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**Nike**

**October 2024**

Nike shares have dropped significantly since 2021 due to a shift to online sales and increased competition, but college endorsements offer a path to recovery.

NIL deals with college athletes and pros can rejuvenate Nike's brand, similar to the impact of Michael Jordan's endorsement in the 1980s.

While Nike's turnaround will take time, strong long-term profitability metrics and growth potential in China suggest a buy rating.

Despite risks, early signs indicate that the brand endorsement strategy is working, offering unique upside for investors.

## Thesis

Nike shares have dropped about 55% from their peak in late 2021, now trading at $80.90.

In recent years, Nike's shift towards online sales and promoting its mobile app instead of selling through traditional in-person stores has slowed its growth. Since most customers prefer to try on shoes in-store, this strategy missed the mark, capitalizing more on temporary COVID trends than lasting changes in shopping habits.

As the pandemic eased, other athletic brands filled the empty shelves Nike left behind, and competitors like On and Hoka gained traction with consumers. Nike has lost some of its appeal and needs a new plan to recover

Nike has deals with major US universities, including big football programs like Michigan, Alabama, and Texas. With the recent legalization of Name, Image, and Likeness (NIL) deals, college athletes can now sign endorsement deals with companies like Nike, benefiting both parties.

*If Nike continues to sign college athletes, it could set itself up for success. Although the company is still in the midst of a turnaround, and its stock reflects that, it might be a BUY.*

## Quarterly results

Nike reported mixed fiscal first quarter results after the market close on October 1st. Earnings came in at $0.70 per share, surpassing the Street estimate of $0.52, while revenue slightly missed expectations, with $11.59 billion versus the anticipated $11.65 billion.

On a positive note, revenue from Greater China exceeded forecasts, reaching $1.67 billion compared to Bloomberg's consensus estimate of $1.62 billion. However, Nike also announced the postponement of its Investor Day, originally scheduled for November 19, due to the CEO transition. This marks the final earnings report under CEO John Donahoe, as longtime Nike executive Elliott Hill is set to take over on October 14.

According to Morningstar equity analyst David Swartz, the results aligned with expectations. While China's performance was stronger than anticipated, sales in Europe and North America remained weak. Swartz noted that Nike is currently lacking a significant pipeline of new products and is pulling back on certain existing offerings.

In summary, my key takeaway from the quarter is that Nike's turnaround may take longer than initially expected. The company must focus on accelerating new product innovations, stabilizing its senior leadership team, and revitalizing its Direct-to-Consumer (DTC) business to regain momentum.

**Valuation**

Nike's recovery won't happen quickly, with a projected EPS drop of 20.97% for the fiscal year ending May 2025. However, things look brighter beyond that, with EPS growth estimates of 15.22% for FY 2026 and 11.92% for FY 2027, stabilizing at 14.14% YoY afterward.

While earnings are expected to decline this year, it’s part of Nike's efforts to streamline operations. Their forward P/E ratio is 25.85, which seems low given their strong profitability and 40.09% return on equity.

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