



Nike Inc. (NKE)

Updated October 2nd, 2024 by Aristofanis Papadatos

Key Metrics

Current Price:	\$84	5 Year CAGR Estimate:	12.5%	Market Cap:	\$126 B
Fair Value Price:	\$77	5 Year Growth Estimate:	13.0%	Ex-Dividend Date¹:	11/29/24
% Fair Value:	109%	5 Year Valuation Multiple Estimate:	-1.8%	Dividend Payment Date:	12/31/24
Dividend Yield:	1.8%	5 Year Price Target	\$141	Years Of Dividend Growth:	22
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	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 early October, Nike released (10/1/24) results for the first quarter of fiscal 2025 (Nike's fiscal year ends on May 31st). Sales and direct sales decreased -10% and -13%, respectively, vs. the prior year's quarter. Digital sales declined -20%. Gross margin expanded from 44.2% to 45.4% thanks to price hikes and lower input costs but earnings-per-share declined -26%, from \$0.95 to \$0.70, due to the sharp decrease in sales. Nike lowered its already daunting guidance for fiscal 2025. It still expects a mid-single digit decrease in revenues in fiscal 2025 due to challenging macroeconomic conditions but it also expects to resort to deep discounts in order to reduce inventory from high levels. Nike is severely hurt by the impact of inflation on consumer spending. Due to the disappointing guidance, we have lowered our forecast for annual earnings-per-share from \$3.60 to \$3.20. 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
EPS	\$1.85	\$2.16	\$2.51	\$2.40	\$2.49	\$1.83	\$3.56	\$3.66	\$3.23	\$3.72	\$3.20	\$5.90
DPS	\$0.52	\$0.62	\$0.70	\$0.78	\$0.86	\$0.93	\$1.04	\$1.16	\$1.29	\$1.42	\$1.48	\$2.40
Shares²	1,714	1,682	1,643	1,601	1,568	1,558	1,609	1,595	1,556	1,517	1,480	1,400

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. Given the low comparison base formed by strong headwinds this year, we expect 13% 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
Avg. P/E	24.4	27.5	21.6	25.3	32.0	48.6	35.2	40.6	34.7	27.5	26.3	24.0
Avg. Yld.	1.2%	1.0%	1.3%	1.3%	1.1%	1.0%	0.8%	0.8%	1.1%	1.4%	1.8%	1.7%

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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 26.3. If it trades at our assumed fair valuation level in five years, it will incur a -1.8% annualized drag 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%	46%	41%

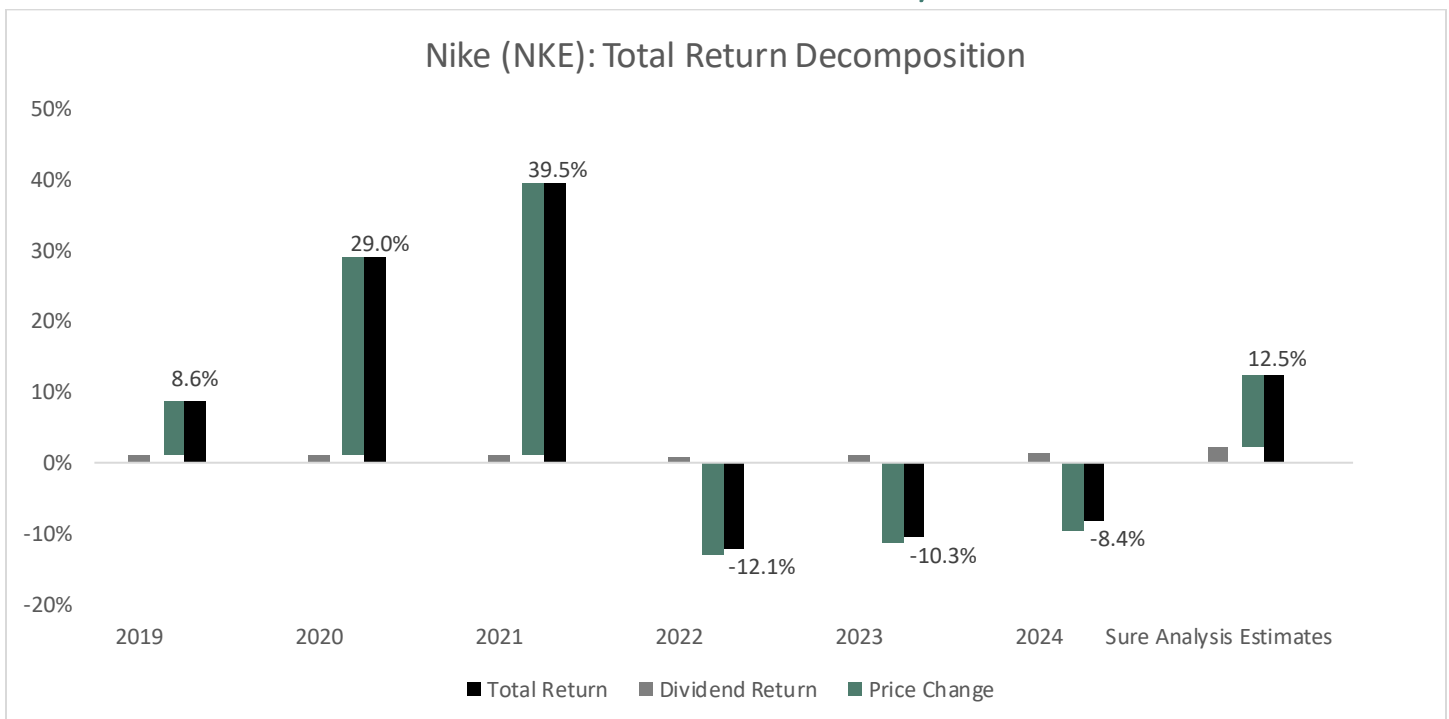
Nike's competitive advantage stems from its exceptional brand name and image around the world. In addition, the company has developed distribution capabilities that are hard to replicate. With that said, China is an important unknown in Nike's growth equation. Trade concerns could weigh on this growth 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 46%, we expect the dividend to continue rising for years.

Final Thoughts & Recommendation

Nike is an incredible business with a conservative balance sheet and significant growth opportunities. The stock has shed -23% this year due to business deceleration but we expect Nike to reignite growth in the upcoming years. The stock can offer a 12.5% average annual return over the next five years thanks to 13% expected growth of earnings-per-share and a 1.8% dividend yield, partly offset by a -1.8% annualized valuation headwind. 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
Revenue	30601	32376	34350	36397	39117	37403	44540	46710	51217	51362
Gross Profit	14067	14971	15312	15956	17474	16241	19960	21479	22292	22887
Gross Margin	46.0%	46.2%	44.6%	43.8%	44.7%	43.4%	44.8%	46.0%	43.5%	44.6%
SG&A Exp.	9892	10469	10563	11511	12702	13126	13020	14804	4060	4285
D&A Exp.	649	662	716	774	720	1119	797	840	859	844
Operating Profit	4175	4502	4749	4445	4772	3115	6937	6675	5915	6311
Op. Margin	13.6%	13.9%	13.8%	12.2%	12.2%	8.3%	15.6%	14.3%	11.5%	12.3%
Net Profit	3273	3760	4240	1933	4029	2539	5727	6046	5070	5700
Net Margin	10.7%	11.6%	12.3%	5.3%	10.3%	6.8%	12.9%	12.9%	9.9%	11.1%
Free Cash Flow	3717	2256	2741	3927	4784	1399	5962	4430	4872	6617
Income Tax	932	863	646	2392	772	348	934	605	1131	1000

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	21597	21379	23259	22536	23717	31342	37740	40321	37531	38110
Cash & Equivalents	3852	3138	3808	4249	4466	8348	9889	8574	7441	9860
Acc. Receivable	3358	3241	3677	3498	4272	2749	4463	4667	4131	4427
Inventories	4337	4838	5055	5261	5622	7367	6854	8420	8454	7519
Goodwill & Int.	412	412	422	439	437	497	511	570	555	499
Total Liabilities	8890	9121	10852	12724	14677	23287	24970	25040	23527	23680
Accounts Payable	2131	2191	2048	2279	2612	2248	2836	3358	2862	2851
Long-Term Debt	1260	2038	3802	3810	3479	9657	200	9430	8933	8909
Total Equity	12707	12258	12407	9812	9040	8055	12770	15281	14004	14430
D/E Ratio	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
Return on Assets	16.3%	17.5%	19.0%	8.4%	17.4%	9.2%	16.6%	15.5%	13.0%	15.1%
Return on Equity	27.8%	30.1%	34.4%	17.4%	42.7%	29.7%	55%	43.1%	34.6%	40.1%
ROIC	25.0%	26.6%	27.8%	13.0%	30.8%	16.8%	37.6%	25.8%	21.3%	24.6%
Shares Out.	1,714	1,682	1,643	1,601	1,568	1,558	1,609	1,611	1,570	1,530
Revenue/Share	17.30	18.58	20.30	21.94	24.17	23.50	27.67	29.00	32.63	33.58
FCF/Share	2.10	1.29	1.62	2.37	2.96	0.879	3.70	2.75	3.10	4.33

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

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