, consequently, because of this large growth, direct-to-consumer which is currently 36,76% of the business, will be about 59% by 2025. In absolute terms, e-commerce sales will correspond to \$23.938 million in 2025 and \$30.875 million in 2030. This high online growth will be derived from the total number of website visitors, which in our perspective will substantially increase in the next years due to the evolution of Internet users. Nowadays, the majority of the population already have access to the Internet (59,68%) and we believe that by 2030 this value will increase to 86,57%. The Internet is an important tool to corporations as the trend is to customers shop online instead of in physical stores. This tendency became more notorious after COVID-19 when the paradigm of society has changed drastically.

Currently, wholesale customers contribute most to sales, about 58% of total revenues. However, this percentage is decreasing over time, and we assumed that the negative evolution will continue in the future because Nike desires to provide a consistent premium shopping experience to its customers, and therefore, the firm will try to sell most of its products directly in its own channels. Thus, sales to retailers will amount to, approximately, 32,5% in 2030, which represents a value of \$21.015 million, less than the current \$25.898 million.

Additionally, the experience of going to a physical store will also evolve and innovate due to the fact that Nike wants to alter the concept of their stores in the following years for Nike Live-style stores. This strategy will be enough to expand revenues of physical own stores, achieving \$9.620 million in 2030, 32,32% higher than the revenues of \$7.270 million recorded in the last available fiscal year (2021). Nevertheless, its importance in total sales will vary from 16,32% in 2021 to 14,86% in 2030.

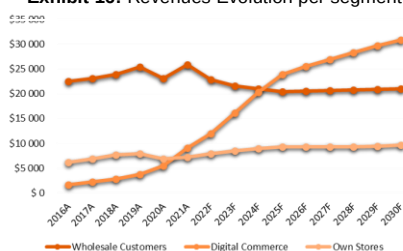
As it is possible to see in exhibit 16, the digital will observe a high growth in the future, becoming the preferred channel for consumers. The variation of other distribution channels will be practically irrelevant when compared to this one.

Exhibit 15: Internet Penetration



Source: Statista

Exhibit 16: Revenues Evolution per segment



Source: Company Data and Analyst Estimates

The Converse sales were also anticipated using the same two drivers mentioned above (price and quantity sold). Finally, for Corporate and Global Brand Divisions, as both represent a tiny percentage of revenues, we assumed for the future the last reported fiscal year.

▪ Average Selling Price

In order to estimate the current prices, we reviewed the products offering, available on the Nike website. In this sense, the average current selling prices of \$92 for Nike and \$88 for Converse were computed based on the relevance of each product category in the last available fiscal year and, we assumed that these percentages will remain in the future. Regarding Nike Brand, footwear will represent 66,29% of total sales, apparel 30,44%, and equipment only 3,27%. In the case of Converse, footwear will have a greater weight accounting for 90,07% of revenues, which is in line with the major importance that consumers give to shoes.

As a simplification, the average selling price was considered equivalent for both digital commerce and owned retail stores and, therefore, we are implicitly inferring that consumer preferences are identical across channels as well as the existing inventory.

Referring to the last distribution channel, it is a popular practice in the footwear industry for wholesale customers to get 50% of the final price, we also used this approach in our model, achieving a value of \$46 for 2021.

From 2016 to 2021, Nike's unit prices CAGR was approximately 3%, so we estimate the growth trend to remain at a rate of 2,56%, which is the expected global inflation.

▪ Demand Size

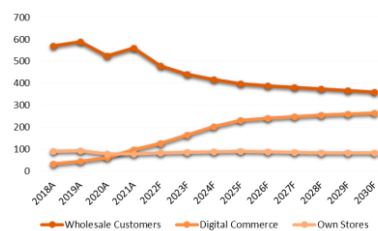
This value driver was predicted differently in each distribution channel. However, all channels had one similar impact, the supply chain issues due to COVID-19, which will negatively influence the quantity sold in 2022 by 2%. The total quantity sold grew in the last three years with a CAGR of 3,86%, nevertheless, physical stores affected it negatively with a CAGR of -4,57% and wholesale customers had almost zero contribution to this value. On the contrary, digital commerce observed a CAGR of 43,63% from 2018 to 2021, being Nike's sales growth driver.

Exhibit 17: Average Selling Price Evolution



Source: Nike Website and Analyst Estimates

Exhibit 18: Quantity Sold per segment



Source: Analyst Estimates

Regarding **own stores**, the demand size was predicted based on two factors: the total number of stores and the expected GDP growth. Since Nike intends to open 150 to 200 stores, with some innovative characteristics such as small footprint and digitally enabled, in North America, Africa, and the Middle East and close some of the traditional stores, we forecasted the revenues in order to keep pace with this change. Therefore, the CAGR of the total quantity sold from 2021 to 2025 will be 3,55% with an absolute value ranging from 79 million annually to 91 million. Thereafter, we assumed that only a few traditional stores will close, without any new openings due to the growing preference for online, consequently, the CAGR from 2025 to 2030 will decrease to -1,92%, and the demand volume in 2030 will be approximately 82 million.

Since Nike has been culling the number of retailers it deals with, we anticipate a decrease in **wholesale customer** quantities, with a more significant reduction in the next two years. This shift is part of Nike's strategy, mentioned before as the consumer direct offense, and it will imply a CAGR in the following 9 years of -4,84%, in accordance with revenues decline.

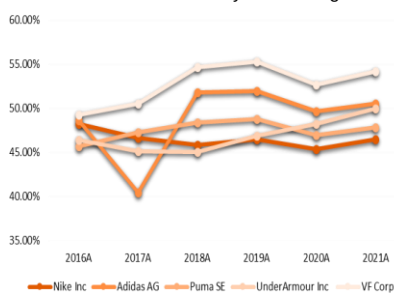
Lastly, the amount sold in **e-commerce** will depend on the conversion rate (4,30%) and estimated pageviews of nike.com. Hence, there will be a sharp rise until 2025 and then the quantity will slightly expand, as the variation in the global internet penetration rate and GDP. To demonstrate this, the amount of products sold was expected to be 99 million units in 2021 and 232 million in 2025 with a CAGR of 23,86%. While, from 2025 to 2030, the CAGR will be equal to 2,60%.

Exhibit 19: Gross Margin evolution



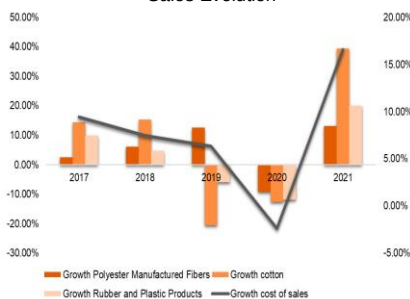
Source: Company Data and Analyst Estimates

Exhibit 20: Industry Gross Margin



Source: Company Data and Bloomberg

Exhibit 21: Raw Materials Prices vs Cost of Sales Evolution



Source: Company Data and FRED Economic Data

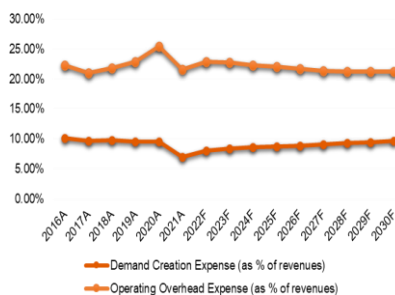
Gross Margin

Gross margin has been the major weakness of Nike. Since 2016, this ratio has been decreasing from 48,25% to 46,49%, which can be explained by a bigger growth in the cost of sales compared to the growth of revenues. Although this value is very high, relative to most companies, when compared to its peers, Nike is the worst, representing the lowest gross margin since 2019. This can be explained by the performance of Global Brand Divisions and Converse segments, because NIKE Brand's gross margin in 2021, equals 54,51% which is much higher than 46,49%. Still, our strongest segment, which is footwear, is the one that presents the lowest gross margin (52,61%) within NIKE Brand whereas apparel presents the strongest gross margin (58,67%). We believe that in 2022, Nike's gross margin will be even worse (42,50%) due to its supply chain issues, which are lowering its volume production and slowing the delivery of its products, and as the cost of raw materials, especially cotton and rubber is nearly 18% higher than one year ago.

Since 2016, Nike's cost of sales evolution shows correlation with these two raw materials, therefore, we believe they will evolve in the same direction. After 2022, we expect Nike to be able to improve its gross margin as these problems are expected to cease. Also, we believe that Nike will raise its market share, which consequently will enhance its revenues. As a result, its revenues will be expected to increase more than the increase in the cost of sales, with a gross margin in 2030 of 44,84%.

Other Costs

Exhibit 22: Other costs evolution



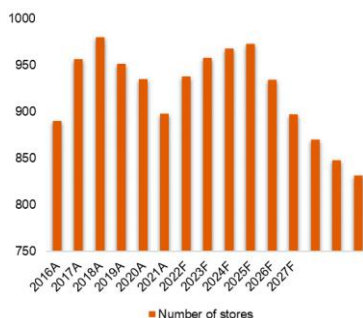
Source: Company Data and Analyst Estimates

One of the most important aspects of a brand like Nike, a market leader in a competitive industry, is to keep its connection with the consumers, keep them engaged and interesting in their brand and sustain its popularity. Thus, marketing expenses are crucial for Nike to maintain or increase its competitiveness. We believe that Nike will increase its marketing expenses, included in demand creation expense caption, to 16% of revenues in 2022 and decrease it to 4,5% of their revenues in 2030. As Nike is moving towards a direct-to-consumer strategy, it will need to invest more in advertising and promotion costs in the next few years. After that period, we consider that Nike will not have to invest so much in marketing expenses since they will have already a vast market share and consumers will be already engaging with the company and its brand.

The operating overhead expense consists mostly of wage and benefit-related expenses and other costs related to rent and stores. Thus, as Nike is growing its business, these costs necessarily need to increase to follow up the company. As a percentage of revenues, we believe operating overhead expenses will be kept steady till 2030, fluctuating between 23% and 21%, as there are no reasons to believe that this percentage needs to be different.

CAPEX

Exhibit 23: Number of Stores Evolution



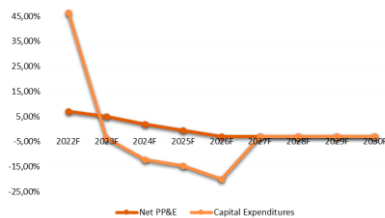
Source: Company Data

As it is possible to observe the CAPEX of Nike is falling throughout the years, representing a smaller percentage on sales. On one hand, Nike is decided to focus on e-commerce, which implies a decrease in expenditures. But, on the other hand, the company is also focused on innovating its brand, mainly by changing its physical stores, making them digitally enabled. According to the exhibit 23, since 2019 Nike is reducing the number of owned stores, which is evidence of the focus on service quality, as well as the importance of online sales. Our expectation is that in 2022, 40 new enabled digitally stores will open,

in 2023 will be 20, in 2024 the company will deaccelerate the investment, therefore will be only 10 new stores and by 2025 the value will ascend to just 5. These values are already offset by the number of traditional stores that will close. After this period, there will be no openings and, therefore, the total amount of stores will start to reduce.

Based on that, our belief is that PP&E will slightly increase at lower and lower rates until 2025 when all stores are established. This will affect CAPEX to expand in 2022 (the year in which more stores opened) and, in the following years, it will diminish at a progressively negative rate till 2025. After that, PP&E and, consequently, CAPEX will start decreasing at a constant rate of -3% since the digital will already be ingrained.

Exhibit 24: PP&E and Capital Expenditures Evolution



Source: Company Data and Analyst Estimates

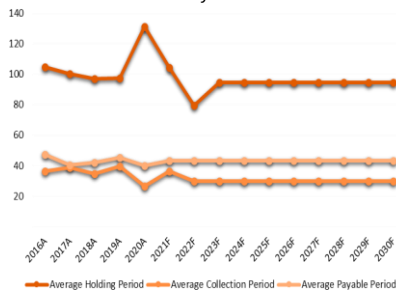
Net Working Capital (NWC)

We believe that Nike will increase its ability to meet its short-term obligation in the future since it is already a mature company with a low-risk profile. This will allow Nike to keep investing and growing. Therefore, we emphasize here three main elements that have a key influence on Net Working Capital.

Accounts Receivable driven by sales and the number of days, on average, that it takes for Nike to collect sales from its clients have been a little bit irregular in the past 6 years. Though, we believe that Nike will be able to maintain a constant level of average collection period of 30 days, as it will cut off its relationship with a lot of wholesalers and we expect that the ones that they will keep as partners are those that Nike has a better relationship and stronger trade agreements which will help to reduce the average collection period.

Concerning Inventories, from 2016 to 2019, Nike decreased their average holding period, which demonstrated good inventory management from the company. Exceptionally, in 2020, this number suffered an increase of 34 days, mainly due to COVID-19. Despite that, we believe that Nike will be able to keep reducing the number of days it takes to turn inventory into sales to 95 days since the company is investing in market campaigns for inventories to be sold faster while still protecting the long-term health of Nike stores. However, at the moment, Nike is struggling with the manufacture of its products in Vietnam due to Covid. Factories are not producing because they have a lack of workers and some of them shut down. Besides that, there is a world shortage of shipping containers which is affecting Nike's products delivery. With these events, Nike will have a shortage of inventories during the year 2022, especially compromising the

Exhibit 25: Activity Ratios Evolution



Source: Company Data and Analyst Estimates

holiday season sales. Therefore, as the company does not expect the situation to normalize until fiscal 2023, we believe that during the fiscal year of 2022, the average holding period will be 80 days, since 50 percent of Nike production occurs in Vietnam.

When it comes to Accounts Payables, we expect Nike to keep the same number of days, on average, that it takes to pay its suppliers (43 days) since we believe that they will maintain their efficiency. Thus, accounts payables are increasing with the increase of the cost of sales.

WACC

Exhibit 26: Cost of equity

Cost of equity	4,40%
Risk-free rate (Rf)	1,548%
Market Risk Premium	5%
Company's beta	0,571

Source: Trading Economics, Duff & Phelps's US Equity Risk Premium guidance, Yahoo Finance and Analyst Calculations

For valuation purposes, we projected the Weighted Average Cost of Capital (WACC) using the cost of equity, cost of debt, tax rate, and the respective target Debt to Equity ratio as inputs.

We considered the cost of equity under the Capital Asset Pricing Model (CAPM), which includes the following inputs: risk-free rate, market risk premium, and beta factor.

For the computation of the risk-free rate, we used as a proxy the 10-year US Treasury Bond (1,548%) since the credit rating is AAA and therefore the likelihood of default is considerably low. To obtain the market risk premium, we considered 5% as recommended in Duff & Phelps's US Equity Risk Premium guidance, which is good research within the industry and for finance valuation purposes. We estimated the raw beta by regressing the excess monthly returns of Nike against the MSCI World index (in dollars) of the past 5 years, resulting in a raw beta of 0,372. However, the standard error of this regression is 0,009 and, consequently, the true beta will range between 0,354 and 0,390 with a 95% confidence interval. This variation will impact the company value, so we evaluated it in the Sensitivity Analysis part. In order to improve the beta estimation, we applied this method to other comparable companies, Adidas, Puma, Under Armour, and VF Corp, in each case we used the MSCI World index in the respective local currency of the firm. Additionally, by unlevered the resulting betas at their current market net debt-to-equity ratio, it was possible to achieve an industry unlevered beta of 0,571, the median among all comparable companies, which is exactly the value of Nike's beta, supporting the plausibility of this result. A beta below one means that these securities' prices tend to be less volatile than the market. This can be justified by the fact that Nike is primarily targeting fast-fashion players and not the luxury segment. When comparing Nike unlevered beta with Adidas (exhibit 27), we can conclude that Nike is facing

Exhibit 27: Unlevered Beta

Company	Unlevered Beta
Nike Inc	0,5712
Adidas AG	0,4397
Under Armour Inc	0,5918
Puma SE	0,5361
VF Corp	0,5923
Median	0,5712

Source: Bloomberg, Yahoo Finance and Analyst Calculations

Exhibit 28: Cost of debt

Cost of debt	1,89%
Moody's rating	A1
Investment grade ratings	A+
Yield to maturity (YTM)	1,995%
Probability of Default	2,23%
Recovery Rate	53,90%

Source: Moody's, Bloomberg and Analyst Calculations

Exhibit 29: Weighted Average Cost of Capital

WACC	4,35%
Net Debt (2021) in million	4 266
Undiluted common shares (million)	1 573
Stock price (31/05/2021)	154,24
Market Cap	242 612
Current D/E	1,76%
D/E target	2%
E/(D+E)	98,04%
D(D+E)	1,96%

Source: Company Data and Analyst Estimates

higher risks than Adidas, one of the reasons for this may be the strategy that Nike is currently implementing (brand restructuring). Taking into account the mentioned above, we expect the cost of equity to be 4,40%.

According to Moody's, the current credit rating attributed to Nike is A+. Therefore, we projected the cost of debt by subtracting the company's debt yield using a 10-year bond (1,995%) by the product of the probability of default and the loss given default (source: Moody's Investors Service, Annual Default Study: Corporate Default and Recovery Rates). This results in a cost of debt before tax of 1,89% and a cost of debt after tax of 1,47%.

Taking into consideration the mentioned above, we believe in a WACC of 4,35%, used to discount the company's free cash flow.

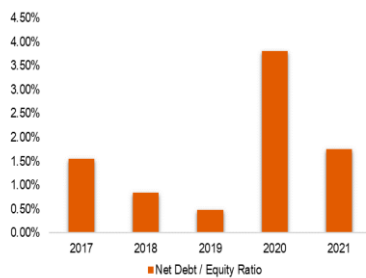
Tax Rate

During the Trump administration, corporate federal taxes were reduced from 35% to 21%. However, the Biden administration wants to raise this 21% tax rate to 28% because it will be an easy way to finance their spending package. Nevertheless, Biden has been failing due to disagreements with the Democratic senator, which is trying to consider other ways to make up for the lost revenues in case of an increase in tax rates. Some democrats defend an increase only to 25%.

Hence, we believe that in fiscal 2022, Nike will keep paying 21% as the federal tax rate. For the next years, we believe Biden will be able to increase the corporate tax rate to 25% which will increase Nike's operating cash taxes when compared with the 21% federal tax rate.

Perpetual Growth Rate

The perpetual growth rate shows us how Nike is going to evolve in the future, after achieving its steady state. Since we are in the presence of a mature industry and a mature company, we believe that Nike will grow at the same growth rate as the inflation. We do not expect the company to shut down or overtake the industry, therefore, the perpetual growth rate is estimated to be 2,56%.

Exhibit 30: Net Debt/Equity Ratio Evolution


Source: Company Data and Analyst Calculations

D/E Target

As we can observe in the exhibit 30, with the exception of the fiscal year 2020 which was atypical, Nike is keeping a low and stable net debt to equity ratio. Adidas has a similar ratio, totalling 4% last year. Overall, Nike's current D/E ratio is at an acceptable level, approximately 2%, and, as Nike is a mature company, we believe this will remain in the future.

Financials

Multiples

The idea behind this method is that companies should trade at a similar multiple if they are part of the same industry and have identical performance. In this sense, several multiples were used: Enterprise Value to EBITDA (EV/EBITDA), Enterprise Value to EBIT (EV/EBIT), Enterprise Value to Revenues (EV/Revenues), and Price to Earnings ratio (P/E). It is important to mention that our valuation was based on forward-looking multiples instead of backward-looking multiples as the company's value is not related to sunk costs, but with future profits.

Exhibit 31: Similar Companies

Companies Selection	
NIKE Inc	
Adidas AG	
VF Corp	
Puma SE	
Under Armour Inc	
Lululemon Athletica Inc	
Tapestry Inc	
Deckers Outdoor Corp	
Columbia Sportswear Co	
Capri Holdings Ltd	
Crocs Inc	
LVMH SE	
Fast Retailing Co Ltd	

Source: Analyst Assumptions

Firstly, we identified similar companies based on the global presence, operating performance, and market segments, then we ranked those peers considering a set of criteria: Gross Margin, EBITDA Margin, EBIT Margin, and Net Debt to Equity ratio (book value), which allowed to compare the capital structure, growth, and profitability of Nike in relation to its competitors. Thus, only firms with extreme values were removed from the analysis, resulting in a final group composed of eight peers, as it is possible to see in exhibit 31.

The P/E ratio was not considered in the valuation because it is impacted by a firm's capital structure and earnings volatility. Regarding EV/Revenue, it can be a useful approach when valuing corporations with unstable or negative profits.

Lastly, the biggest drawback of EV/EBITDA is the fact that it does not include capital expenditures, and therefore, can overvalue the estimation. As a result, we can conclude that EV/EBIT is the most acceptable multiple since this industry is capital-intensive, so identified by the high level of investments. Nevertheless, the average of EV/EBIT multiples results in a very low share price of \$106,14. This can be explained by Nike's position within the industry, as the most valuable

Exhibit 32: Result of multiples valuation

	Price per share
Forward EV/EBITDA	93,85
Forward EV/EBIT	106,14
Forward EV/Revenues	112,97
Forward P/E	117,45

Source: Bloomberg and Analyst Calculations

footwear brand in the world and, therefore, presents superior multiples values when compared to other companies.

Looking more deeply into Nike's peers, it is imperative to realize that Puma SE is the most truly similar company, followed by Adidas AG. Puma has a 4,33% EBIT margin deviation, a 2,51% EBITDA margin deviation and a 3,54% gross margin deviation.

Based on the relative approach, we reached the conclusion that the market is overestimating the company and we would provide a sell recommendation. However, this refutes our DCF outcome, which is the most accurate method and the one we considered in the final assessment.

Ratios

Exhibit 33: Nike and Adidas ratios

	Current Ratios	
	Nike	Adidas
ROIC	40,42%	11,66%
ROA	21,78%	9,51%
ROE	44,86%	29,00%
EBIT Margin	15,78%	9,91%

Source: Bloomberg and Analyst Calculations

By analysing exhibit 33, we can conclude that Nike is by far more profitable than Adidas in terms of the value generated from its investments, with a larger ROA, ROE, and ROIC. This means that Nike is using its capital better to generate profits, when compared to its main opponent. As it is possible to observe, currently Nike produces a ROIC of 40,42%, a very high value in contrast to the cost of capital (4,35%). This indicates that Nike is creating 36,07% of value for each dollar that the company invests in capital. In the next fiscal year, we expect that this value will reduce significantly due to the problems in the production and distribution which Nike has been facing. Nevertheless, we believe Nike will still be able to surpass Adidas. From that moment onwards, the evolution will be consistently positive, providing a good signal to its investors.

Even with an EBIT margin above Adidas, Nike has at the same time a lower gross margin. This can be explained by higher variable costs in percentage of revenues but offset by smaller other costs.

Scenario and Sensitivity Analysis

Scenario Analysis

Once the risks have been identified, we need to assess the potential impact of those risks on the company. This is a crucial step because not only helps in the decision-making process but also avoids a more negative outcome in the business.

Exhibit 34: Risks – Scenario Analysis

Supply chain issues (recovery in 2025)	
Impact on quantity sold	-3%
Share price	\$163,46
Investor return	-0,10%
Recommendation	Hold
Cost of Sales - 2%	
Impact on quantity sold	-2%
Share price	\$201,10
Investor return	18,64%
Recommendation	Buy
Cost of Sales +2%	
Impact on quantity sold	+2%
Share price	\$167,04
Investor return	2,04%
Recommendation	Hold

Source: Analyst Estimates

In the first scenario, we took into consideration the impact of **COVID-19** on the company's revenues and its length, we are also allowing for the possibility of another virus and consequently, another crisis (vaccination and group immunity). This is also dependent on the vaccination and the time needed for group immunity. One aspect that comes from COVID protocols and it is relevant to include is the **supply issues** which Nike is currently facing, where factories in Vietnam and Indonesia are shutting down and the shipping period to North America had doubled. In response to that, Nike is shifting production to China and leveraging airfreight, wherever possible. So, in our model, we assumed that supply chain problems will be irrelevant in long term and therefore, the effect will only be noticeable in the fiscal year 2022 with a negative impact of 2% on quantity sold. In this case, the share price would be **\$184,07**. However, there is a possibility of shipping delays and shortages around labour, and container ships take longer to ease depending on the COVID evolution, as a result, the **quantity sold** will **decrease by 3%** until 2024 at the time when the pandemic will be stabilized across the world. This implies a price of **\$163,46** per share, corresponding to a **negative return** of only **-0,10%** compared to the current price, and would suggest a **HOLD** recommendation.

To conclude the scenario analysis, we also incorporated the likelihood of changes in the cost of **raw materials**, ceteris paribus. As mentioned before, the cost of sales follows the evolution of raw materials price, more specifically the growth of polyester manufactured fibres, cotton, rubber, and plastic products. In this sense, a variation in the cost of these materials will vary the cost of sales positively or negatively. Among these goods, cotton is the one with the greatest deviation, from 2016 to 2021, its price changed more than 45% and there is an upward trend. Due to COVID-19 the tendency intensified, the extraction of raw materials stopped which led to a reduction in stocks and, therefore, a rise in prices.

In this context, we simulated two scenarios: one in which we predicted an annual **increase of 2% in the cost of sales** compared to the base scenario and another with a **decrease of 2%**. In the best case, which is less probable, the negative variation in COGS will lead to a share price of **\$201,10** and, therefore, a **BUY** recommendation. In the opposite case, the stock price will reach **\$167,04**, still being higher than its current price with an **investor return** of **2,04%**.

Sensitivity Analysis

Our model is based on numerous assumptions that we believe are true. However, companies like Nike are always subject to an uncertain environment so some inputs can be slightly different in the future which can have a significant impact on Nike's share price. For this purpose, we conducted a sensitivity analysis of Nike's share price relative to multiple variables.

We first run a sensitivity analysis on two inputs of cost of equity – risk-free rate and market risk premium (MRP) - that directly affect WACC value which has a considerable influence on share price. For the risk-free rate, we used as a proxy the 10-year US Treasury Bond (1,5479%) as stated before, however, this rate changes daily so it suffers a lot of volatility. Thus, we made it range between 0,548% and 2,548%, considering values that this rate took in the past. This results in a share price ranging between **\$176** and **\$190** respectively, which does not change our final recommendation. Regarding market risk premium, as said before, we used 5% as recommended in the Duff & Phelps's US Equity Risk Premium guidance, which is good research within the industry and for valuation purposes, but this value is not one hundred percent accurate and given as default so we believe that, if we had used another research, the value of our share price could be different. Therefore, we run a sensitivity analysis on MRP values ranging between 4,5% and 5,5% which has a strong impact on Nike's share price as it varies between **\$218** and **\$159** respectively. For a deeper analysis, we run a sensitivity analysis on those two inputs together. Both variables have an opposite effect on the share price. As higher the risk-free rate is, the higher the share price. However, if MRP increases, share price decreases. These two effects make the price range between **\$152** and **\$226**. We can also notice that MRP is the input to which the price is more sensitive. This analysis is essential to our final recommendation, as in case of a MRP higher than 5% and a risk-free rate lower than 1,548%, our target price would be different and could **change our BUY recommendation** of Nike shares.

Exhibit 35: Share price sensitivity to changes in Risk-free Rate and Market Risk Premium

Risk Free Rate	Market Risk Premium				
	4.5%	4.8%	5.0%	5.3%	5.5%
0.548%	208	190	176	163	152
1.048%	213	195	180	167	156
1.548%	218	200	184	171	159
2.048%	223	204	187	174	162
2.548%	226	207	190	176	164

Source: Analyst Estimates

Another input that also influences indirectly WACC is the company's beta. Thus, a sensitivity analysis was performed on raw betas considering the upper and lower range of the 95% confidence interval of beta. Therefore, we believe that the raw beta can range between 0,390 and 0,354 which returns values for share price ranging from **\$178** to **\$190** respectively, so our final recommendation would remain.

Exhibit 36: Share price sensitivity to changes in Raw Beta

Raw Beta	
0.390	178
0.382	181
0.372	184
0.362	187
0.354	190

Source: Analyst Estimates

Furthermore, in order to get the impact that the cost of debt and cost of equity have together at the share price, we run a sensitivity analysis on these inputs. We made the cost of equity change according to the changes that can happen with MRP and risk-free rate. The cost of debt could also be different if Nike had a different credit rating. Therefore, with the cost of debt changing between 0,893% and 2,893%, and the cost of equity ranging between 4,5% and 5,5%, Nike's share price ranges from **\$641** and **\$93** respectively. These extreme situations are very unlikely to occur, but as it has a significant impact on our target share price and, consequently, in our final recommendation, we believe that it is an important analysis that needed to be performed.

Exhibit 37: Share price sensitivity to changes in Cost of Equity and Cost of Debt

Cost of Debt	Cost of Equity				
	3.1%	3.8%	4.4%	5.3%	6.2%
0.893%	641	288	185	124	94
1.393%	631	286	185	124	93
1.893%	622	284	184	124	93
2.393%	613	282	183	123	93
2.893%	605	280	182	123	93

Source: Analyst Estimates

Appendix

Income Statement

Income Statement Forecast (in millions dollars, except per share data)												
	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
Revenues	\$ 37,403	\$ 44,538	\$ 45,220	\$ 48,652	\$ 52,846	\$ 56,450	\$ 58,226	\$ 59,845	\$ 61,504	\$ 63,136	\$ 64,728	
% of growth	-4.38%	19.08%	1.53%	7.59%	8.62%	6.82%	3.15%	2.78%	2.77%	2.65%	2.52%	
Cost of Sales	\$ -20,441	\$ -23,832	\$ -26,002	\$ -27,708	\$ -29,794	\$ -31,586	\$ -32,470	\$ -33,275	\$ -34,100	\$ -34,912	\$ -35,703	
% of growth	-2.37%	16.59%	9.11%	6.56%	7.53%	6.02%	2.80%	2.48%	2.48%	2.4%	2.3%	
Gross margin	54.65%	53.51%	57.50%	56.95%	56.38%	55.95%	55.76%	55.60%	55.44%	55.30%	55.16%	
Depreciation	45.35%	46.49%	42.50%	43.05%	43.62%	44.05%	44.24%	44.40%	44.56%	44.70%	44.84%	
% of net PP&E	15.20%	15.29%	15.29%	15.29%	15.29%	15.29%	15.29%	15.29%	15.29%	15.29%	15.29%	
Demand creation expense	2.27%	3.19%	7.84%	5.00%	2.00%	-0.50%	-3.00%	-3.00%	-3.00%	-3.00%	-3.00%	
Operating overhead expense	\$ -3,592	\$ -3,114	\$ -3,612	\$ -4,082	\$ -4,531	\$ -4,939	\$ -5,186	\$ -5,445	\$ -5,717	\$ -5,974	\$ -6,243	
	-4.29%	-13.31%	16.00%	13.00%	11.00%	9.00%	5.00%	5.00%	5.00%	4.50%	4.50%	
Foreign exchange forwards and options	9.60%	6.99%	7.99%	8.39%	8.57%	8.75%	8.91%	9.10%	9.30%	9.46%	9.65%	
EBITA	\$ -9,506	\$ -9,617	\$ -10,343	\$ -11,055	\$ -11,777	\$ -12,441	\$ -12,615	\$ -12,787	\$ -13,054	\$ -13,371	\$ -13,735	
	6.05%	1.17%	7.55%	6.89%	6.53%	5.64%	1.39%	1.37%	2.09%	2.42%	2.73%	
Operating cash taxes	25.42%	21.59%	22.87%	22.72%	22.29%	22.04%	21.67%	21.37%	21.23%	21.18%	21.22%	
% of operating tax rate	\$ 76	\$ -150	\$ -150	\$ -150	\$ -150	\$ -150	\$ -150	\$ -150	\$ -150	\$ -150	\$ -150	
NOPLAT	\$ 3,219	\$ 7,081	\$ 4,311	\$ 4,814	\$ 5,735	\$ 6,479	\$ 6,977	\$ 7,384	\$ 7,702	\$ 7,973	\$ 8,162	
	-33.6%	-22.6%	-24.1%	-22.1%	-21.7%	-21.5%	-20.7%	-20.7%	-20.8%	-20.8%	-20.9%	
	\$ 2,138	\$ 5,483	\$ 3,270	\$ 3,751	\$ 4,488	\$ 5,085	\$ 5,530	\$ 5,856	\$ 6,101	\$ 6,313	\$ 6,460	

Reconciliation with net income	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
Adjusted net income	\$ 2,539	\$ 5,727	\$ 3,118	\$ 3,597	\$ 4,332	\$ 4,925	\$ 5,368	\$ 5,691	\$ 5,933	\$ 6,142	\$ 6,286	
Amortization of acquired trademarks and other	\$ 398	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	
% of indefinite-lived trademarks	161.79%	21.54%	21.54%	21.54%	21.54%	21.54%	21.54%	21.54%	21.54%	21.54%	21.54%	
Operating lease interest	\$ -426	\$ -347	\$ -349	\$ -351	\$ -354	\$ -357	\$ -360	\$ -362	\$ -365	\$ -368	\$ -371	
% of operating lease liability	15%	12%	12%	12%	12%	12%	12%	12%	12%	12%	12%	
Interest expense	\$ -89	\$ -262	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	
% of investments	20.27%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	7.30%	
Other income (expense), net	\$ -215	\$ 136	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonoperating taxes	\$ -733	\$ -664	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	
NOPLAT	\$ 2,138	\$ 5,483	\$ 3,270	\$ 3,751	\$ 4,488	\$ 5,085	\$ 5,530	\$ 5,856	\$ 6,101	\$ 6,313	\$ 6,460	

Balance Sheet

Balance Sheet Forecast (in millions dollars, except per share data)												
TOTAL FUNDS INVESTED: USES	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
Operating cash	\$ 1,465	\$ 1,745	\$ 1,772	\$ 1,906	\$ 2,070	\$ 2,212	\$ 2,281	\$ 2,345	\$ 2,410	\$ 2,473	\$ 2,536	
	% of revenues	3.92%	3.92%	3.92%	3.92%	3.92%	3.92%	3.92%	3.92%	3.92%	3.92%	
Accounts receivable, net	\$ 2,749	\$ 4,463	\$ 3,717	\$ 3,999	\$ 4,344	\$ 4,640	\$ 4,786	\$ 4,919	\$ 5,055	\$ 5,189	\$ 5,320	
	Average Collection Period	27	37	30	30	30	30	30	30	30	30	
Inventories	\$ 7,367	\$ 6,854	\$ 5,699	\$ 7,212	\$ 7,755	\$ 8,221	\$ 8,451	\$ 8,661	\$ 8,875	\$ 9,087	\$ 9,293	
	Average Holding Period	132	105	80	95	95	95	95	95	95	95	
Prepaid expenses and other current assets	\$ 1,652	\$ 1,498	\$ 1,494	\$ 1,650	\$ 1,798	\$ 1,927	\$ 1,996	\$ 2,061	\$ 2,129	\$ 2,194	\$ 2,260	
Estimated cost of inventory for expected product returns	\$ 313	\$ 269	\$ 228	\$ 288	\$ 310	\$ 329	\$ 338	\$ 346	\$ 355	\$ 363	\$ 372	
	% of inventories	4.25%	3.92%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	
Prepaid advertising and promotion expenses	\$ 326	\$ 338	\$ 361	\$ 388	\$ 430	\$ 469	\$ 493	\$ 517	\$ 543	\$ 568	\$ 593	
	% of demand creation expense	9.08%	10.85%	10.00%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	9.50%	
Other	\$ 1,013	\$ 891	\$ 905	\$ 973	\$ 1,057	\$ 1,129	\$ 1,165	\$ 1,197	\$ 1,230	\$ 1,263	\$ 1,295	
	% of revenues	2.71%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	
Operating current assets	\$ 13,233	\$ 14,560	\$ 12,681	\$ 14,766	\$ 15,966	\$ 17,000	\$ 17,513	\$ 17,985	\$ 18,468	\$ 18,943	\$ 19,408	
Accounts payable	\$ -2,248	\$ -2,836	\$ -3,094	\$ -3,297	\$ -3,545	\$ -3,759	\$ -3,864	\$ -3,960	\$ -4,058	\$ -4,154	\$ -4,249	
	Average Payable Period	40	43	43	43	43	43	43	43	43	43	
Accrued liabilities (operating)	\$ -4,462	\$ -5,233	\$ -3,782	\$ -3,961	\$ -4,168	\$ -4,347	\$ -4,429	\$ -4,505	\$ -4,586	\$ -4,667	\$ -4,748	
Income taxes payable	\$ -156	\$ -306	\$ -306	\$ -306	\$ -306	\$ -306	\$ -306	\$ -306	\$ -306	\$ -306	\$ -306	
Operating current liabilities	\$ -6,866	\$ -8,375	\$ -7,182	\$ -7,565	\$ -8,019	\$ -8,412	\$ -8,599	\$ -8,770	\$ -8,949	\$ -9,127	\$ -9,303	
Operating working capital	\$ 6,367	\$ 6,185	\$ 5,499	\$ 7,202	\$ 7,947	\$ 8,588	\$ 8,914	\$ 9,215	\$ 9,519	\$ 9,816	\$ 10,105	
Net PP&E	\$ 4,866	\$ 4,904	\$ 5,247	\$ 5,510	\$ 5,620	\$ 5,592	\$ 5,424	\$ 5,261	\$ 5,103	\$ 4,950	\$ 4,802	
	% of growth	13%	11%	7%	5%	2%	-0.5%	-3%	-3%	-3%	-3%	
Operating lease right-of-use assets, net	\$ 3,097	\$ 3,113	\$ 3,129	\$ 3,147	\$ 3,166	\$ 3,186	\$ 3,207	\$ 3,228	\$ 3,250	\$ 3,273	\$ 3,296	
	Increase in operating lease right-of-use assets, net	\$ 16	\$ 16	\$ 17	\$ 19	\$ 20	\$ 21	\$ 21	\$ 22	\$ 23	\$ 23	
Identifiable intangible assets (Indefinite-lived trademarks)	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	\$ 246	
Other operating assets, net other liabilities	\$ -1,011	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	\$ -1,103	
Other assets (excluding embedded derivatives)	\$ 742	\$ 906	\$ 906	\$ 906	\$ 906	\$ 906	\$ 906	\$ 906	\$ 906	\$ 906	\$ 906	
Invested Capital (excluding goodwill and acquired intangible assets)	\$ 13,565	\$ 13,345	\$ 13,018	\$ 15,001	\$ 15,875	\$ 16,509	\$ 16,688	\$ 16,847	\$ 17,016	\$ 17,183	\$ 17,347	
Goodwill and acquired intangibles, less tax gross-up	\$ 251	\$ 265	\$ 265	\$ 265	\$ 265	\$ 265	\$ 265	\$ 265	\$ 265	\$ 265	\$ 265	
Cumulative amortization and impairment	\$ 19	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	
	% of goodwill and acquired intangibles	8%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
Invested capital (including goodwill and acquired intangible assets)	\$ 13,835	\$ 13,637	\$ 13,310	\$ 15,293	\$ 16,167	\$ 16,801	\$ 16,980	\$ 17,139	\$ 17,308	\$ 17,475	\$ 17,639	
Excess cash	\$ 6,883	\$ 8,144	\$ 6,883	\$ 6,883	\$ 6,883	\$ 6,883	\$ 6,883	\$ 6,883	\$ 6,883	\$ 6,883	\$ 6,883	
	% of long term debt	73%	87%									
Embedded derivatives assets, net of liabilities	\$ -1	\$ -1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Portion of prepaid expenses and other current assets	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Interest rate swaps	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Investments	\$ 439	\$ 3,587	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	
Accrued liabilities (nonoperating)	\$ -336	\$ -393	\$ -393	\$ -393	\$ -393	\$ -393	\$ -393	\$ -393	\$ -393	\$ -393	\$ -393	
Net operating loss carry-forwards	\$ 21	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15	
Foreign tax credit carry-forwards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Total funds invested	\$ 20,841	\$ 24,989	\$ 23,315	\$ 25,298	\$ 26,172	\$ 26,805	\$ 26,985	\$ 27,144	\$ 27,313	\$ 27,479	\$ 27,643	

TOTAL FUNDS INVESTED: SOURCES	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
Short-term Debt	\$ 248	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Current portion of long-term debt	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Long-term Debt	\$ 9,406	\$ 9,413	\$ 9,804	\$ 9,967	\$ 10,172	\$ 10,348	\$ 10,515	\$ 10,670	\$ 10,825	\$ 10,983	\$ 11,143	
	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	0.07%	
Operating lease liabilities	\$ 2,913	\$ 2,931	\$ 2,949	\$ 2,969	\$ 2,990	\$ 3,013	\$ 3,037	\$ 3,061	\$ 3,086	\$ 3,111	\$ 3,137	
	Increase in operating lease liabilities, net	\$ 18	\$ 18	\$ 20	\$ 21	\$ 23	\$ 24	\$ 24	\$ 25	\$ 26	\$ 26	
Current portion of operating lease liabilities	\$ 445	\$ 467	\$ 489	\$ 513	\$ 539	\$ 567	\$ 596	\$ 626	\$ 656	\$ 687	\$ 719	
	Increase in current operating lease liabilities, net	\$ 22	\$ 22	\$ 24	\$ 26	\$ 28	\$ 29	\$ 30	\$ 30	\$ 31	\$ 32	
Unfunded pension liabilities	\$ 79	\$ 64	\$ 58	\$ 51	\$ 45	\$ 38	\$ 32	\$ 26	\$ 19	\$ 13	\$ 6	
Debt and debt equivalents	\$ 13,094	\$ 12,877	\$ 13,301	\$ 13,500	\$ 13,747	\$ 13,967	\$ 14,180	\$ 14,382	\$ 14,586	\$ 14,794	\$ 15,006	
Deferred tax liabilities (assets), operating	\$ -876	\$ -1,300	\$ -1,599	\$ -1,679	\$ -1,758	\$ -1,837	\$ -1,871	\$ -1,905	\$ -1,947	\$ -1,992	\$ -2,042	
Deferred tax liabilities (assets), nonoperating	\$ 165	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	\$ 182	
Cumulative amortization and impairment	\$ 19	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	\$ 27	
Dividends payable	\$ 384	\$ 436	\$ 436	\$ 436	\$ 436	\$ 436	\$ 436	\$ 436	\$ 436	\$ 436	\$ 436	
	% of dividends	25.75%	25.75%	25.75%	25.75%	25.75%	25.75%	25.75%	25.75%	25.75%	25.75%	
Shareholders' equity	\$ 8,055	\$ 12,767	\$ 10,968	\$ 12,832	\$ 13,539	\$ 14,030	\$ 14,032	\$ 14,022	\$ 14,028	\$ 14,033	\$ 14,035	
	-10.90%	58.50%	-14.09%	16.99%	5.51%	3.63%	0.01%	-0.07%	0.05%	0.04%	0.01%	
Dividends on common stock	\$ 1,491	\$ 1,692	\$ 1,760	\$ 1,848	\$ 1,977	\$ 2,155	\$ 2,370	\$ 2,607	\$ 2,842	\$ 3,070	\$ 3,254	
	% of growth	9.63%	13.48%	4.00%	5.00%	7.00%	9.00%	10.00%	9.00%	8.00%	6.00%	
Payout Ratio	58.72%	29.54%	56.43%	51.37%	45.64%	43.75%	44.16%	45.82%	47.90%	49.98%	51.76%	
Equity and equity equivalents	\$ 7,747	\$ 12,112	\$ 10,015	\$ 11,797	\$ 12,425	\$ 12,838	\$ 12,805	\$ 12,762	\$ 12,726	\$ 12,685	\$ 12,638	
Total funds invested	\$ 20,841	\$ 24,989	\$ 23,315	\$ 25,298	\$ 26,172	\$ 26,805	\$ 26,985	\$ 27,144	\$ 27,313	\$ 27,479	\$ 27,643	

Cash-flow Statement

Cash Flow Map Forecast (in millions dollars, except per share data)												
YEAR ENDED MAY 31 (In millions dollars, except per share data)	2020A	2021A	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	
NOPLAT	\$ 2,138	\$ 5,483	\$ 3,270	\$ 3,751	\$ 4,488	\$ 5,085	\$ 5,530	\$ 5,856	\$ 6,101	\$ 6,313	\$ 6,460	
	-47.42%	156.47%	-40.36%	14.71%	19.66%	13.28%	8.76%	5.90%	4.19%	3.47%	2.33%	
Depreciation	\$ 721	\$ 744	\$ 802	\$ 842	\$ 859	\$ 855	\$ 829	\$ 804	\$ 780	\$ 757	\$ 734	
Gross Cash Flow	\$ 2,859	\$ 6,227	\$ 4,072	\$ 4,593	\$ 5,348	\$ 5,940	\$ 6,359	\$ 6,661	\$ 6,882	\$ 7,070	\$ 7,194	
Decrease (increase) in operating working capital	\$ -141	\$ 183	\$ 686	\$ -1,703	\$ -745	\$ -641	\$ -327	\$ -300	\$ -304	\$ -297	\$ -289	
Capital expenditures, net of disposals	\$ -843	\$ -782	\$ -1,146	\$ -1,105	\$ -969	\$ -827	\$ -662	\$ -642	\$ -622	\$ -604	\$ -586	
			46.49%	-3.56%	-12.25%	-14.71%	-19.99%	-3.00%	-3.00%	-3.00%	-3.00%	
Investments in operating lease right-of-use-assets, net	\$ -3,097	\$ -16	\$ -16	\$ -17	\$ -19	\$ -20	\$ -21	\$ -21	\$ -22	\$ -23	\$ -23	
Investments in identifiable intangible assets (indefinite-lived trademarks)	\$ 35	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Investments in goodwill and acquired intangibles	\$ -94	\$ -22	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in other operating assets, net other liabilities	\$ -632	\$ 92	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Gross investment	\$ -4,772	\$ -545	\$ -476	\$ -2,825	\$ -1,734	\$ -1,488	\$ -1,009	\$ -963	\$ -949	\$ -924	\$ -898	
Free Cash Flow	\$ -1,913	\$ 5,682	\$ 3,596	\$ 1,768	\$ 3,614	\$ 4,451	\$ 5,350	\$ 5,697	\$ 5,933	\$ 6,146	\$ 6,296	
	-144%	-397%	-37%	-51%	104%	23%	20.19%	6.49%	4.13%	3.60%	2.44%	
Decrease (increase) in excess cash	\$ -3,949	\$ -1,261	\$ 1,261	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in embedded derivatives assets, net of liabilities	\$ 9	\$ -	\$ -1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in interest rate swaps	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in investments	\$ -242	\$ -3,148	\$ 87	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in accrued liabilities (nonoperating)	\$ -5	\$ 57	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in net operating loss carry-forwards	\$ 60	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Foreign tax credit carry-forwards	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Nonoperating Cash Flow	\$ -4,127	\$ -4,347	\$ 1,347	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Cash Flow Available to Investors	\$ -6,040	\$ 1,335	\$ 4,944	\$ 1,768	\$ 3,614	\$ 4,451	\$ 5,350	\$ 5,697	\$ 5,933	\$ 6,146	\$ 6,296	

Reconciliation of cash flow available to investors	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Adjusted net income	\$ 2,539	\$ 5,727	\$ 3,118	\$ 3,597	\$ 4,332	\$ 4,925	\$ 5,368	\$ 5,691	\$ 5,933	\$ 6,142	\$ 6,286	
Amortization of acquired trademarks and other	\$ 398	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	\$ 53	
Operating lease interest expense	\$ -426	\$ -347	\$ -349	\$ -351	\$ -354	\$ -357	\$ -360	\$ -362	\$ -365	\$ -368	\$ -371	
Interest expense	\$ -89	\$ -262	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	\$ -256	
Other income (expense), net	\$ -215	\$ 136	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in operating leases	\$ -2,913	\$ -18	\$ -18	\$ -20	\$ -21	\$ -23	\$ -24	\$ -24	\$ -25	\$ -26	\$ -26	
Decrease (increase) in current portion of operating leases	\$ -445	\$ -22	\$ -22	\$ -24	\$ -26	\$ -28	\$ -29	\$ -30	\$ -30	\$ -31	\$ -32	
Decrease (increase) in short-term debt	\$ -239	\$ 246	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in current portion of long-term debt	\$ 3	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
Decrease (increase) in long-term debt	\$ -5,942	\$ -7	\$ -391	\$ -162	\$ -206	\$ -176	\$ -167	\$ -155	\$ -155	\$ -157	\$ -160	
Decrease (increase) in unfunded pension liabilities	\$ -6	\$ 15	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	
Change in equity and equity equivalents	\$ 1,364	\$ -4,365	\$ 2,097	\$ -1,783	\$ -628	\$ -413	\$ 33	\$ 44	\$ 35	\$ 41	\$ 48	
Nonoperating taxes	\$ -733	\$ -664	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	\$ -400	
Cash flow available to investors	\$ -6,040	\$ 1,335	\$ 4,944	\$ 1,768	\$ 3,614	\$ 4,451	\$ 5,350	\$ 5,697	\$ 5,933	\$ 6,146	\$ 6,296	

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