



# Nike Inc. (NKE)

Updated June 28<sup>th</sup>, 2024 by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$83	<b>5 Year CAGR Estimate:</b>	13.4%	<b>Market Cap:</b>	\$126 B
<b>Fair Value Price:</b>	\$86	<b>5 Year Growth Estimate:</b>	11.0%	<b>Ex-Dividend Date:</b>	7/1/24
<b>% Fair Value:</b>	96%	<b>5 Year Valuation Multiple Estimate:</b>	0.8%	<b>Dividend Payment Date:</b>	6/3/24
<b>Dividend Yield:</b>	1.8%	<b>5 Year Price Target</b>	\$146	<b>Years Of Dividend Growth:</b>	22
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Buy

## Overview & Current Events

Founded in 1964 and based in Oregon, Nike is the world's largest athletic footwear, apparel and equipment maker, with a market cap of \$126 billion. The namesake is one of the most valuable brands in the world. Nike's offerings focus on six categories: running, basketball, the Jordan brand, football (soccer), training, and sportswear. Nike also owns Converse.

In late June, Nike released (6/27/24) results for the fourth quarter of fiscal year 2024 (Nike's fiscal year ends on May 31<sup>st</sup>). Sales and direct sales decreased -2% and -8%, respectively, vs. the prior year's quarter. Digital sales declined -10%. Gross margin expanded from 43.6% to 44.7% thanks to price hikes and lower freight costs and earnings-per-share grew 53%, from \$0.66 to \$1.01, exceeding the analysts' consensus by \$0.17, but only thanks to depressed earnings in the prior year's period. Nike provided daunting guidance for fiscal 2025. While it had previously provided guidance for essentially flat sales in the upcoming quarters, it now expects a mid-single digit decrease in revenues in fiscal 2025 due to challenging macroeconomic conditions. Nike is severely hurt by the impact of inflation on consumer spending. Due to the disappointing guidance, the stock plunged -12% after the earnings release. We are concerned over the negative outlook but we view the business deceleration as temporary and expect Nike to re-accelerate in the upcoming years.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
<b>EPS</b>	\$1.85	\$2.16	\$2.51	\$2.40	\$2.49	\$1.83	\$3.56	\$3.66	\$3.23	\$3.72	<b>\$3.60</b>	<b>\$6.07</b>
<b>DPS</b>	\$0.52	\$0.62	\$0.70	\$0.78	\$0.86	\$0.93	\$1.04	\$1.16	\$1.29	\$1.42	<b>\$1.48</b>	<b>\$2.40</b>
<b>Shares<sup>1</sup></b>	1,714	1,682	1,643	1,601	1,568	1,558	1,609	1,595	1,556	1,517	<b>1,480</b>	<b>1,400</b>

From 2007 through 2019, Nike had been able to grow earnings-per-share by an average annual compound rate of 10.9%. This was driven by a number of factors, including solid revenue growth, margin improvement and share repurchases. This growth streak came to a halt due to the COVID-19 pandemic in fiscal 2020.

Nike recovered strongly from the pandemic in 2021 but it is now facing a double hit from inflation; lower margins and lower demand from consumers. Sustained margin improvement may prove hard in the future, but there is still ample room for revenue gains and share buybacks. China is likely to be the backbone of Nike's growth story, as it posted gains even in 2020, despite the extremely adverse business environment. Moreover, the relatively recent direct-to-consumer push of Nike is likely to prove a significant growth driver thanks to the shift of consumers towards online shopping.

While the current dividend yield is unimpressive, this component ought to grow nicely over time as well. Nike raised its dividend by 9% last year. It has thus grown its dividend for the past 22 years, with an average annual growth rate of 12.3% during the last decade. We expect 11% average annual growth of earnings-per-share over the next five years.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
<b>Avg. P/E</b>	24.4	27.5	21.6	25.3	32.0	48.6	35.2	40.6	34.7	27.5	<b>23.1</b>	<b>24.0</b>
<b>Avg. Yld.</b>	1.2%	1.0%	1.3%	1.3%	1.1%	1.0%	0.8%	0.8%	1.1%	1.4%	<b>1.8%</b>	<b>1.6%</b>

<sup>1</sup> In millions.

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Excluding 2020-2023, which were marked by abnormally high price-to-earnings ratios, Nike has traded at an average price-to-earnings ratio of 26.4 over the last decade. We believe that 24 times earnings is a fair multiple taking into consideration the security's past, the exceptional brand and growth prospects of the business weighed against the notion that high growth will ultimately be hard to sustain due to size limitations. The stock is currently trading at a forward price-to-earnings ratio of 23.1. If it trades at our assumed fair valuation level in five years, it will enjoy a 0.8% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	28%	29%	28%	33%	35%	51%	29%	32%	40%	38%	41%	40%

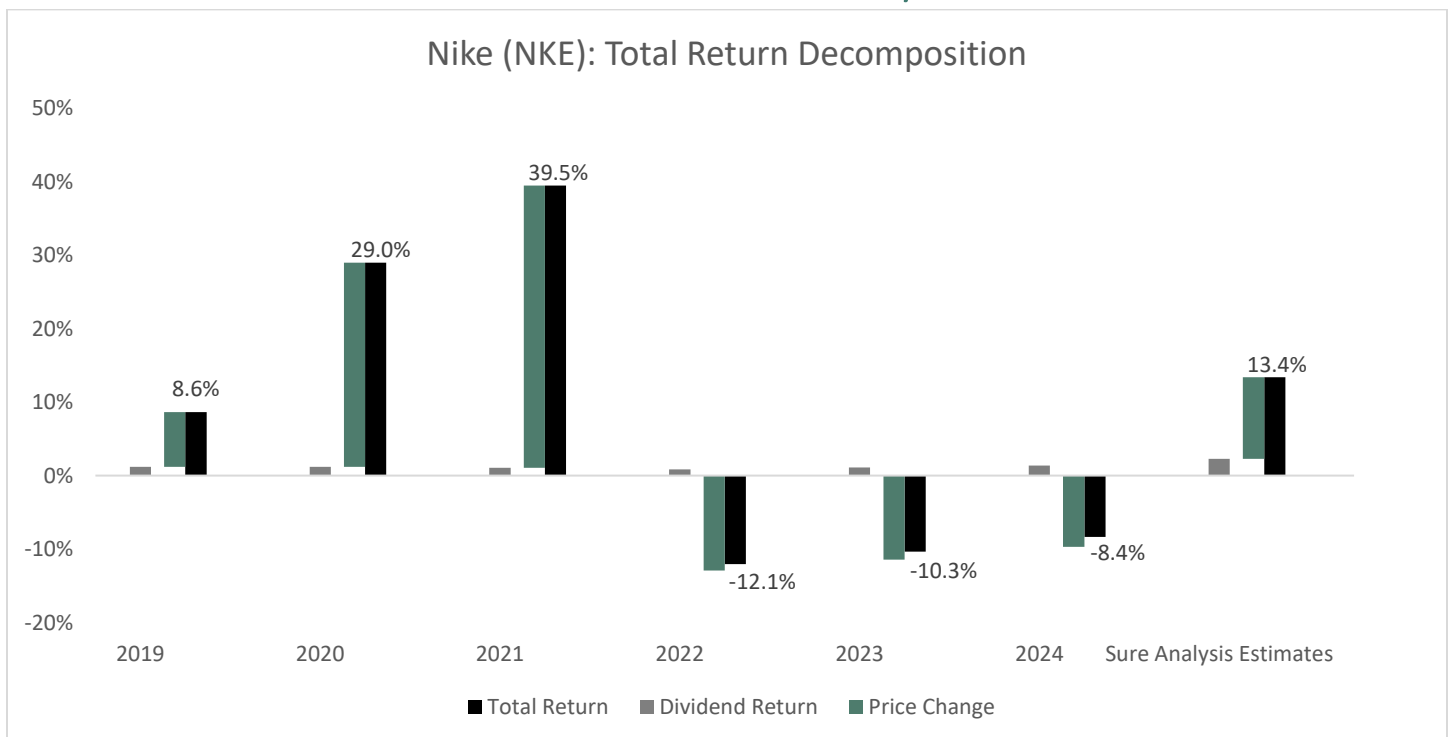
Nike's competitive advantage stems from its exceptional brand name and image around the world. In addition, the company has developed distribution capabilities that are hard to replicate. With that said, China is an important unknown in Nike's growth equation. Trade concerns could weigh on this growth trajectory.

Nike held up quite well during the Great recession, posting earnings-per-share of \$0.72, \$0.86, \$0.88 and \$0.97 during the 2007 through 2010 stretch. Meanwhile, the dividend kept on rising during this period. With a current payout ratio of 41%, we expect the dividend to continue rising meaningfully for years.

## Final Thoughts & Recommendation

Nike is an incredible business with a conservative balance sheet and significant growth opportunities. The stock has shed -17% in the last 12 months due to business deceleration but we expect Nike to reignite growth in the upcoming years. The stock can offer a 13.4% average annual return over the next five years thanks to 11% expected growth of earnings-per-share, a 1.8% dividend yield and a 0.8% annualized valuation tailwind. The ongoing downturn, which has been caused by the impact of inflation on consumer spending and preferences, may keep pressuring Nike for a considerable period but we remain optimistic about the long-term prospects of this high-quality stock and maintain our buy rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	30601	32376	34350	36397	39117	37403	44540	46710	51217	51362
<b>Gross Profit</b>	14067	14971	15312	15956	17474	16241	19960	21479	22292	22887
<b>Gross Margin</b>	46.0%	46.2%	44.6%	43.8%	44.7%	43.4%	44.8%	46.0%	43.5%	44.6%
<b>SG&amp;A Exp.</b>	9892	10469	10563	11511	12702	13126	13020	14804	4060	4285
<b>D&amp;A Exp.</b>	649	662	716	774	720	1119	797	840	859	---
<b>Operating Profit</b>	4175	4502	4749	4445	4772	3115	6937	6675	5915	6311
<b>Op. Margin</b>	13.6%	13.9%	13.8%	12.2%	12.2%	8.3%	15.6%	14.3%	11.5%	12.3%
<b>Net Profit</b>	3273	3760	4240	1933	4029	2539	5727	6046	5070	5700
<b>Net Margin</b>	10.7%	11.6%	12.3%	5.3%	10.3%	6.8%	12.9%	12.9%	9.9%	11.1%
<b>Free Cash Flow</b>	3717	2256	2741	3927	4784	1399	5962	4430	4872	---
<b>Income Tax</b>	932	863	646	2392	772	348	934	605	1131	1000

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	21597	21379	23259	22536	23717	31342	37740	40321	37531	38110
<b>Cash &amp; Equivalents</b>	3852	3138	3808	4249	4466	8348	9889	8574	7441	9860
<b>Acc. Receivable</b>	3358	3241	3677	3498	4272	2749	4463	4667	4131	4427
<b>Inventories</b>	4337	4838	5055	5261	5622	7367	6854	8420	8454	7519
<b>Goodwill &amp; Int.</b>	412	412	422	439	437	497	511	570	555	499
<b>Total Liabilities</b>	8890	9121	10852	12724	14677	23287	24970	25040	23527	23680
<b>Accounts Payable</b>	2131	2191	2048	2279	2612	2248	2836	3358	2862	2851
<b>Long-Term Debt</b>	1260	2038	3802	3810	3479	9657	200	9430	8933	8909
<b>Total Equity</b>	12707	12258	12407	9812	9040	8055	12770	15281	14004	14430
<b>D/E Ratio</b>	0.10	0.17	0.31	0.39	0.38	1.20	0.74	0.62	0.64	0.62

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	16.3%	17.5%	19.0%	8.4%	17.4%	9.2%	16.6%	15.5%	13.0%	15.1%
<b>Return on Equity</b>	27.8%	30.1%	34.4%	17.4%	42.7%	29.7%	55%	43.1%	34.6%	40.1%
<b>ROIC</b>	25.0%	26.6%	27.8%	13.0%	30.8%	16.8%	37.6%	25.8%	21.3%	24.6%
<b>Shares Out.</b>	1,714	1,682	1,643	1,601	1,568	1,558	1,609	1,611	1,570	1,530
<b>Revenue/Share</b>	17.30	18.58	20.30	21.94	24.17	23.50	27.67	29.00	32.63	33.58
<b>FCF/Share</b>	2.10	1.29	1.62	2.37	2.96	0.879	3.70	2.75	3.10	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

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