



Nike, Inc (NKE)

Updated March 22nd, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$84	5 Year CAGR Estimate:	4.0%	Volatility Percentile:	36.8%
Fair Value Price:	\$58	5 Year Growth Estimate:	10.0%	Momentum Percentile:	87.7%
% Fair Value:	144%	5 Year Valuation Multiple Estimate:	-7.0%	Growth Percentile:	91.6%
Dividend Yield:	1.0%	5 Year Price Target	\$94	Valuation Percentile:	6.7%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	16.8%

Overview & Current Events

Founded in 1964 and based in Beaverton, Oregon, Nike is the world's largest athletic footwear, apparel, and equipment maker. The namesake is one of the most valuable brands in the world. The company's offerings focus on six categories: running, basketball, the Jordan brand, football (soccer), training, and sportswear. Nike also owns Converse and Hurley. The \$132 billion market cap company had sales of \$36.4 billion in fiscal year 2018.

On March 21st, 2019 Nike released Q3 fiscal year 2019 results for the period ending February 28th, 2019 (Nike's fiscal year ends May 31st). For the quarter, revenue came in at \$9.6 billion, a 7% year-over-year increase, driven by strong gains in the footwear and apparel segments. Greater China continued to lead the growth path, with revenue increasing 19% in this area of the world. Net income totaled \$1.1 billion or \$0.68 per diluted share, as compared to a \$0.57 per share loss in the prior year period due to Tax reform. Inventories totaled \$5.4 billion, up 1% compared to Q3 fiscal year 2018. Cash and short-term investments equaled \$4.0 billion, down \$705 million as net income was more than offset by share repurchases, dividends and investments in infrastructure.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.88	\$0.97	\$1.10	\$1.18	\$1.35	\$1.49	\$1.85	\$2.16	\$2.51	\$2.40	\$2.65	\$4.27
DPS	\$0.25	\$0.27	\$0.30	\$0.35	\$0.41	\$0.47	\$0.52	\$0.62	\$0.70	\$0.78	\$0.88	\$1.49
Shares	1,942	1,936	1,902	1,832	1,788	1,740	1,714	1,682	1,643	1,601	1,575	1,500

Since 2007, Nike has been able to grow earnings-per-share by an average compound rate of 11.6% per annum. This was driven by a number of factors, including solid revenue growth, margin improvement and share repurchases. Moving forward we believe sustained margin improvement will get more difficult, but there is still ample runway for revenue growth and share repurchases to continue leading the growth charge. In particular, China will be the backbone of Nike's growth story with double-digit growth in that area of the world. There are risks to this thesis, trade concerns chief among them, but we believe Nike's global positioning gives the company a leg up should any unfavorable circumstances come about. We continue to forecast robust growth for the company.

While the current dividend yield is unimpressive, this component ought to grow nicely over time as well. Nike has increased its dividend for the past 17 years, with an average annual increase north of 15% per annum during the last decade.

Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	15.3	16.4	18.2	20.4	19.4	24.2	24.4	27.5	21.6	25.3	31.7	22.0
Avg. Yld.	1.8%	1.7%	1.5%	1.4%	1.5%	1.3%	1.2%	1.0%	1.3%	1.3%	1.0%	1.6%

Since 2009, shares of Nike have traded hands with an average P/E ratio of just over 21 times earnings. During the last five years the mark has been close to 24 or 25 times earnings. We believe that a low 20's multiple is a fair starting baseline taking into consideration the security's past, the exceptional brand and growth prospects of the business

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weighed against the notion that growth will ultimately be more, not less, difficult to formulate as time goes on. A premium multiple is justified, to be sure, but we are not comfortable with the current mark of over 30 times expected earnings. At the current quotation, there is the possibility for a substantial valuation headwind. Moreover, share repurchases – which have been an important component of Nike’s capital allocation – are becoming less and less attractive at these levels.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	28%	28%	27%	30%	30%	32%	28%	29%	28%	33%	33%	35%

Nike’s competitive advantage stems from its exceptional brand name and image around the world. In turn, the company has developed distribution capabilities that are hard to replicate. With that being said, China is an important unknown in Nike’s growth equation. So far things are going well, but a potential trade war with the U.S. and China would weigh on this growth trajectory.

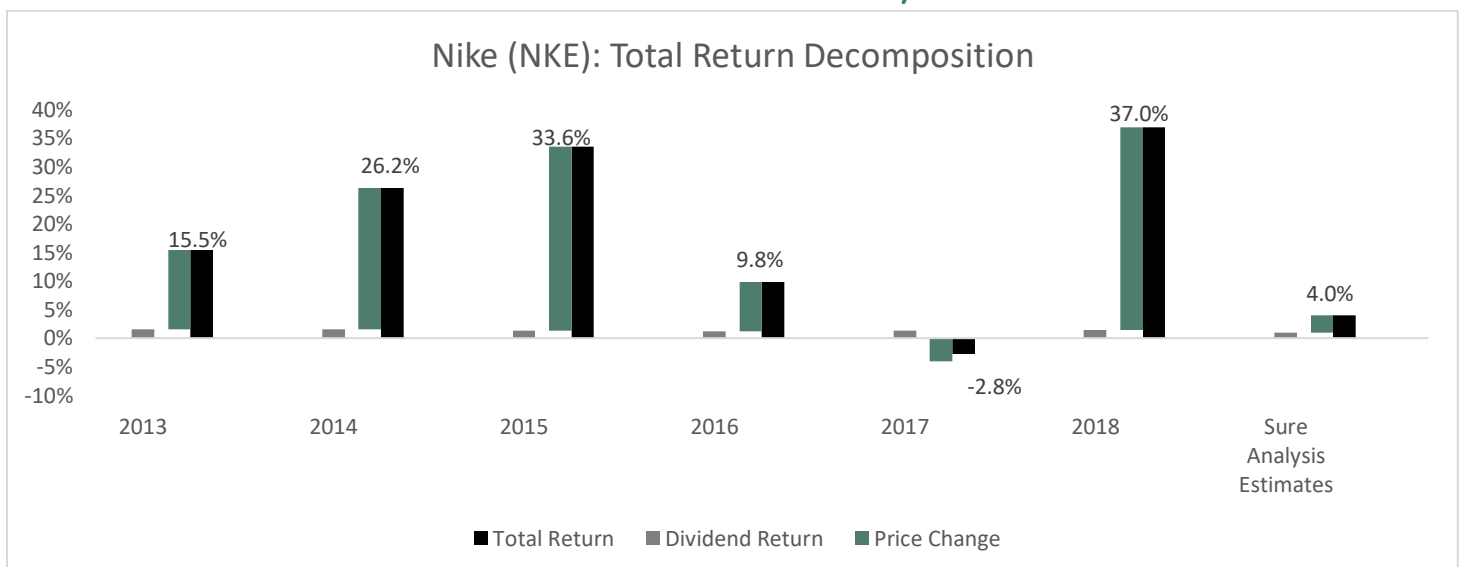
Nike held up quite well during the last recession, posting earnings-per-share of \$0.72, \$0.86, \$0.88 and \$0.97 during the 2007 through 2010 stretch. Meanwhile, the dividend kept on increasing during this time. With a current payout ratio near one third of earnings, we expect this payout to continue chugging along for the foreseeable future.

As of the last quarterly report Nike held \$3.7 billion in cash, \$15.8 billion in current assets and \$22.9 billion in total assets against \$7.3 billion in current liabilities and \$14.0 billion in total liabilities. Long-term debt stood at just \$3.5 billion against underlying annual earnings power north of \$4 billion.

Final Thoughts & Recommendation

Shares are up 17% since our last update and indeed up over 50% in the last two years. Meanwhile, earnings results have been solid, but more or less as expected. Nike is an incredible business with a conservative balance sheet and significant growth opportunities ahead. However, the problem is that investors are well aware of this and have bid shares up accordingly. We believe today’s valuation poses a significant headwind for the prospective investor, which could offset the majority of the good attributes of the security. We are reluctant to rate shares as a sell, but our total return expectations are not compelling from this point.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	19176	19014	20117	23331	25313	27799	30601	32376	34350	36397
Gross Profit	8604	8800	9202	10148	11034	12446	14067	14971	15312	15956
Gross Margin	44.9%	46.3%	45.7%	43.5%	43.6%	44.8%	46.0%	46.2%	44.6%	43.8%
SG&A Exp.	6150	6326	6361	7079	7796	8766	9892	10469	10563	11511
D&A Exp.	383	396	358	396	502	586	649	662	716	774
Operating Profit	2455	2474	2841	3069	3238	3680	4175	4502	4749	4445
Op. Margin	12.8%	13.0%	14.1%	13.2%	12.8%	13.2%	13.6%	13.9%	13.8%	12.2%
Net Profit	1487	1907	2133	2211	2472	2693	3273	3760	4240	1933
Net Margin	7.8%	10.0%	10.6%	9.5%	9.8%	9.7%	10.7%	11.6%	12.3%	5.3%
Free Cash Flow	1280	2829	1380	1261	2434	2133	3717	2256	2741	3927
Income Tax	470	610	690	754	805	851	932	863	646	2392

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	13250	14419	14998	15465	17545	18594	21597	21379	23259	22536
Cash & Equivalents	2291	3079	1955	2317	3337	2220	3852	3138	3808	4249
Acc. Receivable	2884	2650	3138	3132	3117	3434	3358	3241	3677	3498
Inventories	2357	2041	2715	3222	3484	3947	4337	4838	5055	5261
Goodwill & Int.	661	655	692	501	420	413	412	412	422	439
Total Liabilities	4557	4666	5155	5084	6464	7770	8890	9121	10852	12724
Accounts Payable	1032	1255	1469	1549	1669	1930	2131	2191	2048	2279
Long-Term Debt	812	592	663	385	1365	1373	1260	2038	3802	3810
Total Equity	8693	9754	9843	10381	11081	10824	12707	12258	12407	9812
D/E Ratio	0.09	0.06	0.07	0.04	0.12	0.13	0.10	0.17	0.31	0.39

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	11.6%	13.8%	14.5%	14.5%	15.0%	14.9%	16.3%	17.5%	19.0%	8.4%
Return on Equity	18.0%	20.7%	21.8%	21.9%	23.0%	24.6%	27.8%	30.1%	34.4%	17.4%
ROIC	16.6%	19.2%	20.5%	20.8%	21.3%	21.9%	25.0%	26.6%	27.8%	13.0%
Shares Out.	1942	1936	1902	1832	1788	1740	1714	1682	1643	1601
Revenue/Share	9.77	9.62	10.36	12.42	13.81	15.35	17.30	18.58	20.30	21.94
FCF/Share	0.65	1.43	0.71	0.67	1.33	1.18	2.10	1.29	1.62	2.37

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

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