

NIKE Inc (NYSE:NKE) Memo

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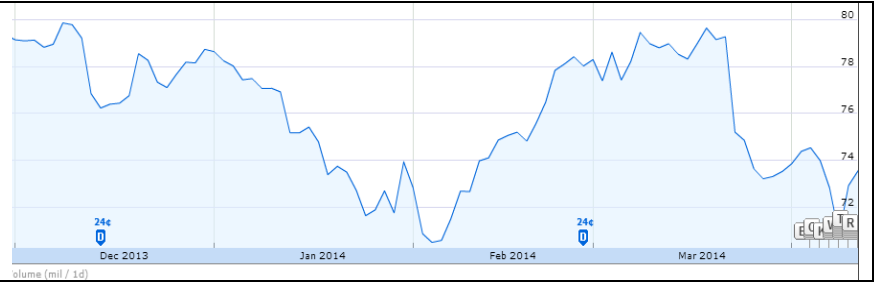
Company Description- Arguably the largest sports retailer in the world, Nike is universally recognized by its trademark swoosh sign. A company that uses global superstar athletes to attract attention, Nike has created unmatched brand awareness and value with its products. Lately, throughout 2013 and early 2014, Nike's innovation has grown to greater heights, its genius marketing has become even more attractive, and the company has made vital gains in various sports markets. In addition, Nike has introduced several groundbreaking technological designs in its products, farther differentiating itself from close competitors such as the German sports giant Adidas. Along with market catalysts and healthy financials that has grown at a considerable rate the past 4 quarters, Nike Inc can quickly become an attractive long term hold for investors for years to come.



Important Company Financial Data *

Stock Price- \$74.03	52 Week- 59.11 - 80.26
EPS- 2.96	Beta- 0.92
P/E Ratio- 24.83	Share- 881 million
Institutional %- 69%	Div/Yield- 0.24/1.31
Volume- 3.54M	Market Cap- 64.91

*Numbers derived from Google Finance



Thesis / Key Points

- **Innovation beats competitors, and most sports market developments and trends start with the company itself**
 - Nike has become the true retail leader in soccer, the world's most popular sport, and has made several recent introductions to better the way the game is played.
 - Nike Magista- A soccer cleat, due to be available for preorder starting April 29, created with a sock-like texture that will amplify feel, solidify traction, and improve the response and transition associated with natural motion. This cleat molds itself to the player's feet, and the technology will significantly improve feel. The cleat is expected to overhaul the design of future soccer shoes, with lightness and flexibility being key issues.
 - Nike is primarily responsible for
 - Nike was the first company to introduce the idea of more lightweight support on athletes' feet. Notably, its recent Flyknit technology offers dynamic, multi-directional movement flexibility not seen on competitors' products. More importantly, the fact that Nike was responsible for pushing for lightness in shoe-making, and thus changing the entire direction of future running and basketball shoes, attests to its fast-growing ability to dominate the market.
 - NIKEiD is a growing trend that will continue to differentiate the company from close competitors
 - This represents yet another innovative aspect of Nike's business model. The simple yet catchy title epitomizes Nike, and NIKEiD transfers the company's creativity to consumers.
 - As NIKEiD is a huge part of Nike's e-commerce operations, Nike expects its internet sales to increase from \$540 million in 2013 to over \$2 Billion by 2017

- **Marketing is even more appealing, and its creative slogans and policy of using superstars to promote brand awareness continues to pay dividends.**
 - Its marketing has evolved to become more seductive. Not only does focusing squarely on a charismatic athlete or image appeal to customers, Nike dares customers to dream.
 - Top athletes advertising for Nike are not only outstanding athletes, they are often institutions or faces of global franchises who are the absolute best.
 - Such figures are sponsored by Nike, and thus display the swoosh sign every day while perfecting their sport. Such a seductive marketing technique focuses squarely on a charismatic, global ambassador of a certain sport, and this advertisement serves to further inspire consumers and appeals to the dreams of those who follow sports. Those who do not follow sports are also attracted due to the pure image and aura of those athletes and thus more and more around the world are drawn to Nike as a whole
 - Roger Federer, Cristiano Ronaldo, Tiger Woods, Kobe Bryant are all wonders with huge fan bases. This leads to increased consumption and thus revenue for the company

- **Increasing market share**

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become the true dominant force globally

- In Europe alone, Nike recorded an impressive 13% growth in revenue in Q3 of 2014 (Nike's Q1 typically ends on August 1, and Q4 typically ends on May 31)
- Brazil 2014 is the first ever world cup where Nike will sponsor the kits of more national teams than Adidas, who has consistently dominated proceedings at world cups since official soccer balls are all adidas. However, in Brazil, Adidas only sponsors 8 team (Spain, Argentina, Colombia, Japan, Mexico, Nigeria, Russia, and of course, Germany), compare to Nike's 10 (Australia, Brazil, Croatia, England, France, Greece, Netherlands, Portugal, South Korea, and USA). In fact, the English Football Association recently decided to switch to Nike from its sponsors of more than 40 years, Umbro. Additionally, France and Greece both entered into agreements with Nike, as well, after dropping main competitor Adidas.
- Soon, earnings in soccer will be more than those in basketball, the sport that launched Nike as a global brand
 - With the FIFA World Cup 2014 and increasing share in domestic European leagues, Nike is strategically pushing into soccer, which is now the key market for sales and revenue
 - In addition, Nike expects a solid \$1 Billion sales in Brazil, per year, after the catalyst that is the World Cup 2014, to be held in Brazil.
 - In general, Nike's huge shares in consistent sporting events such as the world cup and the winter and summer Olympics make the company a stable, reliant, and dominant figure in its industry.
- Brazil accounts for the 3rd largest Nike market, and is also projected to grow even more in the coming decades due to catalysts and cost-cutting efficiency programs.
 - Growth in Brazilian market is likely to reduce margins for Nike in the region, as the majority of Nike products in Brazilian stores are manufactured by factories in the country itself. This convenience would reduce transportation expenses and may also lead to faster cash flow operations.
 - Nike has officially entered into a partnership with DHL Supply Chain to create a logistics program to help respond to order requests in a more efficient manner. This program combines route and shipment planning and better manages overall services and delivery. Overall, this partnership allows Nike to more efficiently manage higher order volumes, effectively improve service for customers, and decrease expenses associate with its supply chain.

Misperception

- Nike is a fully-matured company with no long term upwards potential
 - Its overall financials and sales projections suggest otherwise and signals more long term growth
 - 12% Debt to Equity ratio is attractive- Nike only has \$1 of debt for every \$12 of net assets. Given Nike's massive operations and inventory margin, this is a comparably favorable rating for a company that is a global franchise.
 - 2nd Quarter revenue increased by 8%, sales by 11%, net income by 4%, and Earnings per Share (EPS) went up by 4%.
 - Future global orders of Nike footwear and apparel for delivery between December 2013 and April 2014 increased by 12% over the same time span last year.
 - Advance orders for March through July are running 14% higher, one of the highest ever in this time period in its history, thus correcting the misperception that sales are slowing
 - In general, the company's annual financial information signals that the company is a excellent, long term hold opportunity. Total revenue has gone up approximately 8% year after year the last 4 years, and net income has also increased around 10% 4 years in a row. Even though Nike may not see drastic increases or sharp price rises in its stock, the consistently strong numbers it puts up in sales and revenue will propel it to even further growth in the next half-decade.
 - Nike has consolidated expansion into strategic markets
 - Nike's acquired monopoly rights in the National Football League is a sign that the company is not complacent is and still seeking to exert its dominance in sports at every opportunity
 - Since 2012, Nike became the sole supplier of jerseys to every single team operating in the National Football League, and revenue per year are around \$500 million for the corporation from this contract alone.
 - Nike was not slowing down, but was cutting out inefficiency and restructuring operations
 - Earnings have trailed revenue slightly, but should pick up the next few quarters
 - Internal operations such as cutting inventory is temporary, and the price should soon be more reflecting of the company's true fair market value
 - Nike's management have started to take pressure of input costs by moving towards utilizing higher margins in its business, which is in turn aided by Nike's strength in its consumer sales model.
- Growth, Sales, and revenue are slowing in China and thus negatively affecting the company

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market is the second largest market for Nike merchandise, behind the US, and still has much untapped possible sources of revenue

- China's sales jumped from 5% last quarter to 7% this quarter
- China's upper middle class is expected to grow from 18% in 2012 of urban households to 54% in 2022, and urban private consumption should also rise from 20% in 2012 to 56% in 2022.
- Due to the brand loyalty of Nike in the Chinese market, Nike is projected to grow massively in sales and revenue from the demographic changes.
- Nike will continue to gain more market share due to its cleaning-up operations. It is seeking to generate more efficiency from its operations by creating a more diverse product portfolio, enhancing store productivity in China, and reducing unneeded inventory.

Value-Added Research (VAR)

- Independent Nike market follower- analyst notes key opinions that support thesis and misperceptions
 - Endorsements- international, every single sports has a key athlete- "...usually someone who is flashy, kids look up to, big stats guy, household names that kids want to be like."
 - Cultural- young athletes live by motto- "...if you look good, you play good. Roots of athletic success are found in athletic apparel..."- Nike feeds off motto.
 - Growth company- Doesn't need to prove anything else, but technology is improving every year- both its marketing and actual technology are feeding off
 - Marketing- everything Nike puts out has an influx of technological words- "hyperfuse, hydrojet, flywire". Has cool names right before product to make it sound cooler. 2012, 2013 versions may have added phrases to promote brand awareness, and Nike may more names to each years model."
 - Tech- Constantly coming up with lighter, breathable, faster products for consumers; more moldable, bouncier.
 - In football, there are compression shorts with pads. Pads are light material that optimizes speed and minimal weight, aerodynamic design.
 - Always improving in terms of "faster, stronger, better." Consistent growth in technology. Every year has a new model, and there are small changes by season and year, with new line and product setups.
 - Stretching the truth advertising vs actual technological improvements. "DriFit, mesh, flywire"- Nike has flashy and lighter names to make it "sound cool," which would attract consumers even more. Speed, quickness, agility-> Nike is promoting products that are defined by the following characteristics; is lighter, more breathable, combats elements, words are flashy too.
 - Marketing is using some psychology. Started with 2 guys selling shoes at track meets has turned into a global icon
 - "Power of the swoosh; The swoosh is almost a pure markup. The symbol, motto "Just do it" itself has become a cult, and generates so much revenue. Generic sports products may not differ too much in tech, but is missing the swoosh. Kids also want the swoosh, the flashiness to show. Something can be cool, but its not cool until it has the swoosh."
 - Analyst also notes that culture in American lives off the brand -> the companies also manufacture Jordans', which "sells like food" to low end, up and coming rappers. In essence, everything is about the swoosh; it has becomes more than a brand, it is a culture.
- Laurent Vasilescu, Macquarie Equities research analyst
 - "We are now seeing very healthy revenue acceleration abroad on a constant FX basis."
 - Noting, especially impressive was the company's 14% year-over-year increase in Q3 future orders, and that the prior 3 quarters has also experienced excellent growth in the same department, suggesting a meaningful outlook for the future orders.
 - Vasilescu supported the thesis that China is seeing growth, and the momentum in its consumer market will help Nike immensely. He also anticipates that the opening of a brand new Niketown in Shanghai, a complex of 500,000 square feet in one of the city's busiest shopping districts, will help "create a dominant presence in this key market longer [sic] term."
 - Lastly, the fact that Nike is relocating footwear production to nearby Vietnam reduces costs and increases gross margins, as China moves to an advanced economic model that will fuel consumption rather than low-cost production.

How It Plays Out

- It would vital to monitor Nike's sales and revenue growth in China and Brazil for the next few quarters, and pay special attention to Brazil's projections and actual data after the world cup and before the Olympics. If consumer demand slows down in these two major markets, especially in the Far East, the Nike's sales could see a major slowdown in its increase that may even lead to negative quarterly changes in its sales and revenue.

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is the official supplier of balls to the FIFA World Cup and UEFA tournaments such as the UEFA Euro, UEFA Champions League, and UEFA Europa League, Nike maintains a dominant presence. Not only is it the official supplier of balls to the three major domestic European leagues (Barclays English Premier League, Spanish BBVA La Liga, Italian Serie A), its sales and revenue from soccer products such as cleats, uniforms, and fan accessories.

- Expect Nike to put increasing metrics in sales and revenue. Analysts expect the company to increase both departments by around 4-6% annually. Additionally, Earnings per Share should have positive quarterly changes in 3 out of 4 quarters, and should also increase by at least 5% by next year.

Risks / What Signs Would Indicate We Are Wrong?

- Nike sales and revenue in China increase by less than 4% per year, or if sales in China and Brazil, notably the former's, slow drastically. In addition, if domestic Chinese sports brands Li Ning and Anta, Nike's main Chinese competitors combine to hold more than 50% of the Chinese market by 2016, this could spell trouble for the Oregon-based corporation
- Adidas takes back market share in Europe and subsequently end what may be the start of an era of dominance by Nike.
- If sales and revenue after the FIFA World Cup and Rio 2016 Olympics do not keep within marginal distances of the metrics seen right before and during the major sporting spectacles. This would signify that the growth is periodic and dispersed rather than consistent increases.
- It appears that people do not want to invest heavily in NKE due to the misperception that it has no potential or significant room to grow. If the stock begins to be priced at current value rather than future growth potential as various catalysts suggest, this may not bode well.

Signposts / Follow-Up

- Keep up with both quarterly and annually sales and revenue figures
- Consistent increase in market share, especially in soccer and in the Chinese and Brazilian markets, is key to corporate growth.
- Follow Nike's financial data, which should not veer significantly in the negative direction in the coming quarters.
- As a growth company, Nike's brand name needs to keep increase, especially in Europe, where the recent surge over Adidas would propel Nike to even greater market share.
- European economy- keep note of how the economy rebounds and general investments in sports departments, notably soccer (football).

Supplementary Financials *

- EV/EBITDA = 18.75
- Price/Book = 5.84
- Price/Sales = 2.43
- Enterprise Value = 58.87
- Range = 73.29 - 74.43
- Forward P/E = 21.61

*All values, most current

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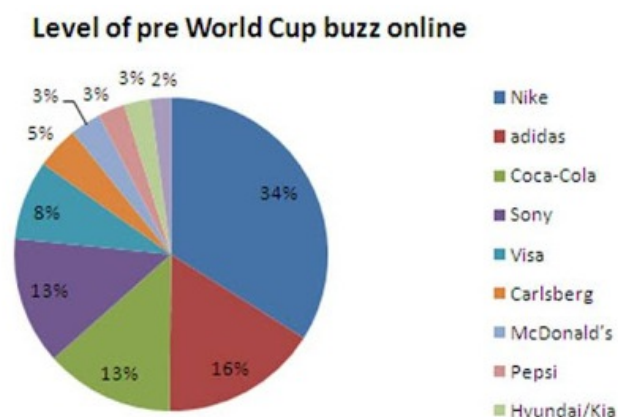
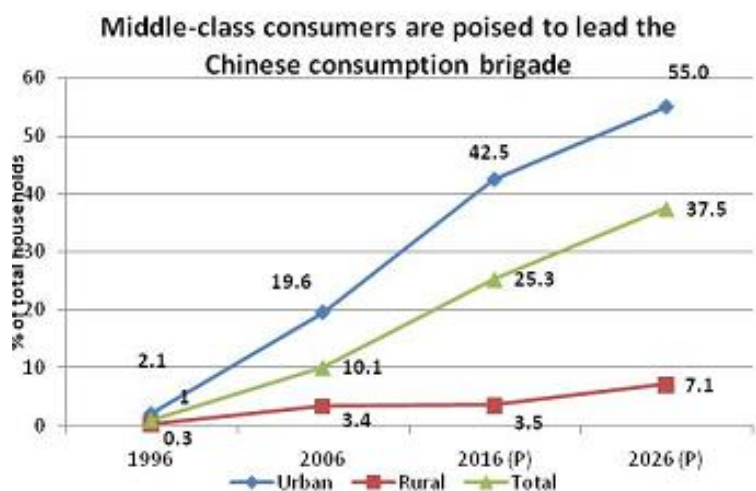
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NIKE, Inc. EARNINGS BEFORE INTEREST AND TAXES^{1,2}

For the period ended February 28, 2014

(Dollars in millions)	THREE MONTHS ENDED			NINE MONTHS ENDED		
	2/28/2014	2/28/2013	% Change	2/28/2014	2/28/2013	% Change
North America	\$ 726	\$ 653	11%	\$ 2,188	\$ 1,863	17%
Western Europe	275	179	54%	663	501	32%
Central & Eastern Europe	79	64	23%	208	155	34%
Greater China	234	218	7%	601	570	5%
Japan	21	24	-13%	92	92	0%
Emerging Markets	229	216	6%	682	735	-7%
Global Brand Divisions ³	(533)	(414)	-29%	(1,461)	(1,280)	-14%
TOTAL NIKE BRAND	1,031	940	10%	2,973	2,636	13%
Converse	133	121	10%	402	336	20%
Corporate ⁴	(272)	(205)	-33%	(710)	(608)	-17%
TOTAL EARNINGS BEFORE INTEREST AND TAXES	\$ 892	\$ 856	4%	\$ 2,665	\$ 2,364	13%

*Nike's Q4 Quarterly report



*thomaswhite.com

Nike is set to gain more sales and revenue from the growing number of Chinese middle class citizens who want to invest in more consumer products.

As evident from the table, Nike generates the most excitement and possible growth from the FIFA World Cup.

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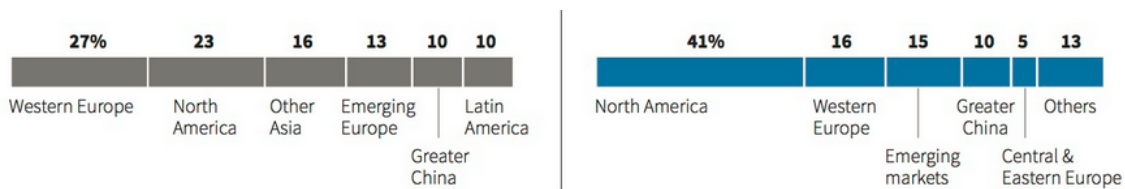
*Above example combines two of Nike's most successful marketing techniques; by using superstar athletes and innovative slogans, the company truly captivates and connects with consumers. The sheer attraction and flashiness form aspirations and desire in the minds of buyers.

Tough Game | Adidas is betting on a World Cup boost.

	Sales, first-half 2013	Change from a year ago [†]
Western Europe	€1.91 billion	-9%
North America	1.72	-1%
Asia excluding China	1.06	-8%
Emerging Europe*	0.90	-2%
China	0.78	+7%
Latin America	0.77	+9%

€1 billion = \$1.35 billion
 *Eastern European countries †Unadjusted for currencies
 Source: the company

(Reuters) Adidas has experienced decreases in market share across most key markets.

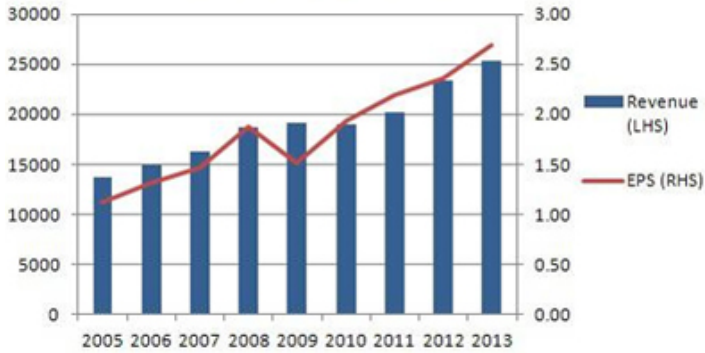


(Reuters) Revenue by Segment

- Adidas also has growing sales and revenue in China, but that is due to the sheer size and purchasing power of Chinese consumers, particularly due to a rapidly growing Middle Class. However, percentages for Adidas fell almost in every other market. The huge decline in Western Europe especially reflects Nike's presence and domination in the most highly-concentrated region of top quality soccer clubs.

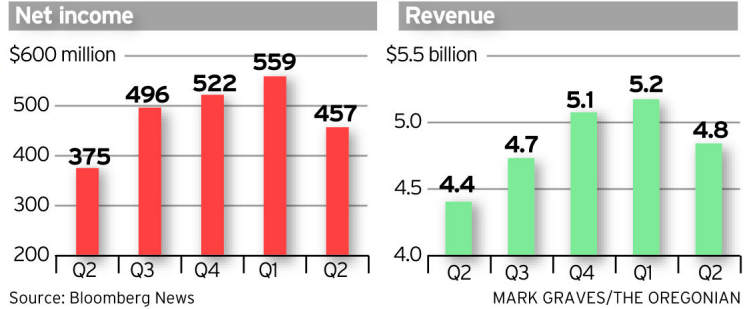
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Revenue & EPS Growth



Nike Inc. quarterly results

Year over year, the world's largest sporting goods company increased revenue 10 percent and net income 22 percent for its fiscal second quarter.



- Nike's sales and revenue growth, both annually and quarterly, are in line with predictions and should scale even greater heights in the near future.

Nike growth in future orders through January 2014

