

Company (NKE)

Earnings Update

Sell | Market Perform

Enrique Alvarado | April 19, 2024



Overview

Nike is a leading global retailer of clothing and athletic wear, ranging from footwear to equipment. Nike possesses an economic moat as well, with intangible assets (the brand name) protecting the business, driving market demand and pricing power. This company can create products in several price ranges and distribute them worldwide. They also have partnerships with popular sports influencers to help sell their products.

Nike printed results roughly around their expectations. They barely beat revenue by 1.1% and barely beat earnings per share (EPS) by only \$.01 on a GAAP basis, at \$0.77. However, on a non-GAAP basis, they beat EPS by 29.7%, at \$0.98. This is due to Restructuring charges being included on the GAAP basis, due to their \$2 billion cost savings plan, that will span over 3 years.

Moving on to KPI's (Key Performance Indicators) for Nike for Q3, the revenue of their North American division's footwear segment grew by 4%, apparel decreased by (1%), and equipment grew by 17%, growing revenue overall by 3%. For the revenue of the Europe, Middle East & Africa division, the footwear segment decreased by (3%), the apparel segment decreased by (9%), and the equipment segment increased by 30%, decreasing the total revenue of the division by (3%). For the revenue of the greater China division, footwear grew by 3%, apparel grew by 8%, and equipment grew by 5%, increasing total revenue by 5%. For the Asia Pacific & Latin American division's revenue, footwear grew by 5%, apparel decreased by (4%), and equipment grew by 17%, increasing the total revenue by 3%. For the Converse global division, revenue decreased by (-19%), mostly due to declines in North America and Europe. with all of these divisions in mind, the total revenue on Nike, Inc. flatlined in the quarter.

Another important thing to touch on is Nike's cost savings plan I mentioned earlier, announced in Q2, this plan is made to create the ability to drive up investments into innovation, profitability and growth. This plan is a pivot from the growth plan that Nike previously had for Nike Direct, which was for Nike Digital & Nike Stores to make up 60% of sales by FY25, which they have not reached yet. Management ultimately decided on the switch because even though the DTC growth plan did bring more consumers to the company, it made operations more complex and inefficient.

Going forward Guidance emphasized that they need to make adjustments in four areas; they need to sharpen focus on sport, drive a continuous flow of new product innovation, and make bolder and more distinctive brand marketing. They have made progress in all said areas, and their product portfolio will go through a period of transition over the coming quarters. Guidance is also projecting gross margins to increase by 120 basis points for the year, and SG&A to be slightly down as well.

IOFS

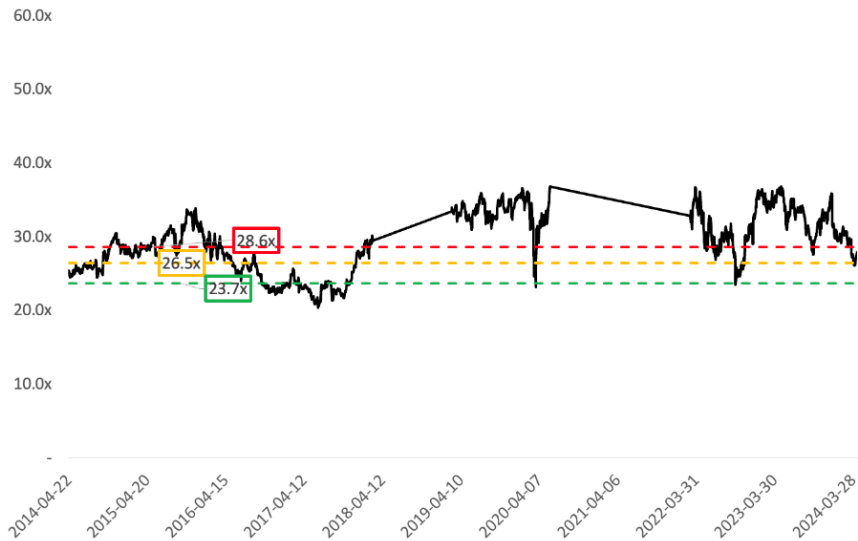
Nike is a great IOFS business, with a gross margin of 56.6%, over our 40% threshold, an operating margin of 27.4%, over our 20% threshold, an ROE of 26%, over our 20% threshold, and a ROIC of 29.8%, over our 15% threshold. Their obligation ratio is also 0.3x, meaning they can pay off all debts within 4 months, well below our 5-year threshold.

	2014-12	2015-12	2016-12	2017-12	2018-12	2019-12	2020-12	2021-12	2022-12	2023-12	TTM
IOFS											
Revenue	\$ 27,799	\$ 30,601	\$ 32,376	\$ 34,350	\$ 36,397	\$ 39,117	\$ 37,403	\$ 44,538	\$ 46,710	\$ 51,217	\$ 51,581
Gross profit	\$ 12,446	\$ 14,067	\$ 14,971	\$ 15,312	\$ 15,956	\$ 17,474	\$ 16,241	\$ 19,962	\$ 21,479	\$ 22,292	\$ 174,062
Operating Income	\$ 16,496	\$ 19,360	\$ 23,716	\$ 28,914	\$ 32,595	\$ 35,928	\$ 41,224	\$ 78,714	\$ 74,842	\$ 84,293	\$ 84,293
Net Income	\$ 2,693	\$ 3,273	\$ 3,760	\$ 4,240	\$ 1,933	\$ 4,029	\$ 2,539	\$ 5,727	\$ 6,046	\$ 5,070	\$ 5,231
Free Cash Flow	\$ 2,133	\$ 3,717	\$ 2,256	\$ 2,741	\$ 3,927	\$ 4,784	\$ 1,399	\$ 5,962	\$ 4,430	\$ 4,872	\$ 69,495
EBIT	\$ 3,680	\$ 4,175	\$ 4,502	\$ 4,749	\$ 4,445	\$ 4,772	\$ 3,115	\$ 6,937	\$ 6,675	\$ 5,915	\$ 86,025
EBITDA	\$ 4,266	\$ 4,824	\$ 5,164	\$ 5,465	\$ 5,219	\$ 5,492	\$ 4,234	\$ 7,734	\$ 7,515	\$ 6,774	\$ 97,971
Dividend Yield %	1.21%	1.06%	1.12%	1.32%	1.06%	1.11%	0.97%	0.78%	0.98%	1.23%	1.50%
Gross Margin	44.8%	46.0%	46.2%	44.6%	43.8%	44.7%	43.4%	44.8%	46.0%	43.5%	56.6%
Operating Margin	25.0%	25.8%	26.3%	26.1%	23.8%	22.2%	22.6%	30.6%	26.5%	27.4%	27.4%
Net Margin	9.7%	10.7%	11.6%	12.3%	5.3%	10.3%	6.8%	12.9%	12.9%	9.9%	10.1%
FCF Margin	7.7%	12.1%	7.0%	8.0%	10.8%	12.2%	3.7%	13.4%	9.5%	9.5%	22.6%
D&A/ Gross Profit	12.4%	10.8%	11.1%	10.6%	11.7%	13.1%	14.0%	8.5%	8.6%	6.9%	6.9%
R&D/ Gross Profit	24.4%	26.2%	25.3%	25.5%	27.7%	28.9%	28.2%	21.5%	25.2%	26.1%	26.1%
SG&A/ Gross Profit	34.7%	32.4%	31.7%	30.2%	30.1%	31.1%	29.7%	24.8%	27.0%	25.5%	25.5%
SBC/ Revenue	6.5%	6.9%	7.4%	6.9%	6.8%	6.7%	7.1%	6.0%	6.8%	7.3%	7.3%
Capex/ Net Income	77.9%	60.9%	52.4%	104.1%	81.8%	68.6%	55.3%	32.4%	52.5%	43.7%	43.7%
Dividend Payout ratio	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!
Shares Outstanding	1811.6	1768.8	1742.5	1692.0	1659.1	1618.4	1591.6	1609.4	1610.8	1569.8	12589.0
Tax Rate	24.0%	22.2%	18.7%	13.2%	55.3%	16.1%	12.1%	14.0%	9.1%	18.2%	15.9%
Returns %											
ROE	13.6%	13.6%	14.0%	8.3%	17.3%	17.0%	18.1%	30.2%	23.4%	26.0%	26.0%
ROTE	25.6%	28.8%	31.2%	35.6%	18.1%	44.8%	31.4%	57.8%	44.8%	36.0%	38.4%
ROIC	30.1%	29.8%	30.2%	32.2%	15.0%	29.1%	17.0%	33.4%	31.4%	23.0%	29.8%
ROCE	27.1%	29.0%	28.8%	28.1%	25.9%	29.5%	16.0%	27.1%	23.2%	20.4%	21.1%
ROA	14.9%	16.3%	17.5%	19.0%	8.4%	17.4%	9.2%	16.6%	15.5%	13.0%	14.0%
ROC	13.0%	13.0%	13.6%	8.1%	16.9%	16.7%	17.1%	28.7%	22.3%	25.0%	25.0%
Leverage & Liquidity											
LT Debt	1199	1079	1993	3471	3468	3464	9406	9413	8920	8927	11870
ST Debt	174	181	45	331	342	15	251	2	510	6	#BUSY!
PF Stock	0	0	0	0	0	0	0	0	0	0	#BUSY!
Leases*7	0	0	0	0	0	0	6028	6200	5717	5761	6009
Pension SF	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!
Cash	\$ 2,220	\$ 3,852	\$ 3,138	\$ 3,808	\$ 4,249	\$ 4,466	\$ 8,348	\$ 9,889	\$ 8,574	\$ 7,441	\$ 24,048
Obligation Ratio ⁽¹⁾	(0.8)x	(0.6)x	(0.5)x	(0.5)x	(0.4)x	0.1x	0.3x	0.3x	0.4x	0.3x	0.3x
Cash/ Revenue	8.0%	12.6%	9.7%	11.1%	11.7%	11.4%	22.3%	22.2%	18.4%	14.5%	7.8%
Per Share Data											
Revenue	\$ 4.80	\$ 5.41	\$ 6.46	\$ 7.88	\$ 9.73	\$ 11.59	\$ 13.28	\$ 19.01	\$ 21.49	\$ 24.16	\$ 23.79
Owners Earnings	\$ 1.07	\$ 1.07	\$ 1.56	\$ 1.46	\$ 2.41	\$ 2.43	\$ 3.07	\$ 5.35	\$ 3.32	\$ 4.23	\$ 3.69
Earnings	\$ 1.03	\$ 1.14	\$ 1.39	\$ 0.90	\$ 2.19	\$ 2.46	\$ 2.93	\$ 5.61	\$ 4.56	\$ 5.80	\$ 5.80
Operating Cash Flow	\$ 1.68	\$ 1.92	\$ 2.58	\$ 2.64	\$ 3.41	\$ 3.90	\$ 4.74	\$ 6.76	\$ 6.95	\$ 8.00	\$ 7.85
Free Cash Flow	\$ 0.87	\$ 1.20	\$ 1.85	\$ 1.70	\$ 1.62	\$ 2.22	\$ 3.12	\$ 4.94	\$ 4.56	\$ 5.46	\$ 5.34
Dividends	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	#BUSY!	\$ 1.42
Book Value	\$ 7.62	\$ 8.75	\$ 10.06	\$ 10.98	\$ 12.77	\$ 14.63	\$ 16.48	\$ 19.00	\$ 19.94	\$ 22.74	\$ 22.74
Tangible Book Value	\$ 6.14	\$ 7.32	\$ 8.63	\$ 9.58	\$ 11.32	\$ 12.99	\$ 14.80	\$ 17.16	\$ 17.68	\$ 20.40	\$ 20.40
Valuation											
P/E	25.8x	34.1x	28.4x	58.5x	23.9x	27.3x	29.9x	25.8x	19.4x	24.1x	27.8x
P/S	5.5x	7.2x	6.1x	6.7x	5.4x	5.8x	6.6x	7.6x	4.1x	5.8x	6.2x
P/FCF	30.4x	32.4x	21.4x	31.0x	32.2x	30.2x	28.1x	29.3x	19.4x	25.6x	29.2x
P/B	3.5x	4.4x	3.9x	4.8x	4.1x	4.6x	5.3x	7.6x	4.4x	6.1x	10.0x
PEG	1.6x	2.3x	2.2x	4.1x	1.6x	1.5x	1.8x	1.1x	0.7x	1.1x	1.2x
EV/EBIT	17.5x	23.6x	19.2x	23.2x	17.8x	20.6x	22.3x	19.8x	14.6x	19.3x	20.6x

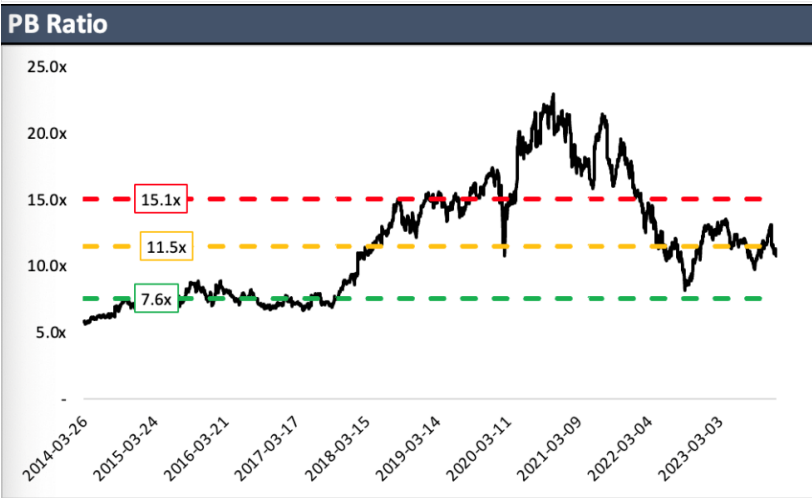
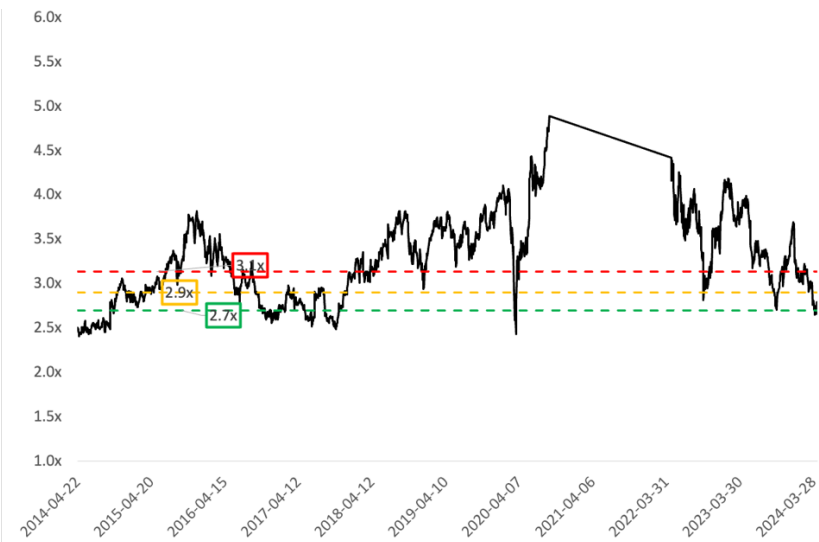
Valuation

PE Ratio approaching over valued from fair valued PS Ratio is undervalued, and PB ratio is fair valued.

PE Ratio



PS Ratio



With Nike having a current EPS of \$3.40, a base growth rate of 9% and P/E exit multiples of 22x, 26x, and 28x, we have a fair value target of \$84.45. With a current price of NKE at \$95.74, the business is overvalued. Because of a dull looking future, bad management decisions, and bad transparency with investors, my decision is to SELL.

Discount rate:		10%										
Ticker:		NKE										
Price:		\$95.74										
5 Year Discounted Cash Flow												
								Total Return				
								P/E	Price	PV	5 YR Return	Annual Return
Bear	EPS	<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	22.0x	\$104.91	\$65.14	9.6%	1.8%
		\$3.40	\$3.64	\$3.89	\$4.17	\$4.46	\$4.77	26.0x	\$123.99	\$76.99	29.5%	5.3%
		7%	7%	7%	7%	7%	7%	28.0x	\$133.52	\$82.91	39.5%	6.9%
Base	EPS	<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	22.0x	\$115.09	\$71.46	20.2%	3.8%
		\$3.40	\$3.71	\$4.04	\$4.40	\$4.80	\$5.23	26.0x	\$136.01	\$84.45	42.1%	7.3%
		9%	9%	9%	9%	9%	9%	28.0x	\$146.48	\$90.95	53.0%	8.9%
Bull	EPS	<u>Current</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>	22.0x	\$126.04	\$78.26	31.7%	5.7%
		\$3.40	\$3.77	\$4.19	\$4.65	\$5.16	\$5.73	26.0x	\$148.96	\$92.49	55.6%	9.2%
		11%	11%	11%	11%	11%	11%	28.0x	\$160.42	\$99.61	67.6%	10.9%

Total RoR Sensitivity				
		Est. EPS growth rate		
		7%	9%	11%
P / E	22.0x	1.8%	3.8%	5.7%
	26.0x	5.3%	7.3%	9.2%
	28.0x	6.9%	8.9%	10.9%

