

The Krause Fund

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NIKE, Inc. (NKE)

November 18, 2024

Consumer Discretionary – Apparel

Stock Rating

HOLD

Investment Thesis

Target Price

\$65



	1M%	3M%	6M%	YTD%	1Y%
NKE-US	-10.67	-11.05	-19.64	-31.77	-30.09
S&P 500	0.69	5.29	11.34	23.80	30.81

DCF	\$45.01
DDM	\$104.22
Relative Multiple	\$65.00
Price Data	
Current Price	\$74.89
52wk Range	\$77.75 – 123.39
Key Statistics	
Market Cap (B)	\$112.2
Beta	1.01
Dividend Yield	2.14%
Price/Earnings (FY25)	\$81.57
Price/Earnings (FY26)	\$65.00
PEG (FY25)	74.25
EV/EBITDA (LTM)	\$103.05
Profitability	
Operating Margin	11.76%
ROIC (LFY)	22.52%
Return on Assets (LFY)	15.07%
Return on Equity (LFY)	40.09%

We recommend a **HOLD** rating for Nike Inc. Near term sales have shrunk and will continue to do so while the CEO transitional period indicates an uncertain mid-term time horizon. While the Apparel industry as a whole faces uncertain geo-political risk we remain optimistic that Nike will traverse these waters better than others as the largest company.

Drivers of Thesis

- Nike has a dominate position in the apparel industry that will help mitigate its short-term sales decline into a mid-term sales growth.
- Cost reduction over the next 3 years including COGS drop of 2 billion with a moderate headcount reduction at Converse will sustain profitability
- Brand marketing and sponsorships will play a big role in the growth story of Nike as it has implemented the most expensive contracts in history with LeBron James and Serena Williams with the addition of Caitlin Clark

Risks to Thesis

- Short term sales in worse case scenarios continue their decline and stabilize rather than returning to growth.
- COGS increases or nets out from decreased consumer spending power and producer price inflation from a tariff scenario.
- Brand marketing and sponsorships may not pan out the way management and consensus estimates portray. A major issue with signing the largest contracts with the largest names is the significant capital cost tied to it.



COMPANY DESCRIPTION

Established in 1964, Nike, Inc. specializes in designing, developing, marketing, and selling athletic footwear, apparel, accessories, equipment, and services. Its operations are organized into several segments: North America; Europe, Middle East, and Africa; Greater China; Asia Pacific and Latin America; Global Brand Divisions; Converse; and Corporate. The North America, Europe, Middle East, and Africa, Greater China, and Asia Pacific and Latin America segments concentrate on the creation, marketing, and sales of athletic footwear, apparel, and equipment. The Global Brand Divisions oversee Nike Brand licensing activities, while the Converse segment focuses on designing, marketing, licensing, and selling casual sneakers, apparel, and accessories. The Corporate segment includes unallocated general and administrative expenses.

SWOT Analysis

Strengths

- Nike is one of the most recognizable brands in the world, associated with quality and performance.
- Nike is the market leader in footwear worldwide.
- Ongoing investment in research and development leads to cutting-edge products that enhance athletic performance.
- It offers a wide variety of products across multiple sports and lifestyle segments.
- The company has a strong global presence through various retail channels, including direct-to-consumer sales and e-commerce.
- Its successful marketing campaigns and endorsements from top athletes/teams enhance brand visibility and appeal.

Weaknesses

- Nike is a premium pricing outfit which can alienate some price-sensitive consumers.
- As noted in the 2024 10k many emerging markets are dominated by a few large retailers, making Nike dependent on the largesse and success of these

companies.

- Their heavy reliance on outsourced manufacturing can lead to supply chain vulnerabilities, trade/currency risks, and tariff concerns.
- Labor practices, DEI initiatives, and environmental impact can negatively affect Nike brand image.

Opportunities

- Increasing popularity of athletic and casual wear presents growth opportunities in lifestyle segments.
- Potential for growth in developing regions where sports participation is rising.
- Increasing consumer preference for sustainable products offers a chance to innovate and capture new markets.
- Expanding e-commerce and digital platforms can enhance customer engagement and sales.

Threats

- Strong competition from other athletic brands (e.g., Adidas, Lululemon, Under Armor) and emerging brands.
- The apparel industry has low barriers to entry because of the established business models sourcing all production from third party contractors.
- Economic downturns can impact consumer spending on premium products.
- Shifts in consumer preferences toward different styles or brands can pose challenges.
- Global events or disruptions can affect manufacturing and distribution, impacting sales.

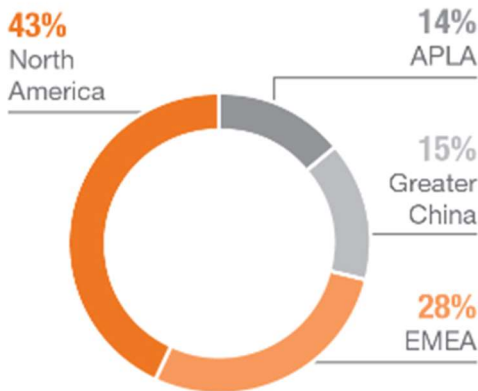


Revenue Breakdown

Ending	2023	2024	2025E	2026E
Footware	33,135	33,427	32,090	33,374
Apparel	13,843	13,775	12,673	12,420
Equipment	1,727	2,075	1,924	1,783
Global Brand Divs	58	45	46	47
Converse	2,427	2,082	2,124	2,166
Corporate	27	(42)	(43)	(44)
Total Revenues	51,217	51,362	48,813	49,746
YoYChange	9.65%	0.28%	-4.96%	1.91%

NIKE has the potential to achieve high single-digit growth, there may be shifts in its growth drivers. Wholesale might play a more prominent role going forward, and growth in China may not match the levels seen in the past, **reflecting some differences compared to earlier trends.**

Reportable Operating Segment

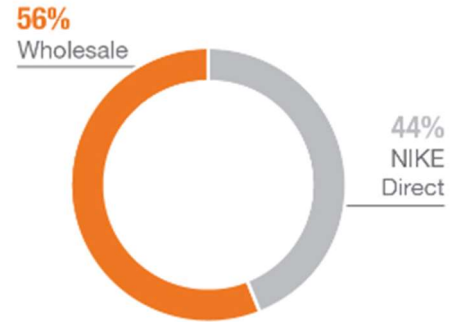


Source: Nike 2024 10-K

The chart above illustrates the breakdown of sales geographically, Nike generates the majority of its sales in the North American and European regions and is more exposed to the economics there than the rest of the world.

We expect this distribution to persist with minor trends down in the two main markets while the two minor market trend up.

Distribution Channel

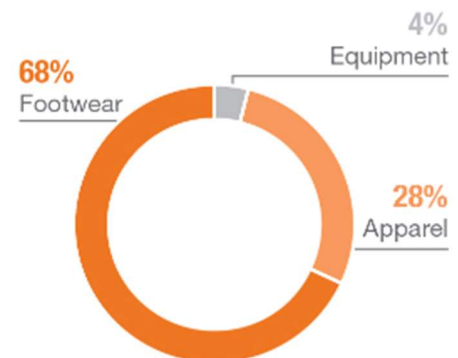


Source: Nike 2024 10-K

The chart above illustrates the breakdown of sales by channel. Nike generates the majority of its sales from wholesale and an increasing YoY minority from Direct, with

corporate owned sales providing the best near term growth and online sales lagging. Online sales are the highest profit margin sales and while regressing from a COVID boom, are forecasted to grow continually.

Major Product Line



Source: Nike 2024 10-K

The chart above illustrates the breakdown of sales by product segment, Nike generates the majority of its sales in the footwear product line and we forecast that it will grow with continued company focus under the new CEO.



Product

New products

The Nike Air Max Dn is Nike's most recent innovation, the shoe features Nike's groundbreaking "Dynamic Air" technology. Dynamic Air is Nike's new take on their air cushioning which was one of their most successful inventions. The Air Max Dn was well received by the public and this new technology could be very profitable for Nike in the future. Nike's new clothing lines include a collaboration with Serena William, and new products from their ACG line and running division.

Product Lines

Nike has been relying on older sneaker lines the past couple of years to continue to drive sales. Lines such as the Air Jordan and AirMax have been very successful for Nike in the past, and they continue to re-release them in new and vintage colorways. Majority of new product lines that Nike releases are athletes signature shoes. Lines like the LeBron's, KD's, Sabrina's, Giannis's, and Kobe's are some from their basketball line that release new iterations of annually. Nike is also very innovative when it comes to technology within their running shoes. Most notably is the carbon fiber footplate in some of their marathon shoes like the Vaporfly. We can expect continual growth out of most, if not all, of Nike shoes

Product Evolution

Moving forward Nike intends on shifting their focus towards more sustainable practices and making their shoes eco-friendlier which is part of their "Move to Zero" campaign. This sustainability is achieved with shoes such as the ISPA Link series, which is a shoe than can be 100% recycled as it's made without any glue and uses recyclable material.

Competitive Positioning

Nike is a dominant player in the global athletic footwear and apparel market. Leveraging its strong brand name and image and innovative products, Nike has established a leading position over competitors like Adidas and Lululemon. Its big retail network, along with a direct-to-consumer strategy, allows Nike to maintain a competitive advantage. While smaller brands such as On Cloud and Hoka continue to challenge Nike with niche offerings and pricing strategies, the company's brand strength and market reach provide a solid foundation to maintain its dominance in the athletic footwear and apparel industry.



Source: Statista

Nike demonstrates exceptional per-store sales performance within the retail industry. In fiscal 2023, revenue from Nike Direct channels, which include both physical stores and online platforms, reached approximately \$21.31 billion, representing nearly 41% of the company's total revenue

In comparison, competitors such as Adidas and Puma generate a smaller proportion of their sales per store due to a heavier reliance on wholesale distribution rather than DTC operations. Nike's focus on seamlessly integrating digital technology with in-store experiences has further enhanced its per-store productivity, setting it apart from competitors that depend more heavily on traditional retail models

Nike has seen remarkable growth in its digital sales over recent years, establishing itself as a leading online retailer in North America.



Digital Sales

In fiscal 2023, Nike's digital sales made up 26% of total revenue, a significant increase from 10% in 2019. In the fourth quarter of 2023 alone, digital sales rose by 14%.

Direct Sales

Nike's D2C sales represented approximately 43.6% of its total brand revenue in 2023. However, for the first time in over a decade, the D2C share of sales did not grow further in 2024.

Mobile Strategy

Nike has heavily invested in its mobile app ecosystem, incorporating data analytics and machine learning to enhance personalization. Key apps like SNKRS provide unique features such as augmented reality and access to limited-edition products.

Cost Structure Analysis

Fiscal Years Ending May. 31	2023	2024	2025E	2026E
Revenues	100.00%	100.00%	100.00%	100.00%
Depreciation	1.37%	1.55%	1.60%	1.62%
Amortization	0.30%	0.09%	0.00%	0.00%
Cost of sales excluding D&A	54.80%	53.80%	51.50%	52.54%
Gross profit	43.52%	44.56%	46.90%	45.84%
Demand creation expense	7.93%	8.34%	8.34%	8.34%
Operating overhead expense	24.05%	23.93%	23.93%	23.93%
Total S&A expense	31.98%	32.27%	32.27%	32.27%
Operating income	11.55%	12.29%	14.62%	13.57%

Nike's key expense categories include cost of sales (COS), marketing and advertising, and research and development (R&D) regarding new product technology. Their COS in the most recent 10-K Was \$28.475 Billion Their COS includes expenses such as inventory cost, warehousing cost, third-party royalties, product design cost, shipping and handling, and foreign currency hedge gains/losses. In the most recent 10-K Nike reported spending \$878 million on R&D, while Adidas reported \$987 million. Adidas is Nike's closest competitor and within the past 2-3 years they've become the "cool" brand to the younger demographic. This could be a result of an increase in R&D on Adidas's end.

Digital Transformation

Nike continues to explore advanced digital strategies, leveraging technologies like artificial intelligence, blockchain, NFTs, robotics, the metaverse, cryptocurrencies, gaming, and virtual reality to redefine the customer experience and drive innovation.

Competition

Nike dominates competition in the athletic footwear market with a 27.4% share. Brands like Adidas, Puma, Lululemon, Under Armor, Asics, and New Balance are Nike's closets competitors in the apparel and footwear market. Running shoe brands like Hoka which is owned by Decker's Outdoor Corp. and On Cloud whose parent company is On Holding are emerging companies within the running shoe space. With running booming in popularity people are choosing niche, high quality, running shoe companies over brands like Nike and Adidas. Nike differentiates themselves with innovation, celebrity endorsement, strong brand image, and cultural and historical reputation.

The company is counting on a 2 billion reduction in its COGS over the next three years, the Krause Fund agrees with management that this is tenable proposition and has included it in our model. This will arrest the steadily rising COGS ratio which has risen to 54% in recent years to a mid-term ratio of 52%. Operating overhead expense is where the company puts it payroll obligations, rent, D&A and a few other smaller accounts. We anticipate no management related change to this account and have forecast it accordingly. Demand creation expense is primarily advertising and marketing costs, with endorsements making another significant account. This expense will be of utmost interest to us in the near future, since Nike has committed to several large endorsement contracts, whether these will show the increased sales that the company has projected. In consideration to our modeling we have a neutral outlook and have averaged its historical into the future. As long as management comes through on their cost cutting and sales rebound in 2026, profit will remain elevated.



Debt Maturity Analysis

During the start of COVID Nike took out a significant amount of financing while rates were low to initiate a large stock buy pack program. The current debt to equity ratio sits at .8 and we forecast that to remain relatively stable over the next 6 years, with shrinking sales and long term debt repayments over the short term balancing out. Its debt is rated currently at AA- and we see no reason for that to change unless our worst-case scenario plays out.

The debt of Nike breakdowns into:

- Short- and Long-term obligations
- Operating lease liabilities
- Miscellaneous debt included in Other and ESOP

LT Debt by Maturity Summary

	Revolving Credit	Term Loans	Notes/Bonds	Total Classified
2024	0.0	0.0	0.0	0.0
2025	0.0	0.0	1,000.0	1,000.0
2026	0.0	0.0	1,000.0	1,000.0
2027	0.0	0.0	1,000.0	1,000.0
2028	0.0	0.0	0.0	0.0
2029	0.0	0.0	0.0	0.0
2030	0.0	0.0	1,500.0	1,500.0
2031	0.0	0.0	0.0	0.0
2032	0.0	0.0	0.0	0.0
2033	0.0	0.0	0.0	0.0
> 2034	0.0	0.0	4,500.0	4,500.0
Other	0.0	0.0	0.0	0.0
Total	0.0	0.0	9,000.0	9,000.0

All figure in millions of USD
Source: FactSet DCS

As the proceeding chart shows, Nike has a billion in debt maturing continuously over the next few years, however its bulk was in the long term acquired with low rates during COVID. Nike has sufficient cash flow in all scenarios to meet its debt obligations.

CapEx Assumption

In the absence of specific CapEx guidance from Nike's management, we averaged historical data and aligned with consensus reports projecting moderate growth in Net Property, Plant, and Equipment (PPE). While CapEx supports Nike's reinvestment in infrastructure and operations, our analysis shows it has minimal impact on the company's overall valuation. This is because Nike's

value is predominantly driven by brand equity, product innovation, and global market presence rather than significant CapEx-driven growth. Our approach incorporates this assumption to ensure realistic and balanced valuation projections.

Payout Policy

Like stated in the debt maturity analysis During the COVID-19 pandemic, Nike took advantage of low interest rates to secure financing for a large stock buyback program, aiming to boost shareholder value. The company plans to repurchase \$18 billion in shares between 2022 and 2026, further enhancing shareholder value. We forecast Nike's annual dividends will increase by \$0.14 per share each year from 2025 to 2030. This is a result of their total shares outstanding decreasing annually as they repurchase their own stock. Nike has a strong AA- debt rating, which should remain stable unless there's a major economic downturn. The company's ability to manage debt while rewarding shareholders through repurchases and dividends demonstrates its financial strength. Overall, Nike's financial strategy and careful debt management position it well for continued growth in the coming years.

RECENT DEVELOPMENTS

Recent Earnings Announcement

Revenue and Gross Margin

- First quarter financial results
- In Q1, NIKE, Inc. revenue declined 10% on a reported basis and 9% on a currency-neutral basis
- NIKE Direct was down 12%, with NIKE stores up 1% and NIKE Digital down 20%
- Wholesale was down 7%
- Gross margins expanded 120BPS to 45.4% on a reported basis, primarily due to lower NIKE brand product costs, lower warehousing and logistics costs and benefits from strategic pricing actions in the prior year
- SG&A declined 2% on a reported basis with accelerated investment in demand creation more than offset by a reduction in overhead expenses, primarily driven by wage-related savings



Source: 1st Quarter Earnings Call 2025

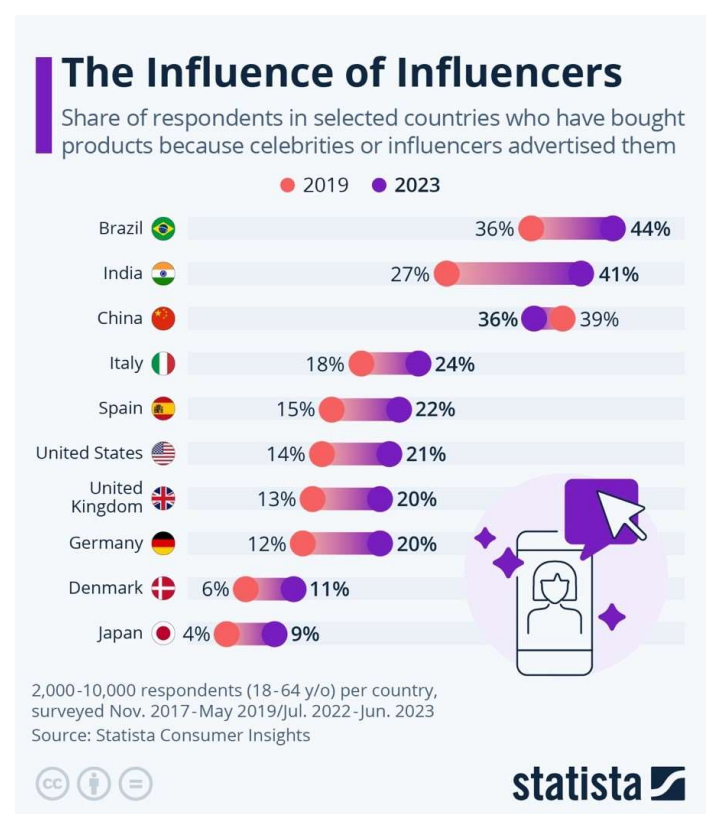
These were caused by a major fall off in Nike direct and digital in China and other markets but also an uptick in wholesale. This confirms in our view that in the short term Nike is facing some headwinds that will dampen down on sales, specifically the highest margin sales which are in direct and digital.

New Brand Ambassadors

In late 2023, Nike partnered with Zion Williamson, one of the most explosive athletes in basketball, extending their multi-year agreement. Williamson serves as a brand ambassador by wearing and promoting Nike's footwear and apparel lines. Around the same time, Nike made a strategic partnership with LSU women's basketball star Angel Reese, capitalizing on the growing popularity of women's basketball and Reese's significant social media following. Since her rise to prominence during LSU's championship run, Reese has become one of the most marketable athletes in collegiate sports with over 2.5 million Instagram followers. The partnership includes exclusive product collaborations and marketing campaigns targeting the growing women's basketball market. Under Nike's umbrella, Reese has launched signature apparel collections, further strengthening Nike's brand recognition in women's sports.

In a significant move to further dominate the women's basketball market, Nike signed Iowa's basketball sensation Caitlin Clark to a NIL deal in 2023, which proved to be prescient as Clark went on to break numerous NCAA records and become the all-time NCAA Division I scoring leader. The timing of Nike's partnership with Clark has been particularly advantageous, as her historic achievements and engaging style of play have drawn unprecedented attention to women's college basketball, with games regularly drawing millions of viewers. Under Nike's umbrella, both Clark and Reese have launched signature apparel collections, further strengthening Nike's brand recognition in women's sports and appealing to a growing female athlete consumer base.

We believe these partnerships could generate significant long-term value through increased brand exposure and sales growth, particularly in the women's and youth markets. Fans who follow Reese and Williamson on social media are likely to engage with Nike's products and digital platforms, where Nike has been expanding its direct-to-consumer presence. As of last fiscal year, Nike's digital sales represented a growing percentage of total revenue, with their SNKRS app becoming a crucial platform for product launches. These strategic partnerships with new age influencers are expected to drive continued growth in digital engagement and direct sales, helping maintain Nike's dominant market share in athletic footwear and apparel.



Source: Statista



New CEO

John Donahoe became Nike's CEO in January 2020, succeeding Mark Parker. Donahoe came to Nike with a strong digital and technology background, having previously served as CEO of ServiceNow and eBay. His appointment signaled Nike's increased focus on digital transformation and direct-to-consumer sales. Under his leadership, Nike has accelerated its Consumer Direct Acceleration strategy, which emphasizes digital sales channels, data analytics, and closer direct relationships with consumers. The company has also invested heavily in its digital capabilities, including its mobile apps, digital marketplace presence, and personalized shopping experiences. These initiatives aim to reduce Nike's dependence on traditional retail partners while building stronger direct connections with customers.

INDUSTRY TRENDS

Apparel Price Inflation

Apparel Price Inflation

The athletic apparel and footwear industry has undergone significant transformation over the past few decades. According to NPD Group data, the average selling price (ASP) for athletic footwear in the U.S. reached \$76.63 in 2023, representing a significant increase from previous years. Nike's premium basketball shoes, like the LeBron 20, typically retail between \$180-\$220, while their signature running shoes like the Air Zoom lineup range from \$120-\$180.



Source: Nike.com retail data, NPD Group

*Prices reflect standard retail pricing before discounts

The athletic footwear market saw price increases of approximately 7% year-over-year in 2022, significantly

outpacing general inflation. The trend has been particularly notable in the premium segment, where Nike maintains strong market share.



Source: FRED

Technological Changes

Artificial Intelligence (AI) and Machine Learning (ML): Brands like Nike are using AI and ML to offer personalized product recommendations, optimize inventory, and enhance supply chain efficiency. These tools also enable predictive analytics, helping businesses stay ahead of consumer trends.

Augmented Reality (AR) and Virtual Try-Ons: AR technology lets customers virtually try on products like Nike shoes, reducing reliance on physical fitting rooms and minimizing return rates. Forward-thinking brands are leveraging AR to enhance online shopping experiences and boost conversions.

Metaverse and Nike RTFKT: Nike's acquisition of RTFKT highlights its innovative approach to the metaverse, merging virtual experiences with product innovation. By combining AR with RTFKT's digital collectibles, Nike engages tech-savvy audiences and redefines digital fashion.

Blockchain for Supply Chain Transparency: Blockchain ensures transparency in sourcing and supply chains, helping brands like Nike verify ethical practices and build trust with sustainability-conscious consumers.

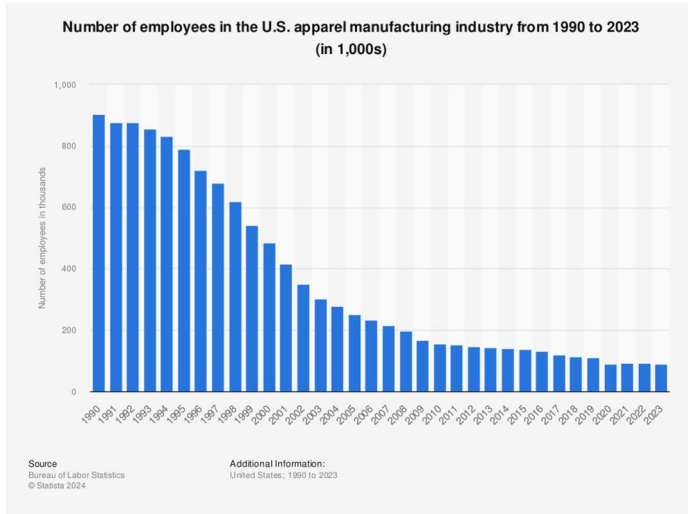
Future Outlook: Investing in these technologies enhances efficiency and customer engagement, positioning brands for long-term success in an increasingly digital world.

Tariff and Outsourced Manufacturing

With the election of a pro tariff administration in the United States and the fundamental fact that the apparel industry manufacturers the vast majority of its products overseas and then imports them into developed markets like the United States, the Krause Fund remains hesitant on the risks inherent in these business models, which Nike was and is at the forefront of.



The administration has stated it wants these jobs moved back to their domestic market, and if so, as the following graph shows, would create major hurdles for the entire industry.



Source: Bureau of Labor Statistics

PEER COMPARISONS

This peer analysis focuses on comparing Nike to its competitors across key financial, operational, and industry metrics. The review considers an assortment of Selected Financials, Valuation, Capitalization, and Margin metrics. Outliers within the peer group have been noted to ensure accurate comparisons, with any exclusions clearly noted where relevant.

Adidas

Adidas AG, founded in 1920 by Adolf Dassler and headquartered in Herzogenaurach, Germany, specializes in the design, marketing, and distribution of athletic and lifestyle sporting products. Operating globally through segments like EMEA (Europe, Middle East, and Africa), North America, Greater China, and Asia-Pacific, Adidas also manages niche ventures under its "Other Businesses" segment, including the Y-3 label.

In this peer analysis, Adidas is identified as a pure-play competitor to Nike, particularly in the footwear market, and is benchmarked across key financial, operational, and industry metrics. Historically, both companies have competed for market dominance, with footwear serving as their primary revenue driver. Adidas benefits from its European heritage as well as strong brand ambassadors similar to Nike. However, Adidas often

trails Nike in terms of market share and operational efficiency. While Adidas has shown their capable of margin expansion and selective innovation, Nike's leadership in sales growth and profitability metrics highlights its superior operational scale and global dominance. Outliers in metrics, such as Adidas' lower EV/Sales multiple compared to Nike and premium brands like Lululemon, are considered in this review to provide a balanced perspective on the two firms' positioning in the competitive landscape.

Lululemon

Lululemon Athletica, Inc., founded in 1998 and headquartered in Vancouver, Canada, specializes in athletic apparel. The company operates through three segments: Company-Operated Stores, Direct-to-Consumer, and Other, which includes collaborations and emerging products.

In this analysis, Lululemon is a key competitor to Nike in the apparel market, particularly in athleisure.

Lululemon has successfully positioned itself with premium pricing and strong brand loyalty, while Nike's global scale, diversified portfolio, and dominance in footwear give it a broader market leadership.

Lululemon's EV/EBITDA is 13.40, reflecting strong profitability, while Nike's is higher at 17.16, which suggests it is priced at a premium relative to its EBITDA. Despite this, Nike's scale and diversified business model give it greater market leverage. Additionally, our forecasted PEG for Nike in 2025 is 4.9, indicating expected growth that may not fully justify its current valuation, whereas Lululemon's estimated PEG of 3.20 suggests more favorable growth relative to its price. This highlights Lululemon's more attractive growth potential compared to Nike, although both companies are positioned strongly within their respective markets.



Selected Financials

Company Name	Financial (€)			Valuation (x)	
	Sales (M)	EBIT (M)	EBITDA (M)	EV/EBIT	EV/EBITDA
adidas	22,529.0	829.0	-	47.89x	-
NIKE B	46,328.2	5,262.3	5,996.3	19.94x	17.50x
On Holding A	2,257.1	208.7	309.2	76.97x	51.95x
lululemon athletica	9,252.6	2,244.1	2,615.2	15.41x	13.23x
Under Armour A	4,983.6	224.8	351.3	18.16x	11.62x
Average				35.67x	23.57x
Median				19.94x	15.36x

Source: FactSet

When comparing these companies, it's crucial to consider a range of metrics. One key indicator we focused on in our analysis was the EV/EBITDA multiple. In the graph, Nike falls right in between the average and median multiples. However, we excluded On Holdings from the model due to its being an outlier. After removing this exception, Nike ends up with the highest EV/EBITDA multiple of 17.50x. This elevated multiple could indicate that the company is potentially overvalued, as investors appear willing to pay a premium for its anticipated future earnings and growth.

Valuation

Company Name	P/E (x)				EV (x)
	EV (M)	Actual	FY1	FY2	Sales
adidas	39,704.8	90.62x	54.05x	28.33x	1.76x
NIKE B	104,911.7	21.95x	27.24x	23.47x	2.26x
On Holding A	16,062.9	118.74x	55.60x	47.88x	7.12x
lululemon athletica	34,586.0	24.42x	22.16x	20.63x	3.74x
Under Armour A	4,082.3	-	35.84x	24.10x	0.82x
Average		63.93x	38.98x	28.88x	3.14x
Median		57.52x	35.84x	24.10x	2.26x

Source: FactSet

Nike holds the highest enterprise value in the peer comparison chart above, exceeding its closest competitor by over \$60 billion. Its EV/Sales multiple of 2.26x is the median, reflecting balanced market expectations. Other brands like On Holdings (7.12x) and Lululemon (3.74x) have slightly higher multiples which implies they're high-growth companies similar to Nike. Nike's multiple surpasses adidas (1.76x), highlighting stronger investor confidence. This valuation describes Nike's stability and market dominance while reflecting its status as a mature, highly profitable brand.

Capitalization

Company Name	Financial (€)		Accumulated	
	Cash & ST	Investment Total Debt (M)	Min Interest (M)	
adidas	1,781.0	5,584.0	0.0	382.0
NIKE B	9,299.8	10,954.9	0.0	0.0
On Holding A	795.6	390.5	0.0	0.0
lululemon athletica	1,488.0	1,348.2	0.0	0.0
Under Armour A	492.7	1,193.3	0.0	0.0

Source: FactSet

Nike leads its peer group in enterprise value, with a notable gap of over \$60 billion compared to its closest competitor, Adidas. This dominance reflects Nike's robust market position, supported by its expansive product portfolio and global presence. Its EV/EBITDA multiple of 17.16x surpasses the median of its peer group, indicating a premium valuation tied to its scale and strong profitability.

Adidas follows Nike in market capitalization but maintains a lower EV/EBITDA multiple of 15.38x, reflecting more modest growth expectations. Meanwhile, Lululemon's EV/EBITDA of 13.40x positions it as a high-growth player in the athleisure segment, benefiting from its strong brand loyalty and premium pricing strategy. On Holdings and Under Armour demonstrate significantly lower enterprise values, suggesting a more niche market focus or limited operational scale compared to the larger players.

While Nike's valuation reflects investor confidence in its consistent growth and profitability, Lululemon's slightly lower EV/EBITDA multiple and superior estimated 2025 PEG of 3.20 suggest more attractive growth potential compared to Nike's higher PEG of 4.90. This comparison underscores the dynamic interplay of growth, profitability, and market expectations within the athletic and athleisure markets.

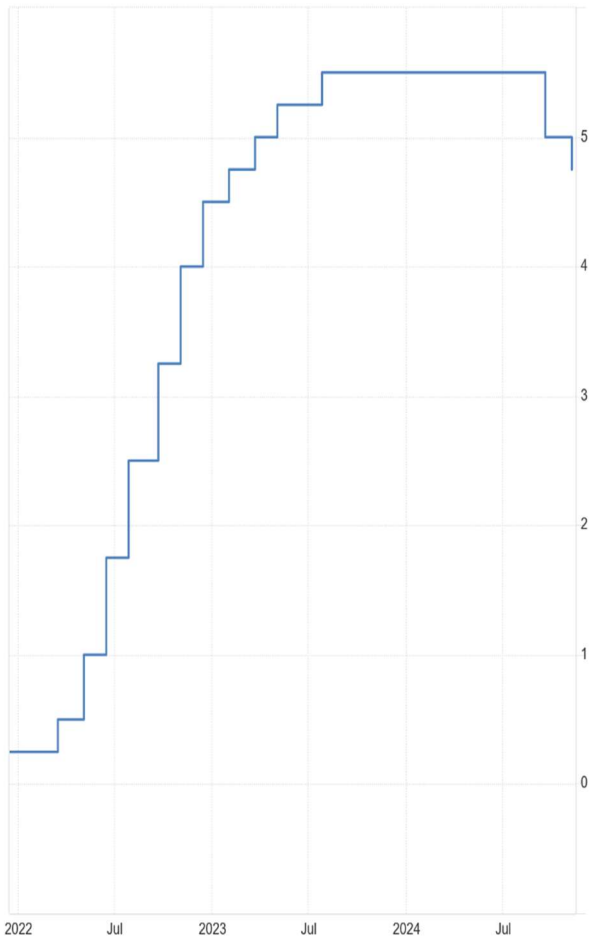
ECONOMIC OUTLOOK

Federal Funds Rate

Interest rates are essentially the cost of borrowing money. They are important to the consumer discretionary industry because consumer discretionary spending depends heavily on how much money consumers have available to spend on things they do not need. In general, when interest rates are high there is less consumer discretionary spending because the cost of borrowing money is much higher, and the general population tends to be more cautious with spending. When interest rates are low, and money is cheap, discretionary spending tends to increase as consumers feel more comfortable with borrowing money at lower rates.

Nike has increased its leverage since 2020 yet with its over 100 billion market cap and the fact that it locked in long term fixed interest rates we feel the forecasted consensus lowering of FFR in the United States will have negligible effects on the cost of debt for the company. This however does not preclude the lowering of rates and the general economic activity from affecting Nike. The Krause Fund opinion is that the rates will continue to be cut over the next year at least and hopefully spur a dropping in the 10 and 30 year fixed note markets allowing Nike consumers to feel unburdened by interest rates to freely purchases in the discretionary market that Nike operates in.

US Interest Rate - percent



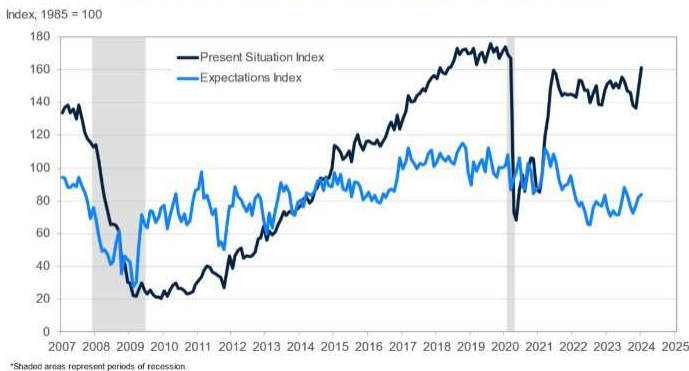
Source: tradingeconomics.com | Federal Reserve



Consumer Confidence

Aside from hard economic factors like interest rates and unemployment, how consumers feel about the economy regardless of its factual performance is just as important. If consumer confidence is strong, then consumer discretionary spending can persist at high levels regardless of other factors. Recessions typically occur when consumer confidence is low and spending falls. Oftentimes when this happens, the consumer discretionary sector is one of the first to be affected because, the sector is made up of things that consumers do not strictly need. When confidence is high, spending goes up, and vice versa when it is low. It can be a leading indicator of how the consumer discretionary sector will perform.

Present Situation and Expectations Index



Source: The Conference Board NBER

Unemployment Rate

Unemployment and the consumer discretionary sector are closely connected. Because demand for discretionary goods is highly elastic, a decline in consumer income due to widespread job losses or price increases often leads to sharp drops in sales for companies in this sector. Unsurprisingly, the stock prices of these companies tend to follow the same pattern.

When individuals lose their jobs, their discretionary spending decreases significantly, if not entirely. This shift negatively impacts the stock performance of companies reliant on discretionary demand, such as Nike, which is particularly relevant to our analysis.

Short term forecast (6 month): 4.5% driven by expected Federal Funds rate cuts, softened oil prices, and a resilient domestic jobs market. Long term forecast (2-3 years): 5% driven by AI job redundancy, loosened worldwide credit, and surging commodity prices. Impact of forecasts on the industry: With UE rates projected to be

The Krause Fund Short-term forecast: We forecast a slight improvement in consumer confidence in the near future by about 5-6 points from 68 points to 73. This is driven by growing confidence in the labor market and in the avoidance of a recession as inflation continues to fall and interest rates are expected to be cut. For our Long-term forecast (2 year): In the long-term we are forecasting a growth of about 10 points in consumer confidence. With short-term forecasts trending positively we see no reason for this increase in confidence to stop after 6 months. Trading Economics forecasts growth from 68 points to 75 by Q2 of 2025. After this our group expects consumer confidence to continue to slowly rise if inflation continues to come down and the labor market recovers. Impact of forecasts on industry: If consumer confidence does grow as we expect it too, that would have positive impacts on the consumer discretionary sector. The more confident the average person is in their ability to spend on things they want without financial repercussions then the more economic activity we will see in this sector. A growth in consumer confidence should result in a growth in consumer spending. For a apparel company like Nike that relies heavily on consumers being able to afford to buy premium priced goods than buying on a budget, this bodes well for the future.

stable our team believes that it will not have a noticeable national effect on Nike unless exceptional events disrupt the economy.



Source: FRED



VALUATION

Our valuation is a 6-year forecast horizon, with it reaching steady state in the final year. We used our assumptions in our model, including some input from consensus estimates from Factset, however we differ in the outlook of the consensus estimates. Our growth metric is more pessimistic, and as we have stated in this paper are starting to be born out in quarterly results.

Revenue and Costs

Fiscal Year 2025 for Nike has and will continue to be a difficult year. Sales are down, primarily in their prime segment of footwear, and competition is fierce for the disposable income of the average Nike consumer. Reliance on older sneakers and a transition to a new forward-thinking CEO may come in conflict. We have used negative numbers for our first-year forecast and only slightly better in the years following portending a limited upside in current Nike prices. A more detailed list of our assumptions will be found on the Revenues sheet following this document.

The COGS account is where we show our management inspired reduction in cost. While it remains undermanagement will be able to realize this as quickly and fully as they wish, especially in the current stock trajectory, we at the Krause Fund believe there is plenty of room for cutting of cost. For the other general expense accounts, we forecast them as the historical percentage of sales, though we believe Nike could generate more value with a headcount reduction in corporate affair.

Remaining Accounts and WACC

For estimation of our models WACC we used the Krause Fund method including an ERP and Nike credit rating for debt resulting in 7.57% firm cost of capital. Remaining accounts were calculated using either straight-line, historical average as a percentage of sales, or from a differential in balance sheet fiscal years. Aside from the WACC none of these are significant value drivers in our thesis.

Valuation Metrics

Our first valuation was in the application of the discounted cash flow (DCF) and economic profit (EP) models. They of course end up with the same figure but we consider it useful to do both because they come at the valuation by different angles. The value of \$45.01 is at the low end of what we consider to be a reasonable estimate of Nike price and shows how growth plays such a massive role in the price of Nike Equity.

The second model was using the classic dividend discount model (DDM). A useful sanity check on the other 2 valuations and since Nike pays a regular and growing dividend it to no surprise pops out a higher price at \$104.22. While we at the Krause Fund believe this to once again be a too high of figure in our base case scenario, between this and the DCF we have a decently wide range of price action.

Relativity analysis is the final metric used in our model. We assembled a comparable group based upon market cap and operating segment similarities. Our favorite comparisons mentioned earlier are Adidas, Lululemon, and Under Armor. The Results are as follows.

Implied Relative Value:

P/E (EPS25)	\$ 81.57
P/E (EPS26)	\$ 65.00
PEG (EPS25)	\$ 74.25
PEG (EPS26)	\$ 49.95
EV/EBITDA	\$ 103.05

Our favorite of these metrics is P/E of FY26 as they fully show the effects of our assumptions regarding revenues and growth. Also as predicted they produce a more widely range curve, even with the remover of outliers the EV/EBITDA still comes in quite high justifying further analysis in the next year.



Sensitivity Testing

Beta vs Equity Risk Premium

In this analysis we compared the Beta and Equity Risk Premium to determine the effect each variable would have on our cost of equity and stock price. Our beta varied from (0.52-1), with a sensitivity of ± 0.08 each column. Our ERP varied between (3.97%-5.17%), with a sensitivity of $\pm 0.2\%$ each row. From the data table you can see that as beta increases, the stock price drops as a result of a more volatile investment. Similarly, as the ERP increases, the cost of equity will increase and in turn that'll drive the stock price down.

		Beta						
		0.52	0.60	0.68	0.76	0.84	0.92	1.00
Equity Risk Premium	45.97	63.73	58.75	54.43	50.64	47.29	44.31	41.64
	3.97%	62.05	57.08	52.77	49.01	45.70	42.75	40.12
	4.17%	60.42	55.46	51.18	47.45	44.17	41.26	38.67
	4.37%	58.86	53.92	49.67	45.97	42.73	39.86	37.30
	4.57%	57.38	52.46	48.24	44.58	41.37	38.54	36.02
	4.77%	55.96	51.06	46.87	43.25	40.08	37.29	34.80
	4.97%	54.60	49.73	45.58	41.99	38.86	36.10	33.66
	5.17%							

Pre-Tax Cost of Debt vs Cost of Equity

In this analysis we compared the pre-tax cost of debt and cost of equity to determine the effect each variable would have on our implied stock price for Nike. Our pre-tax cost of debt varied from (4.80%-9.60%), with a sensitivity of $\pm 0.8\%$ each column. Our cost of equity varied between (6.25%-9.25%), with a sensitivity of $\pm 0.5\%$ each row. From the data table it's apparent that the pre-tax cost of debt is more influential when changed in our forecast than the cost of equity.

		Pre-Tax Cost of Debt						
		4.80%	5.60%	6.40%	7.20%	8.00%	8.80%	9.60%
Cost of Equity	45.01	64.61	64.21	63.79	63.37	62.94	62.51	62.07
	6.25%	56.93	56.62	56.31	55.98	55.65	55.31	54.97
	6.75%	50.75	50.51	50.25	49.99	49.73	49.45	49.18
	7.25%	45.67	45.47	45.26	45.04	44.82	44.60	44.36
	7.75%	41.41	41.24	41.07	40.88	40.69	40.50	40.30
	8.25%	37.80	37.65	37.49	37.33	37.17	37.00	36.83
	8.75%	34.69	34.55	34.42	34.27	34.13	33.97	33.82
	9.25%							

CV Growth of NOPLAT vs WACC

In this analysis we compared the CV Growth of NOPLAT and WACC to determine the effect each variable would have on our implied stock price for Nike. Our CV Growth of NOPLAT varied from (1.16%-3.11%), with a sensitivity of $\pm 0.25\%$ each column. Our WACC varied between (6.09%-9.09%), with a sensitivity of $\pm 0.5\%$ each row. We found that as NOPLAT increases there is more of a shift in our valuation compared to when WACC changes.

		CV Growth of NOPLAT						
		1.61%	1.86%	2.11%	2.36%	2.61%	2.86%	3.11%
WACC	45.01	57.02	59.71	62.74	66.19	70.13	74.69	80.02
	6.09%	51.07	53.20	55.56	58.22	61.21	64.61	68.51
	6.59%	46.13	47.84	49.72	51.81	54.14	56.75	59.71
	7.09%	41.95	43.35	44.87	46.55	48.40	50.46	52.75
	7.59%	38.38	39.53	40.78	42.15	43.65	45.29	47.11
	8.09%	35.29	36.25	37.29	38.42	39.64	40.98	42.45
	8.59%	32.58	33.40	34.27	35.21	36.22	37.33	38.53
	9.09%							

Marginal Tax Rate vs Pre-Tax Cost of Debt

In this analysis we compared the marginal tax rate and the pre-tax cost of debt to determine the effect the variables have on our implied stock price in the DCF and EP model. Our marginal tax rate varied from (17.20%-22%), with a sensitivity of $\pm 0.8\%$ each column. Our pre-tax cost of debt varied between (6%-8.4%), with a sensitivity of $\pm 0.4\%$ each row. We found changing the pre-tax cost of debt has a greater impact on the stock prices as opposed to the marginal tax rate.

		Marginal Tax Rate						
		17.20%	18.00%	18.80%	19.59%	20.40%	21.20%	22.00%
Pre-Tax Cost of Debt	45.01	50.30	48.60	46.93	45.33	43.74	42.21	40.73
	6.00%	50.11	48.43	46.80	45.23	43.66	42.16	40.71
	6.40%	49.91	48.27	46.67	45.12	43.59	42.11	40.69
	6.80%	49.72	48.11	46.53	45.01	43.51	42.06	40.67
	7.20%	49.53	47.94	46.39	44.90	43.42	42.01	40.65
	7.60%	49.34	47.78	46.26	44.79	43.34	41.95	40.62
	8.00%	49.15	47.61	46.12	44.68	43.26	41.90	40.59
	8.40%							

Dividend Yield vs Marginal Tax Rate

In this analysis we compared the dividend yield and marginal tax rate to determine the effect each variable would have on the dividend for Nike. Our dividend yield varied from (0.28%-3.28%), with a sensitivity of $\pm 0.5\%$ each column. Our marginal tax rate varied between (16.59%-22.59%), with a sensitivity of $\pm 1.0\%$ each row. We found changing the marginal tax rate has a more significant impact than changing the dividend yield. The low volatility dividend yield can be viewed as a good thing by investors who hope to see Nike reinvest capital. However, it may also deter income-focused investors who want to receive regular cash flow from investments.

		Dividend Yield						
		0.28%	0.78%	1.28%	1.78%	2.28%	2.78%	3.28%
Marginal Tax Rate	45.01	51.13	51.08	51.04	50.98	50.93	50.87	50.81
	16.59%	49.06	49.02	48.98	48.93	48.88	48.82	48.77
	17.59%	47.06	47.02	46.98	46.94	46.89	46.84	46.79
	18.59%	45.13	45.09	45.06	45.01	44.97	44.92	44.87
	19.59%	43.26	43.23	43.20	43.16	43.12	43.07	43.03
	20.59%	41.47	41.44	41.41	41.38	41.34	41.30	41.26
	21.59%	39.76	39.74	39.71	39.68	39.64	39.61	39.57
	22.59%							



CONCLUSION

Moving forward Nike needs to return to a higher growth model in order to generate price action in the positive on its stock. Future Krause Fund analysts need to monitor the division of the sports apparel market to see if Nike and other large cap corporations are maintaining their dominate position.

We remain pessimistic about the near-term price and believe it has further to fall in this cycle but believe it has much room for growth back into the \$100+ range in the medium term with a steady state to persist into the 6th year. Given all of this we are NEUTRAL in our position.

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DISCLAIMER

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NIKE

Income Statement

CONSOLIDATED STATEMENTS OF INCOME - USD

<i>Fiscal Years Ending May. 31</i>	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	51,217	51,362	48,813	49,746	52,837	54,716	56,927	58,066
Depreciation	703	796	783	805	817	816	821	832
Amortization	156	48	-	-	-	-	-	-
Cost of sales excluding D&A	28,066	27,631	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Gross profit	22,292	22,887	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Demand creation expense	4,060	4,285	4,072	4,150	4,408	4,565	4,749	4,844
Operating overhead expense	12,317	12,291	11,681	11,904	12,644	13,094	13,623	13,895
Total selling and administrative expense	16,377	16,576	15,753	16,054	17,052	17,659	18,372	18,740
Operating income	5,915	6,311	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Interest expense (income), net	(6)	(161)	156	#REF!	#REF!	#REF!	#REF!	#REF!
Other (income) expense, net	(280)	(228)	(254)	(254)	(254)	(254)	(254)	(250)
Income before income taxes	6,201	6,700	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Income tax expense	1,131	1,000	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
NET INCOME	5,070	5,700	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Earnings per common share:								
Basic (in dollars per share)	3.27	3.76	#REF!	#REF!	#REF!	#REF!	#REF!	#REF!
Annual Dividends per Share	1.3	1.43	1.57	1.71	1.85	1.99	2.13	2.27
Common shares outstanding:								
Total shares outstanding (basic)	1,552	1,518	1,471	1,428	1,395	1,367	1,342	1,307
Weighted average shares outstanding (basic)	1,552	1,518	1,494	1,449	1,411	1,381	1,355	1,325

NIKE

Balance Sheet

CONSOLIDATED BALANCE SHEETS - USD

<i>Fiscal Years Ending May. 31</i>	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Current assets:								
Cash and equivalents	7,441	9,860	7,767	8,200	5,409	4,974	4,568	2,912
Short-term investments	3,234	1,722	1,794	1,869	1,948	2,029	2,114	2,203
Accounts receivable, net	4,131	4,427	4,472	4,557	4,841	5,013	5,215	5,320
Inventories	8,454	7,519	8,024	8,177	8,686	8,994	9,358	9,545
Prepaid expenses and other current assets	1,942	1,854	2,015	2,054	2,182	2,259	2,350	2,397
Total current assets	25,202	25,382	24,073	24,858	23,064	23,270	23,606	22,377
Property, plant and equipment, net	5,081	5,000	5,141	5,217	5,208	5,239	5,309	5,289
Operating lease right-of-use assets, net	2,923	2,718	2,795	2,836	2,831	2,848	2,886	2,875
Identifiable intangible assets, net	274	259	259	259	259	259	259	259
Goodwill	281	240	240	240	240	240	240	240
Deferred income taxes and other assets	3,770	4,511	6,141	7,665	9,260	10,969	12,742	14,533
TOTAL ASSETS	37,531	38,110	38,648	41,076	40,862	42,825	45,041	45,573
Current liabilities:								
Current portion of long-term debt	-	1,000	-	2,000	-	-	-	-
Notes payable	6	6	54	55	59	61	63	64
Accounts payable	2,862	2,851	3,041	3,099	3,292	3,409	3,547	3,618
Current portion of operating lease liabilities	425	477	424	430	429	432	438	436
Accrued liabilities	5,723	5,725	6,176	6,294	6,685	6,923	7,203	7,347
Income taxes payable	240	534	506	473	495	530	550	556
Total current liabilities	9,256	10,593	10,201	12,352	10,960	11,355	11,801	12,021
Long-term debt	8,927	7,903	8,650	9,221	9,965	10,653	11,408	12,032
Operating lease liabilities	2,786	2,566	2,643	2,682	2,677	2,693	2,729	2,719
Other long-term liabilities	2,558	2,618	2,558	2,558	2,558	2,558	2,558	2,558
TOTAL LIABILITIES	23,527	23,680	24,053	26,813	26,160	27,260	28,495	29,330
Shareholders' equity:								
Common Equity	12,415	13,412	14,727	16,041	17,356	18,670	19,985	20,642
Accumulated other comprehensive income (loss)	231	53	53	53	53	53	53	53
Retained earnings (deficit)	1,358	965	(184)	(1,832)	(2,706)	(3,158)	(3,492)	(4,452)
Total shareholders' equity	14,004	14,430	14,596	14,262	14,702	15,565	16,546	16,243
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	37,531	38,110	38,648	41,076	40,862	42,825	45,041	45,573

NIKE

Historical Cash Flow Statement

CONSOLIDATED STATEMENTS OF CASH FLOWS - USD

<i>Fiscal Years Ending May. 31</i>	2019	2020	2021	2022	2023	2024
Cash provided (used) by operations:						
Net income	4,029	2,539	5,727	6,046	5,070	5,700
Adjustments to reconcile net income to net cash provided (used) by operations:						
Depreciation	705	721	744	717	703	796
Deferred income taxes	34	(380)	(385)	(650)	(117)	(497)
Stock-based compensation	325	429	611	638	755	804
Amortization, impairment and other	15	398	53	123	156	48
Net foreign currency adjustments	233	23	(138)	(26)	(213)	(138)
Changes in certain working capital components and other assets and liabilities:						
(Increase) decrease in accounts receivable	(270)	1,239	(1,606)	(504)	489	(329)
(Increase) decrease in inventories	(490)	(1,854)	507	(1,676)	(133)	908
(Increase) decrease in prepaid expenses, operating lease right-of-use assets and other current and non-current assets	(203)	(654)	(182)	(845)	(644)	(260)
Increase (decrease) in accounts payable, accrued liabilities, operating lease liabilities and other current and non-current liabilities	1,525	24	1,326	1,365	(225)	397
Cash provided (used) by operations	5,903	2,485	6,657	5,188	5,841	7,429
Cash provided (used) by investing activities:						
Purchases of short-term investments	(2,937)	(2,426)	(9,961)	(12,913)	(6,059)	(4,767)
Maturities of short-term investments	1,715	74	4,236	8,199	3,356	2,269
Sales of short-term investments	2,072	2,379	2,449	3,967	4,184	4,219
Additions to property, plant and equipment	(1,119)	(1,086)	(695)	(758)	(969)	(812)
Other investing activities	5	31	171	(19)	52	(15)
Cash provided (used) by investing activities	(264)	(1,028)	(3,800)	(1,524)	564	894
Cash provided (used) by financing activities:						
Proceeds from borrowings, net of debt issuance costs	-	6,134	-	-	-	-
Increase (decrease) in notes payable, net	(325)	49	(52)	15	(4)	-
Repayment of borrowings	(6)	(6)	(197)	-	(500)	-
Proceeds from exercise of stock options and other stock issuances	700	885	1,172	1,151	651	667
Repurchase of common stock	(4,286)	(3,067)	(608)	(4,014)	(5,480)	(4,250)
Dividends - common and preferred	(1,332)	(1,452)	(1,638)	(1,837)	(2,012)	(2,169)
Other financing activities	(44)	(52)	(136)	(151)	(102)	(136)
Cash provided (used) by financing activities	(5,293)	2,491	(1,459)	(4,836)	(7,447)	(5,888)
Effect of exchange rate changes on cash and equivalents	(129)	(66)	143	(143)	(91)	(16)
Net increase (decrease) in cash and equivalents	217	3,882	1,541	(1,315)	(1,133)	2,419
CASH AND EQUIVALENTS, END OF YEAR	4,466	8,348	9,889	8,574	7,441	9,860

NIKE

Forecasted Cash Flow Statement

(\$) \$ in Millions

Fiscal Years Ending May. 31	2025E	2026E	2027E	2028E	2029E	2030E
Net income	5,697	5,331	5,575	5,977	6,197	6,261
Depreciation	783	805	817	816	821	832
Amortization	-	-	-	-	-	-
Accounts receivable, net	(45)	(85)	(283)	(172)	(203)	(104)
Inventories	(505)	(153)	(508)	(309)	(363)	(187)
Prepaid expenses and other current assets	(161)	(38)	(128)	(78)	(91)	(47)
Accounts payable	190	58	193	117	138	71
Accrued liabilities	451	118	391	238	280	144
Other long-term liabilities	(60)	-	-	-	-	-
Income Tax Payable	(28)	(33)	22	36	19	6
Cash provided (used) by operations	6,322	6,002	6,078	6,625	6,797	6,975
Short-term investments	(72)	(75)	(78)	(82)	(85)	(89)
Purchases of Property, Plant, and Equipment, Gross	(925)	(881)	(809)	(846)	(891)	(812)
Cash Flows Related to Operating Lease Right-of-Use Assets, Net	(77)	(41)	5	(17)	(38)	11
Cash Flows Related to Identifiable Intangible Assets, Net	-	-	-	-	-	-
Cash Flows Related to Goodwill	-	-	-	-	-	-
Deferred Income Taxes and Other Assets	(1,630)	(1,525)	(1,595)	(1,710)	(1,772)	(1,791)
Cash provided (used) by investing activities	(2,703)	(2,522)	(2,477)	(2,654)	(2,786)	(2,681)
Long-Term Debt	747	571	743	689	755	624
Current Portion of Long-Term Debt	(1,000)	2,000	(2,000)	-	-	-
Operating Lease Liabilities	77	39	(5)	16	36	(10)
Notes Payable	48	1	3	2	2	1
Current portion of Operating Lease Liabilities	(53)	6	(1)	3	6	(2)
Common Equity	1,315	1,315	1,315	1,315	1,315	657
Share Repurchases	(4,500)	(4,500)	(3,838)	(3,680)	(3,645)	(4,214)
Total Dividends Paid	(2,346)	(2,478)	(2,611)	(2,749)	(2,886)	(3,007)
Accumulated Other Comprehensive Income (Loss)	-	-	-	-	-	-
Cash provided (used) by financing activities	(5,712)	(3,047)	(6,393)	(4,405)	(4,418)	(5,950)
Cash and Equivalents, Beginning of Year	9,860	7,767	8,200	5,409	4,974	4,568
Net Cash Change	(2,093)	433	(2,791)	(434)	(407)	(1,656)
Cash and Equivalents, End of Year	7,767	8,200	5,409	4,974	4,568	2,912

NIKE

Common Size Income Statement

<i>Fiscal Years Ending May. 31</i>	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Depreciation	1.37%	1.55%	1.60%	1.62%	1.55%	1.49%	1.44%	1.43%
Amortization	0.30%	0.09%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of sales excluding D&A	54.80%	53.80%	51.50%	52.54%	52.60%	52.21%	52.21%	52.21%
Gross profit	43.52%	44.56%	46.90%	45.84%	45.85%	46.30%	46.35%	46.35%
Demand creation expense	7.93%	8.34%	8.34%	8.34%	8.34%	8.34%	8.34%	8.34%
Operating overhead expense	24.05%	23.93%	23.93%	23.93%	23.93%	23.93%	23.93%	23.93%
Total selling and administrative expense	31.98%	32.27%	32.27%	32.27%	32.27%	32.27%	32.27%	32.27%
Operating income	11.55%	12.29%	14.62%	13.57%	13.58%	14.02%	14.07%	14.08%
Interest expense (income), net	-0.01%	-0.31%	0.32%	0.45%	0.74%	0.76%	0.84%	0.94%
Other (income) expense, net	-0.55%	-0.44%	-0.21%	-0.21%	-0.28%	-0.32%	-0.30%	-0.27%
Income before income taxes	12.11%	13.04%	14.51%	13.33%	13.12%	13.59%	13.54%	13.41%
Income tax expense	2.21%	1.95%	2.84%	2.61%	2.57%	2.66%	2.65%	2.63%
NET INCOME	9.90%	11.10%	11.67%	10.72%	10.55%	10.92%	10.88%	10.78%

NIKE*Discounted Cash Flow (DCF) and Economic Profit (EP) Valuation Models*

Key Inputs:

CV Growth of NOPLAT	2.36%
CV Year ROIC	32.52%
WACC	7.57%
Cost of Equity	7.75%

DCF Model:

Free Cash Flow (FCF)	4006.4	3795.9	3975.9	4371.0	4462.5	4838.5
Continuing Value (CV)						88007.3
PV of FCF	3724.4	3280.3	3194.0	3264.1	3097.8	61094.2

Value of Operating Assets:	77654.7
Non-Operating Adjustments	
Excess Cash	2854.0
Short Term Investments	2202.9
Operating Lease ROU Assets	2875.0
Notes Payable	-64.5
Long Term Debt	-12032.0
ESOP	-1288.1
Current Portion Operating Lease	-435.9
Long-Term Operating Lease	-2718.9
Other Long-Term Liabilities	-2558.0

Value of Equity	66489.2
Shares Outstanding	1518.0
Intrinsic Value of Last FYE	\$ 43.80
Implied Price as of Today	\$ 45.01

EP Model:

Economic Profit (EP)	3234.7	3008.1	3260.2	3518.5	3710.7	3796.5
Continuing Value (CV)						72,791.68
PV of EP	3007.0	2599.5	2619.0	2627.5	2575.9	50531.6

Total PV of EP	63960.5
Invested Capital (last FYE)	13694.2
Value of Operating Assets:	77654.7
Non-Operating Adjustments	
Excess Cash	2854.0
Short Term Investments	2202.9
Operating Lease ROU Assets	2875.0
Notes Payable	-64.5
Long Term Debt	-12032.0
Esop	-1288.1
Current Portion Operating Lease	-435.9
Long Term Operating Lease	-2718.9
Other Long-Term Liabilities	-2558.0

Value of Equity	66489.2
Shares Outstanding	1518.0
Intrinsic Value of Last FYE	\$ 43.80
Implied Price as of Today	\$ 45.01

NIKE*Dividend Discount Model (DDM) or Fundamental P/E Valuation Model*

Fiscal Years Ending	2025E	2026E	2027E	2028E	2029E	2030E
EPS	\$3.76	\$3.81	\$3.68	\$3.95	\$4.33	\$4.57
Key Assumptions						
CV growth of EPS	3.35%					
CV Year ROE	37.84%					
Cost of Equity	7.75%					
Future Cash Flows						
P/E Multiple (CV Year)						20.69
EPS (CV Year)						\$4.57
Future Stock Price						\$ 94.62
Dividends Per Share	1.43	1.57	1.71	1.85	1.99	2.13
Discounted Cash Flows	\$ 1.33	\$ 1.35	\$ 1.37	\$ 1.37	\$ 1.37	\$ 94.62
Intrinsic Value as of Last FYE	\$ 101.41					
Implied Price as of Today	\$ 104.22					

NIKE

Value Driver Estimation

(\$) \$ in Millions

Fiscal Years Ending May. 31	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
NOPLAT								
Sales	51,217	51,362	48,813	49,746	52,837	54,716	56,927	58,066
Cost of Sales	28,066	27,631	25,138	26,137	27,793	28,569	29,723	30,318
Overhead Expense	12,317	12,291	11,681	11,904	12,644	13,094	13,623	13,895
Demand Creation	4,060	4,285	4,072	4,150	4,408	4,565	4,749	4,844
Depreciation	703	796	783	805	817	816	821	832
Amortization	156	48	-	-	-	-	-	-
Implied Interest on Operating Leases	210	196	201	204	204	205	208	207
EBITA	6,125	6,507	7,340	6,953	7,379	7,878	8,219	8,384
Adjusted Taxes								
Income Tax Provision	1,131	1,000	1,388	1,299	1,358	1,456	1,510	1,525
Add: Tax on Implied Lease Interest	51	39	40	41	41	41	41	41
Add: Tax Shield on Net Interest Expense (income)	(1)	(32)	31	45	78	82	95	109
Add: Tax on Other (income) Expense	(68)	(45)	(20)	(21)	(29)	(35)	(34)	(31)
Less: Adjusted Taxes	1,113	962	1,439	1,363	1,447	1,545	1,612	1,644
Deferred Taxes								
Deferred Tax Liability								
Less: Previous Year Deferred Tax Liability								
Plus: Change in Deferred Taxes	(117)	(497)	(1,630)	(1,525)	(1,595)	(1,710)	(1,772)	(1,791)
NOPLAT	4,896	5,048	4,272	4,065	4,338	4,623	4,835	4,949

Invested Capital (IC):

Operating Current Assets:								
Normal Cash	1,024	1,027	976	995	1,057	1,094	1,139	1,161
Accounts Receivable	4,131	4,427	4,472	4,557	4,841	5,013	5,215	5,320
Inventories	8,454	7,519	8,024	8,177	8,686	8,994	9,358	9,545
Prepaid Expenses & Other Current Assets	1,942	1,854	2,015	2,054	2,182	2,259	2,350	2,397
Operating Current Liabilities:	8,825	9,110	9,723	9,867	10,472	10,863	11,300	11,520
Accounts Payable	2,862	2,851	3,041	3,099	3,292	3,409	3,547	3,618
Income Taxes Payable	240	534	506	473	495	530	550	556
Accrued Liabilities	5,723	5,725	6,176	6,294	6,685	6,923	7,203	7,347
Net Operating Working Capital	6,726	5,717	5,764	5,917	6,292	6,498	6,762	6,903
Plus: Net PPE	5,081	5,000	5,141	5,217	5,208	5,239	5,309	5,289
Plus: Net Other Operating Assets	3,197	2,977	3,054	3,095	3,090	3,107	3,145	3,134
PV of Operating Leases	2,923	2,718	2,795	2,836	2,831	2,848	2,886	2,875
Intangible Assets	274	259	259	259	259	259	259	259
Invested Capital	15,004	13,694	13,960	14,229	14,591	14,843	15,216	15,326

Free Cash Flow (FCF)

NOPLAT	4,896	5,048	4,272	4,065	4,338	4,623	4,835	4,949
Less: Change in Invested Capital	651	(1,310)	265	269	362	253	372	110
FCF	4,245	6,358	4,006	3,796	3,976	4,371	4,462	4,839

Return on Invested Capital (ROIC):

NOPLAT	4,896	5,048	4,272	4,065	4,338	4,623	4,835	4,949
Beginning Invested Capital	14,353	15,004	13,694	13,960	14,229	14,591	14,843	15,216
ROIC	34.11%	33.64%	31.19%	29.12%	30.49%	31.69%	32.57%	32.52%

Economic Profit (EP):

Beginning Invested Capital	14,353	15,004	13,694	13,960	14,229	14,591	14,843	15,216
ROIC	34.11%	33.64%	31.19%	29.12%	30.49%	31.69%	32.57%	32.52%
WACC	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%	7.57%
EP	3,809	3,912	3,235	3,008	3,260	3,519	3,711	3,796

NIKE

Key Assumptions of Valuation Model

Ticker Symbol	NKE
Current Share Price	\$74.89
Current Model Date	11/19/2024
FY End (month/day)	May. 31
Last FYE Date	5/31/2024
Next FYE Date	5/31/2025
Pre-Tax Cost of Debt	7.20%
Beta	0.76
Risk-Free Rate	4.28%
Equity Risk Premium	4.57%
CV Growth of NOPLAT	2.36%
CV Growth of EPS	3.35%
Current Dividend Yield	1.78%
Forecasted Marginal Tax Rate	19.59%
Forecasted Effective Tax Rate	14.90%
Cost of Equity	7.75%
WACC	7.57%
Normal Cash Estimate (% sales)	2.00%
ROI: 1 Year bond	4%
Inflation	2.00%

NIKE

Key Management Ratios

Fiscal Years Ending May. 31	2023	2024	2025E	2026E	2027E	2028E	2029E	2030E
Liquidity Ratios:								
Current Ratio=(Current Liabilities/Current Assets)	0.37	0.42	0.42	0.50	0.48	0.49	0.50	0.54
Quick Ratio=((Current Assets–Inventories)/Current Liabilities)	1.81	1.69	1.57	1.35	1.31	1.26	1.21	1.07
Cash Ratio=(Cash and Cash Equivalents/Current Liabilities)	0.80	0.93	0.76	0.66	0.49	0.44	0.39	0.24
Asset-Management Ratios:								
Inventory Turnover Ratio=COGS/Average Inventory	3.33	3.46	3.23	3.23	3.30	3.23	3.24	3.21
Total Asset Turnover Ratio=Net Sales/Average Total Assets	1.32	1.36	1.27	1.25	1.29	1.31	1.30	1.28
AR Turnover Ratio=Net Credit Sales/Average AR	10.62	11.97	11.54	10.81	10.59	10.72	10.70	10.81
Financial Leverage Ratios:								
Debt to Equity Ratio=Total Debt/Total Equity	0.84	0.81	0.80	1.01	0.91	0.91	0.91	0.97
Interest Coverage Ratio=EBIT/Interest Expense	20.90	24.18	11.39	10.10	9.94	9.95	9.70	9.39
Debt Ratio=Total Liabilities/Total Assets	0.63	0.62	0.62	0.65	0.64	0.64	0.63	0.64
Profitability Ratios:								
Return on Equity (NI/Beg TSE)	0.33	0.41	0.39	0.37	0.39	0.41	0.40	0.38
Return on Assets (NI/Avg. Total Assets)	0.13	0.15	0.15	0.14	0.14	0.15	0.16	0.16
Gross Profit Margin (Rev - COGS)/Rev	0.45	0.46	0.49	0.47	0.47	0.48	0.48	0.48
Net Profit Margin (NI/Revenue)	0.10	0.11	0.12	0.11	0.11	0.11	0.11	0.11
Payout Policy Ratios:								
Dividend Payout Ratio (Dividend/EPS)	0.40	0.38	0.41	0.46	0.47	0.46	0.47	0.48
Total Payout Ratio ((Divs. + Repurchases)/NI)	1.48	1.13	1.20	1.31	0.47	0.46	0.47	0.48
Dividend Yield Ratio (Annual DPS / PPS)	0.02	0.02	0.02	0.02	0.02	0.03	0.03	0.03
Retention Ratio (NI - Div)/NI	0.60	0.62	0.59	0.54	0.53	0.54	0.53	0.52

NIKE

Relative Valuation Models

(\$) shares in Millions, \$ in Millions

Ticker	Company	Price	EPS 2025E	EPS 2026E	P/E 25	P/E 26	Est. 5yr EPS gr.	PEG 25	PEG 26	BV Equity	Tangible BV Equity	Enterprise Value	EBITDA	EV/EBITDA
ADDYY	Adidas	\$215.20	\$7.60	\$11.18	28.32	19.25	-	11.10	7.60	14.17	8.97	42055	2050.00	20.51
LULU	Lululemon	\$309.53	\$13.97	\$15.00	22.16	20.64	-	3.20	3.00	33.53	33.34	37827	2823.40	13.40
ANF	Abercrombie & Fitch	\$143.42	\$10.46	\$10.92	13.71	13.13	-	20.60	301.70	20.50	20.50	6877	807.90	8.51
ONON	On Holdings	\$51.49	\$1.07	\$1.40	48.12	36.78	-	1.80	1.40	4.01	3.76	17084	335.10	50.98
VFC	VF	\$19.59	\$0.46	\$0.95	42.59	20.62	-	3.40	1.60	4.26	-7.09	13948	751.00	18.57
Average					21.39	17.67		4.88	3.40					15.25

NKE NIKE \$74.89 3.81 3.68 19.6 20.4 3.995 4.9 5.1 9.60 9.27 115.94 6.76 17.16

Implied Relative Value:

P/E (EPS25) \$ 81.57
P/E (EPS26) \$ 65.00
PEG (EPS25) \$ 74.25
PEG (EPS26) \$ 49.95
EV/EBITDA \$ 103.05

NIKE

Sensitivity Tables

Dividend Yield

	45.01	0.28%	0.78%	1.28%	1.78%	2.28%	2.78%	3.28%
Marginal Tax Rate		51.13	51.08	51.04	50.98	50.93	50.87	50.81
		49.06	49.02	48.98	48.93	48.88	48.82	48.77
		47.06	47.02	46.98	46.94	46.89	46.84	46.79
		45.13	45.09	45.06	45.01	44.97	44.92	44.87
		43.26	43.23	43.20	43.16	43.12	43.07	43.03
		41.47	41.44	41.41	41.38	41.34	41.30	41.26
		39.76	39.74	39.71	39.68	39.64	39.61	39.57

CV Growth of NOPLAT

	45.01	1.61%	1.86%	2.11%	2.36%	2.61%	2.86%	3.11%
WACC		57.02	59.71	62.74	66.19	70.13	74.69	80.02
		51.07	53.20	55.56	58.22	61.21	64.61	68.51
		46.13	47.84	49.72	51.81	54.14	56.75	59.71
		41.95	43.35	44.87	46.55	48.40	50.46	52.75
		38.38	39.53	40.78	42.15	43.65	45.29	47.11
		35.29	36.25	37.29	38.42	39.64	40.98	42.45
		32.58	33.40	34.27	35.21	36.22	37.33	38.53

Beta

	45.01	0.52	0.60	0.68	0.76	0.84	0.92	1.00
Equity Risk Premium		61.82	57.14	53.06	49.46	46.27	43.42	40.86
		60.24	55.56	51.49	47.91	44.75	41.93	39.40
		58.71	54.03	49.98	46.42	43.29	40.50	38.00
		57.24	52.58	48.54	45.01	41.91	39.15	36.69
		55.84	51.19	47.17	43.68	40.60	37.88	35.45
		54.50	49.86	45.87	42.41	39.36	36.67	34.27
		53.22	48.60	44.63	41.20	38.19	35.53	33.16

Marginal Tax Rate

	45.01	17.20%	18.00%	18.80%	19.59%	20.40%	21.20%	22.00%
Pre-Tax Cost of Debt		50.30	48.60	46.93	45.33	43.74	42.21	40.73
		50.11	48.43	46.80	45.23	43.66	42.16	40.71
		49.91	48.27	46.67	45.12	43.59	42.11	40.69
		49.72	48.11	46.53	45.01	43.51	42.06	40.67
		49.53	47.94	46.39	44.90	43.42	42.01	40.65
		49.34	47.78	46.26	44.79	43.34	41.95	40.62
		49.15	47.61	46.12	44.68	43.26	41.90	40.59

Pre-Tax Cost of Debt

	45.01	4.80%	5.60%	6.40%	7.20%	8.00%	8.80%	9.60%
Cost of Equity		64.61	64.21	63.79	63.37	62.94	62.51	62.07
		56.93	56.62	56.31	55.98	55.65	55.31	54.97
		50.75	50.51	50.25	49.99	49.73	49.45	49.18
		45.67	45.47	45.26	45.04	44.82	44.60	44.36
		41.41	41.24	41.07	40.88	40.69	40.50	40.30
		37.80	37.65	37.49	37.33	37.17	37.00	36.83
		34.69	34.55	34.42	34.27	34.13	33.97	33.82

NIKE*Effects of ESOP Exercise and Share Repurchases*

Number of Options Outstanding (shares):	74
Average Time to Maturity (years):	5.50
Expected Annual Number of Options Exercised:	13

Current Average Strike Price:	\$ 98.10
Cost of Equity:	7.75%
Current Stock Price:	\$74.89

<i>Fiscal Years Ending May. 31</i>	2025E	2026E	2027E	2028E	2029E	2030E
Increase in Shares Outstanding:	13	13	13	13	13	7
Average Strike Price:	\$ 98.10	\$ 98.10	\$ 98.10	\$ 98.10	\$ 98.10	\$ 98.10
Increase in Common Stock Account:	1,315	1,315	1,315	1,315	1,315	657
Share Repurchases (\$)	4,500	4,500	3,838	3,680	3,645	4,214
Expected Price of Repurchased Shares:	\$ 74.89	\$ 79.36	\$ 84.10	\$ 89.13	\$ 94.45	\$ 100.09
Number of Shares Repurchased:	60	57	46	41	39	42
Shares Outstanding (beginning of the year)	1,518	1,471	1,428	1,395	1,367	1,342
Plus: Shares Issued Through ESOP	13	13	13	13	13	7
Less: Shares Repurchased in Treasury	60	57	46	41	39	42
Shares Outstanding (end of the year)	1,471	1,428	1,395	1,367	1,342	1,307

NIKE*Weighted Average Cost of Capital (WACC) Estimation***Cost of Equity:**

Risk-Free Rate	4.28%
Beta	0.76
Equity Risk Premium	4.57%
Cost of Equity	7.75%

ASSUMPTIONS:

10-Year Treasury Bond
 Average of 6-month, 1, 2, and 5-year weekly adjusted beta
 1928-2023 geometric average over 10-year Treasury

Cost of Debt:

Risk-Free Rate	4.28%
Implied Default Premium	2.92%
Pre-Tax Cost of Debt	7.20%
Marginal Tax Rate	20%
After-Tax Cost of Debt	5.79%

10-Year Treasury Bond
 Pre-Tax Cost of Debt - Risk-Free Rate
 6% is from implied risk of a AA credit rating and 1% premium because of large debt purchases
 Forecasted Marginal Tax Rate

Market Value of Common Equity:

Total Shares Outstanding	1,518
Current Stock Price	\$74.89
MV of Equity	113,653.06

MV Weights

90.83%

Market Value of Debt:

Short-Term Debt	6
Current Portion of LTD	1,000
Long-Term Debt	7,903
PV of Operating Leases	2566
MV of Total Debt	11,475.00

9.17%

Market Value of the Firm**125,128.06**

100.00%

Estimated WACC**7.57%**