



Nike Inc. (NKE)

Updated July 5th, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$87	5 Year CAGR Estimate:	2.7%	Volatility Percentile:	34.7%
Fair Value Price:	\$59	5 Year Growth Estimate:	9.0%	Momentum Percentile:	66.7%
% Fair Value:	146%	5 Year Valuation Multiple Estimate:	-7.3%	Growth Percentile:	90.5%
Dividend Yield:	1.0%	5 Year Price Target	\$91	Valuation Percentile:	6.8%
Dividend Risk Score:	B	Retirement Suitability Score:	D	Total Return Percentile:	15.3%

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 \$140 billion market cap company had sales of \$39.1 billion in fiscal year 2019.

On June 27th, 2019 Nike released Q4 and full year fiscal 2019 results for the period ending May 31st, 2019. For the quarter revenue came in at \$10.2 billion, up 4% on a reported basis and up 10% on a currency-neutral basis. Diluted earnings-per-share came in at \$0.62 for the quarter, compared to \$0.69 previously, driven by revenue growth, margin expansion and a lower share count, offset by higher selling expense and a higher tax rate.

For the year revenue came in at \$39.1 billion, a 7% increase on a reported basis and an 11% improvement on a currency-neutral basis, with demand led by Nike Direct. Diluted earnings-per-share came at \$2.49 for the year, compared to \$1.17 in fiscal year 2018. However, this number is not directly comparable due to tax reform. (On an adjusted basis, earnings-per-share grew from \$2.40 previously.) Inventories totaled \$5.6 billion, up 7% compared to Q4 2018. Cash and short-term investments equaled \$4.7 billion, down \$582 million as net income was more than offset by share repurchases, dividends and investments in infrastructure.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	\$0.97	\$1.10	\$1.18	\$1.35	\$1.49	\$1.85	\$2.16	\$2.51	\$2.40	\$2.49	\$2.70	\$4.15
DPS	\$0.27	\$0.30	\$0.35	\$0.41	\$0.47	\$0.52	\$0.62	\$0.70	\$0.78	\$0.82	\$0.90	\$1.45
Shares	1,936	1,902	1,832	1,788	1,740	1,714	1,682	1,643	1,601	1,618	1,600	1,500

Since 2007, Nike has been able to grow earnings-per-share by an average compound rate of 10.9% 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 gains 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. Moreover, Nike's relatively recent direct to consumer push could be an ongoing positive for the firm.

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 around 15% per annum during the last decade.

Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.4	18.2	20.4	19.4	24.2	24.4	27.5	21.6	25.3	31.4	32.2	22.0
Avg. Yld.	1.7%	1.5%	1.4%	1.5%	1.3%	1.2%	1.0%	1.3%	1.3%	1.0%	1.0%	1.6%

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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Since 2010, shares of Nike have traded hands with an average P/E ratio near 23 times earnings. During the last five years the mark has been close to 26 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 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	28%	27%	30%	30%	32%	28%	29%	28%	33%	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.

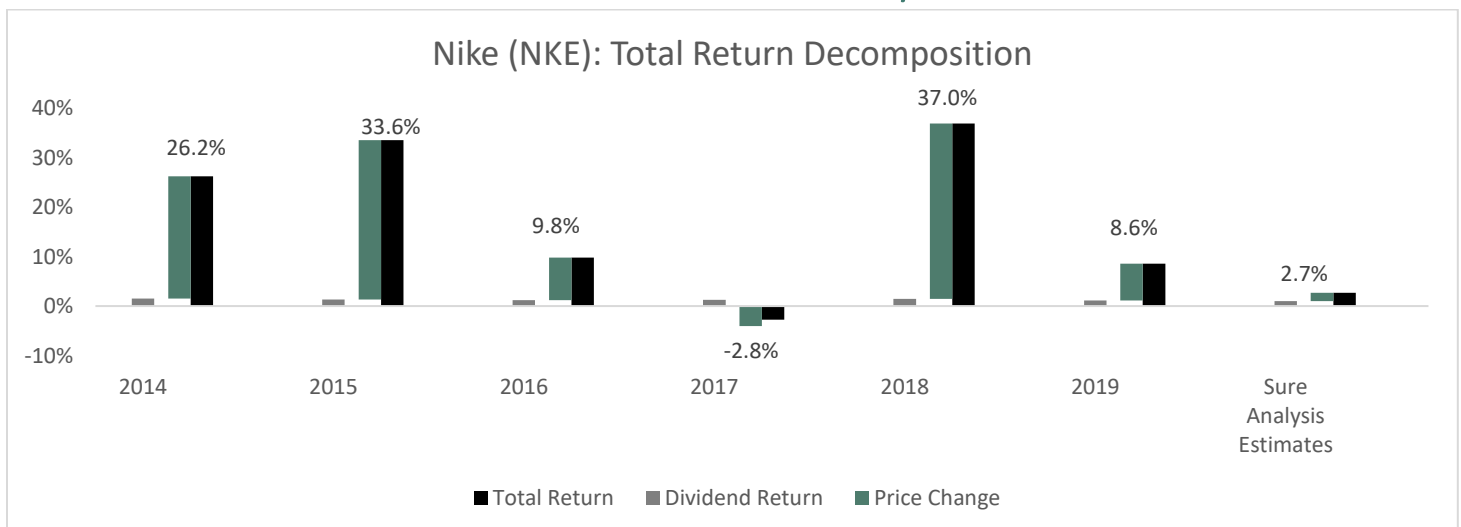
Nike held up quite well during the last recession, posting earnings-per-share of \$0.72, \$0.86, \$0.88 and \$0.97 during the 2007 through 2010 stretch. Meanwhile, the dividend kept on increasing during this time. With a current payout ratio near one third of earnings, we expect this payout to continue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

As of the last quarterly report Nike held \$4.5 billion in cash, \$16.5 billion in current assets and \$23.7 billion in total assets against \$7.9 billion in current liabilities and \$14.7 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 4% since our last update. 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. Total return potential comes in at just 2.7% per annum, stemming from 9.0% expected growth and a 1.0% dividend yield, offset by a 7.3% valuation headwind. Indeed, this potential headwind could very well hinder the majority of the good attributes of the security. Still, we are reluctant to rate shares as a sell and reiterate our hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	19014	20117	23331	25313	27799	30601	32376	34350	36397	39117
Gross Profit	8800	9202	10148	11034	12446	14067	14971	15312	15956	17474
Gross Margin	46.3%	45.7%	43.5%	43.6%	44.8%	46.0%	46.2%	44.6%	43.8%	44.7%
SG&A Exp.	6326	6361	7079	7796	8766	9892	10469	10563	11511	12702
D&A Exp.	396	358	396	502	586	649	662	716	774	
Operating Profit	2474	2841	3069	3238	3680	4175	4502	4749	4445	4772
Op. Margin	13.0%	14.1%	13.2%	12.8%	13.2%	13.6%	13.9%	13.8%	12.2%	12.2%
Net Profit	1907	2133	2211	2472	2693	3273	3760	4240	1933	4029
Net Margin	10.0%	10.6%	9.5%	9.8%	9.7%	10.7%	11.6%	12.3%	5.3%	10.3%
Free Cash Flow	2829	1380	1261	2434	2133	3717	2256	2741	3927	
Income Tax	610	690	754	805	851	932	863	646	2392	772

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	14419	14998	15465	17545	18594	21597	21379	23259	22536	23717
Cash & Equivalents	3079	1955	2317	3337	2220	3852	3138	3808	4249	4466
Acc. Receivable	2650	3138	3132	3117	3434	3358	3241	3677	3498	4272
Inventories	2041	2715	3222	3484	3947	4337	4838	5055	5261	5622
Goodwill & Int.	655	692	501	420	413	412	412	422	439	437
Total Liabilities	4666	5155	5084	6464	7770	8890	9121	10852	12724	14677
Accounts Payable	1255	1469	1549	1669	1930	2131	2191	2048	2279	2612
Long-Term Debt	592	663	385	1365	1373	1260	2038	3802	3810	3479
Total Equity	9754	9843	10381	11081	10824	12707	12258	12407	9812	9040
D/E Ratio	0.06	0.07	0.04	0.12	0.13	0.10	0.17	0.31	0.39	0.38

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	13.8%	14.5%	14.5%	15.0%	14.9%	16.3%	17.5%	19.0%	8.4%	17.4%
Return on Equity	20.7%	21.8%	21.9%	23.0%	24.6%	27.8%	30.1%	34.4%	17.4%	42.7%
ROIC	19.2%	20.5%	20.8%	21.3%	21.9%	25.0%	26.6%	27.8%	13.0%	30.8%
Shares Out.	1,936	1,902	1,832	1,788	1,740	1,714	1,682	1,643	1,601	1,618
Revenue/Share	9.62	10.36	12.42	13.81	15.35	17.30	18.58	20.30	21.94	24.17
FCF/Share	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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