

St. John's University Stock Sunday Pitch of Nike

By: John Longardo (Investment Director)

Basic Information

- Ticker: NKE
- Sector: Consumer Discretionary
- Industry: Athletic Apparel and Textile Products
- Price: \$70.41 (As of 3/19/20)
- 52 Week Range: \$60.00-\$105.62
- Market Cap: \$110.55 Billion
- P/E Ratio: 23.80
- Volume: \$7.00 Million
- Recommendation: Buy

JUST DO IT. 

Recommendation

I recommend longing Nike stock; the American based sportswear company is currently trading at \$70.41 per share. Nike is one of the companies suffering from the COVID-19 market spike and is currently trading at 20%-40% under February's market value.

Nike is a presence in online sales as last quarter, digital sales rose by an incredible 42%. A 2018 deal with Amazon to sell Nike products has done nothing but boost distribution.

Although the COVID-19 virus has taken a toll on overseas revenue in the last month, their brand is what gives Nike so much growth potential overseas. While sales in North America, its largest market, grew just 4% last quarter, sales in the China region jumped 22% to \$1.68 billion.

I project the price of Nike shares in the short-term will continue to fall due to economic recession; however, look for the price per share of the powerhouse firm to jump anywhere from \$45-\$60 per share. By July, I project the stock will be trading around \$110-\$125 per share.

Company Background

- Industry: Nike Inc specializes in athletic wear, providing footwear, apparel, athletic equipment, and accessories. Nike's primary goal is to supply athletes with exceptional products that aids them in better performance. Nike currently operates in 120 countries and has more than 76,000 employees.

- Nike Financials: \$39.1 billion total revenue; \$5.7 million twelve-month EBITDA; \$23.26 billion in total assets; \$18.4 billion gross income; \$2.4 billion net income; \$5.9 billion net operating cash flow; \$264 million net investing cash flow; \$5.29 billion net financing cash flow

- Established Worldwide Locations as of 2018:

- United States- 392 locations

- International- 790 locations

- Base Case Projections:

- Fiscal 2019 ended with \$39.1 billion in revenue. That's a 7% increase from the previous year, which saw revenue come in at \$36.4 billion. On a currency-neutral basis, the rise was 11% from the previous fiscal year.



Investment Thesis

My View

. Manufacturing uniforms for all four major sports and major college programs Nikes brand will continue to grow.

. Despite high volatility price action has been holding close to long-term support in the lower \$70s.

. Nike stock could rally following this week's earnings report, but short-term upside, with heavy resistance between \$80 and \$90.

. Nike has over 1,000 stores worldwide and continues to easily grow due to low debt.

. Zacks has Nike undervalued right now by 25% which will be a big factor in its potential jump.

Volatile Implications

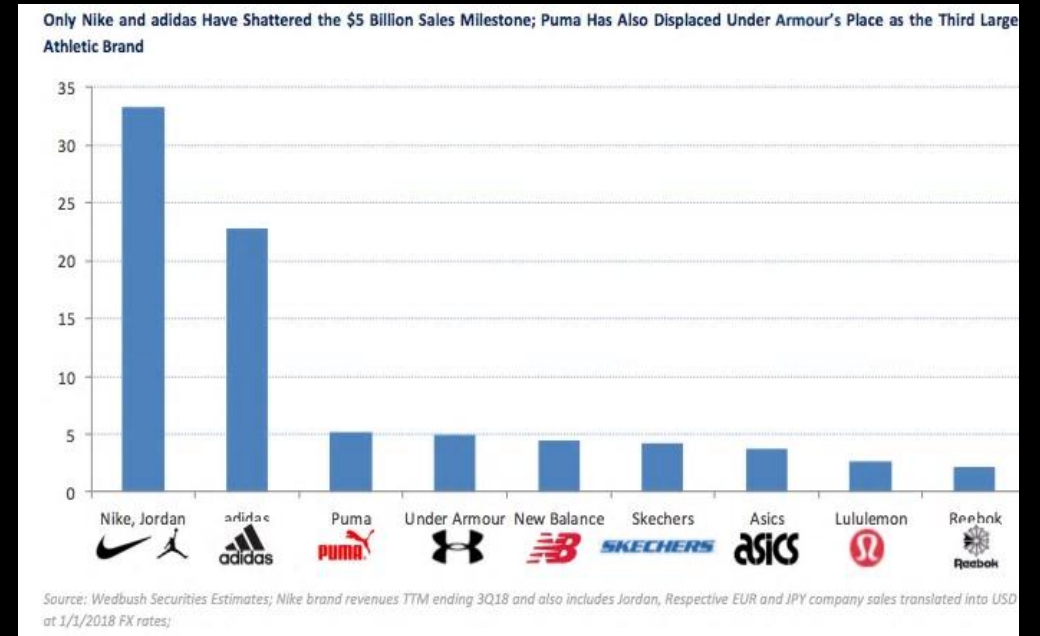
. China has been a significant catalyst for Nike stock of late. Greater China, according to Nike filings, drove 15% of sales in the first half of fiscal 2019. But sales in the region rose 25% year-over-year in the first two quarters, contributing more than one-third of the company's total revenue growth.

. The most pressing question now is valuation. Nike stock trades at its highest multiples in years. NKE is valued at 32x FY19 consensus EPS and 27x fiscal 2020 estimates. NKE stock, however, is catching up to even those most bullish analysts. The average analyst target price is \$87.33 just 3% above the current levels.

. Panic could lead stocks lower. And the 20%-plus decline in Nike stock from early October to mid-December shows that market-wide pressure can have a big impact.

Industry Overview & Comparable Company Analytics

- Nike is the leading sports footwear brands in the world and is known as one of the top 3 amongst the trio leading the sports footwear market across the world Adidas, Reebok and Nike. All three of them are known and loved for their marketing strategies and the way they connect to their customers.
- Adidas and Reebok are the top two Nike competitors but there are many others in the sports footwear market as well. Many of the top sports footwear companies have concentrated on other products besides shoes such as apparels, deodorants and perfumes, sports accessories etc.
- Nike has a worldwide revenue of 33 billion dollars. It is leading the footwear market and has a brand valuation at 27 billion dollars. In the total sale of Nike, the footwear sale is maximum. It has a huge distribution network across the globe from which it sells a combination of products. It has brilliant strategic tie ups with football, cricket and other sports teams.



Nike's Business Model

Nike already has a presence in many foreign countries, there is still plenty of opportunities for Nike. This is because external markets like India, China, and Brazil are gradually flourishing.

Nike has produced many products, there is still a lot to innovate. Nike has extended its reach in technology in association with fitness and health. Products like wearable technology that monitors physical activities, is the first step in building innovative technology products. Combining technology with athletic wear can prove to be beneficial as it is an aspect of the fashion industry that still hasn't been explored much.

The supply and production of Nike's products depend on independent manufacturers. The brand can either acquire a few of these or make some of its own for a more efficient and streamlined supply chain.

Nike has a team of professionals that design its shoes and other athletic accessories. Nike believes that their business has flourished due to the thorough research that is conducted for each product.

Nike's long-term partnership with Michael Jordan has proved to be beneficial in terms of sales for the company. Their collaboration resulted in "Air Jordan 1 Shoes".



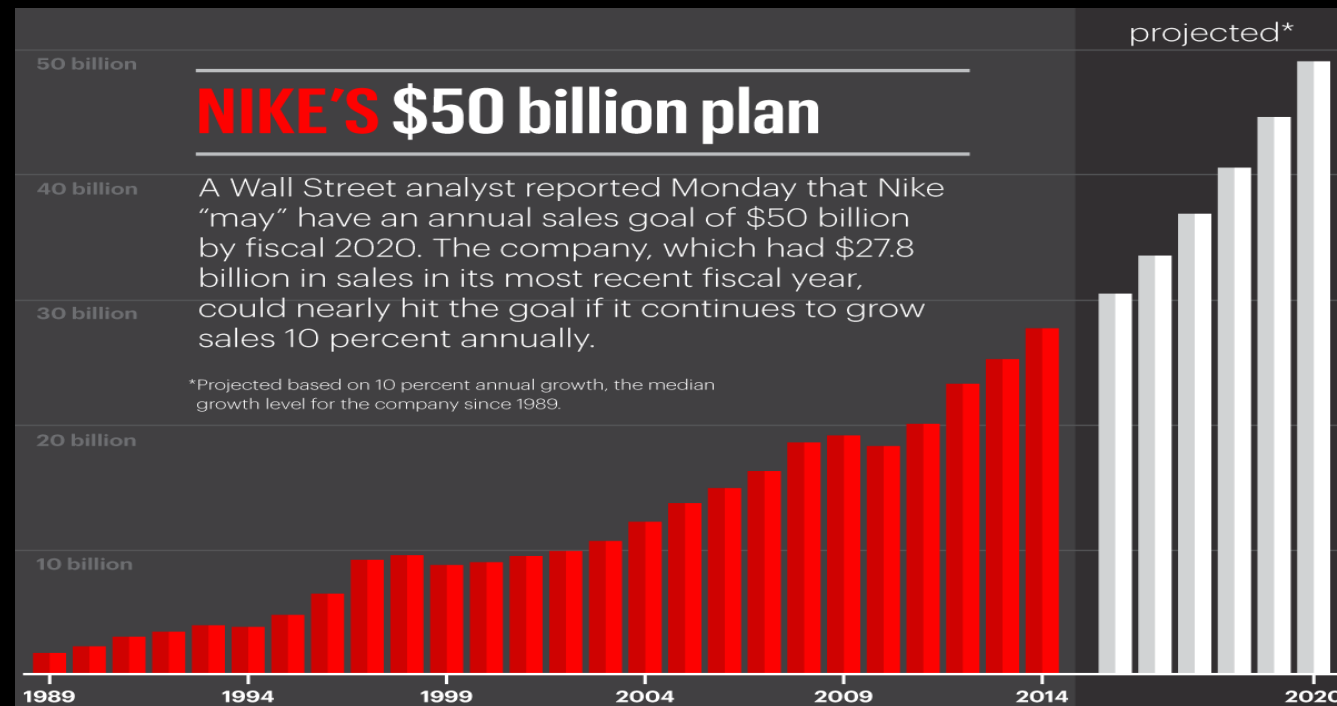
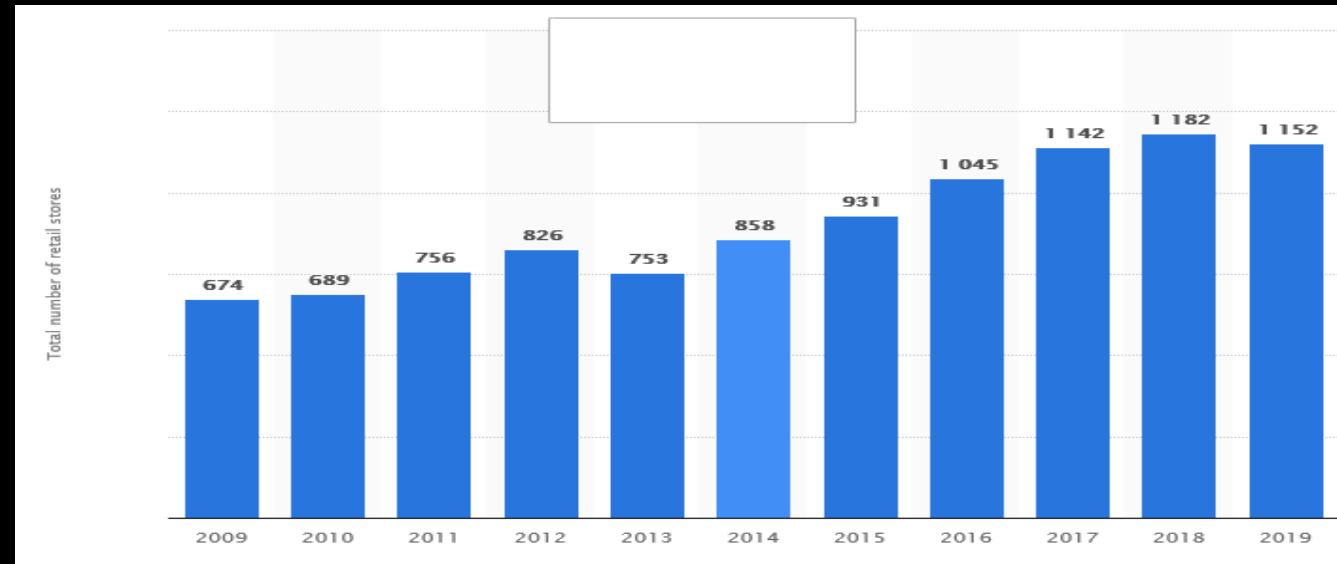
Competitive Advantage & Growth Opportunity

Nike is one of the most recognizable brands in the world as its name alone is memorable, easy to pronounce, and unique. Its swoosh symbol is easily recognized by everyone. Nike has captured approx. 31% of the global athletic footwear market.

Nike has millions of customer from around the world who loyally follow Nike's trends, participate in Nike events, and even provide customer feedback. Due to its huge customer base, Nike's market cap has grown to \$115.19 billion as of 2018.

Most of Nike's footwear is manufactured in foreign countries. In the year 2018, Vietnam produced 47%, China produced 26%, and Indonesia produced 21% of total Nike's footwear. Other operations are in Argentina, Brazil, India, Italy, and Mexico.

Nike has excellent marketing campaigns. The brand heavily relies on digital marketing. In the year 2016 and 2017, Nike spent \$3.2 and \$3.3 billion, respectively. The brand has successfully utilized social media and marketing campaigns to target more customers.



Catalysts

UBS upgraded shares of Nike to buy from neutral and JPMorgan added the stock to its analyst focus list sending shares of the athletic apparel company up 3%.

JPMorgan said Nike's recent weakness has brought the stocks price-earnings to growth ratio, commonly called the PEG ratio, to 1.5x, below the average 1.8x, meaning the stock is undervalued right now.

UBS analyst Jay Sole said in a note to clients. UBS raised its price target on Nike to \$136 per share from \$103 per share, about 40% upside

Nike has said the primary focus will be on the digital/DTC front and firm commitment to NKE's long-term financial model of high-single-digit revenue growth and mid-teens EPS annual expansion.

SWOT Analysis of



Earnings & Futures Predicted By Nasdaq

Quarterly Earnings 2019

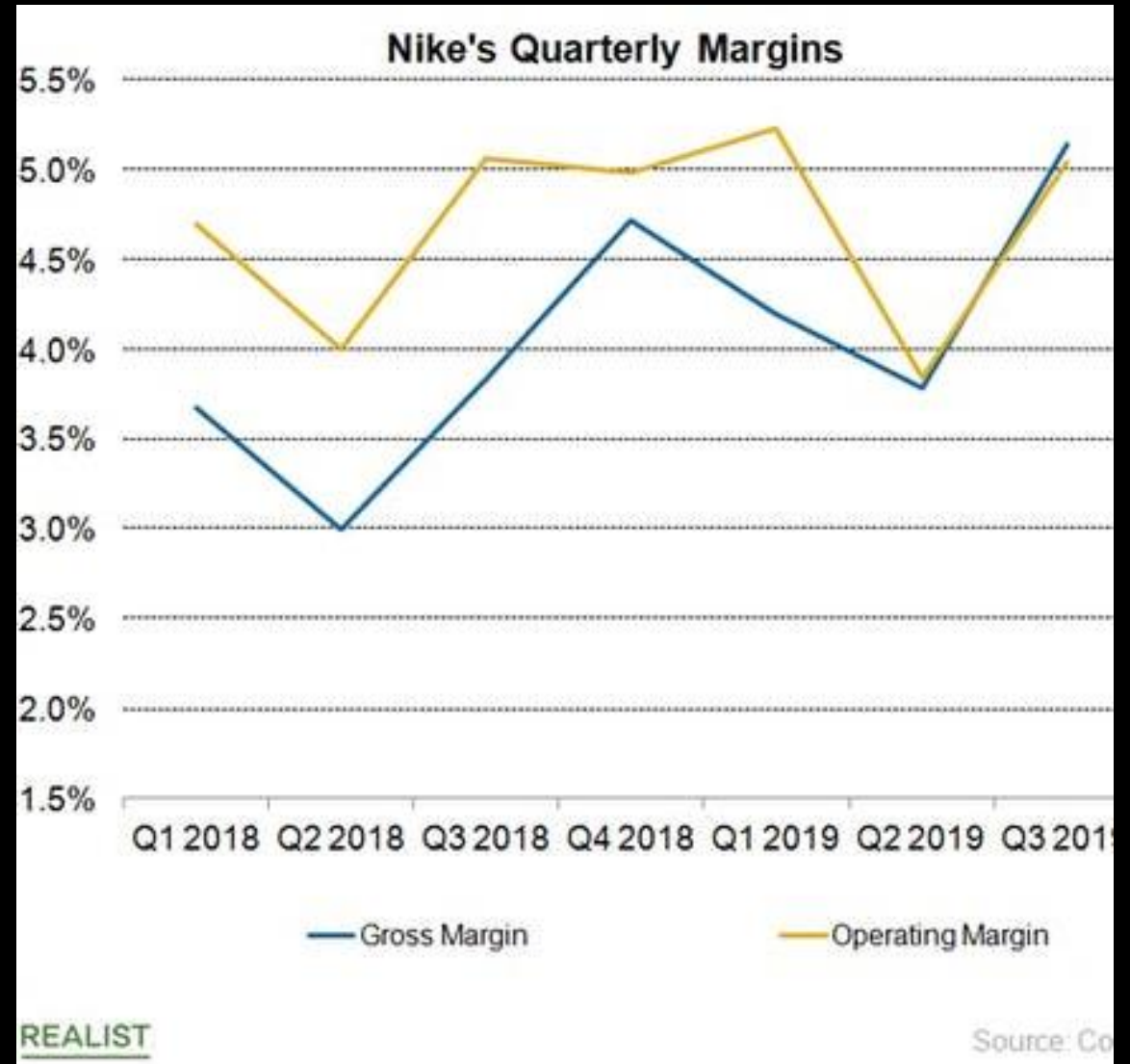
FISCAL QUARTER	DATE REPORTED	EPS	CONSENSUS EPS* FORECAST	% SURPRISE
Nov 2019	12/19/2019	0.7	0.58	20.69
Aug 2019	09/24/2019	0.86	0.71	21.13
May 2019	06/27/2019	0.62	0.66	-6.06
Feb 2019	03/21/2019	0.68	0.63	7.94

Future Earnings Predictions

FISCAL YEAR END	CONSENSUS EPS FORECAST	HIGH EPS FORECAST	LOW EPS FORECAST	NUMBER OF ESTIMATES	LAST 4 WEEKS NUMBER OF REVISIONS - UP	LAST 4 WEEKS NUMBER OF REVISIONS - DOWN
Feb 2020	0.58	0.7	0.29	13	0	7
May 2020	0.59	0.79	0.2	11	0	6
Aug 2020	0.81	0.93	0.65	5	0	1
Nov 2020	0.74	0.85	0.67	5	0	1
Feb 2021	0.77	0.86	0.63	5	0	1

Margins

- Current and historical gross margin, operating margin and net profit margin for Nike over the last 10 years. Profit margin can be defined as the percentage of revenue that a company retains as income after the deduction of expenses. Nike net profit margin as of November 30, 2019 is **11.21%**.



Industry specific Metrics

Recommendation and Estimate	Company	Industry	SP500
Average Recommendation (1=Buy, 5=Sell)	1.74	1.95	9.99
Current Quarter Estimate	0.58	1.58	42.00
Year Ago Quarter Estimate	0.68	1.56	35.03
Next Quarter Estimate	0.59	1.77	37.00
Next Year Estimate	3.22	10.60	160.00

Growth Rates	Company	Industry	SP500
This Year	8.84	2.40	5.54
Next Year	18.82	14.80	9.38
Last 5 Years	9.70	13.40	7.40
Next 5 Years	13.90	13.30	NA

Financials	Company	Industry
Price/Earnings (TTM)	23.58	14.52
Price/Book (MRQ)	11.25	1.66
Price/Cash Flow (MRFY)	22.32	7.93
Dividend Yield	1.45%	1.38%
Net Profit Margin (TTM)	11.21%	6.64%
Return on Equity (TTM)	50.03%	17.13%
Debt to Equity (MRQ)	NA	39.81

. Due to recent COVID-19 volatility that the market has been experiencing growth rate has sunk for nonessential services such as Nike.

. Nike reports at over a 5% margin profit over its competitors while also reporting P/E over 8 points higher.

. Little debt allows Nike to allocate capital more appropriately and expand.

. Nike is projected to outgrow its industry this year by over 4 points.

Balance Sheet Analysis of Assets

- Nikes assets appreciated at an 8% growth compared to 2018.
- They have acquired \$1.2 million new properties since 2015.
- Nike has been able to reduce debt every year since 2015.
- Their investments appreciate at a close to 20% rate every year, reaching as high as 26.99% in 2015.
- Their number of total assets climbs ever year.

Fiscal year. USD in Millions.	2019	2018	2017	2016	2015
Cash & Short Term Investments	4,663	5,245	6,179	5,457	5,924
Cash Only	4,466	4,249	3,808	3,138	3,852
Cash & Short Term Investments Growth	11.10%	-15.12%	13.23%	-7.88%	-
Cash & ST Investments / Total Assets	19.66%	23.27%	26.57%	25.53%	26.99%
Total Accounts Receivable	4,272	3,498	3,677	3,241	3,508
Accounts Receivables, Net	4,272	3,498	3,677	3,241	3,358
Accounts Receivables, Gross	4,272	3,528	3,696	3,284	3,412
Bad Debt/Doubtful Accounts	-	(30)	(19)	(43)	(54)
Accounts Receivable Growth	22.13%	-4.87%	13.45%	-7.61%	-
Accounts Receivable Turnover	9.16	10.40	9.32	10.02	8.75
Inventories	5,622	5,261	5,055	4,838	4,337
Finished Goods	5,622	5,261	5,055	4,838	4,337
Other Current Assets	1,968	1,130	1,150	1,489	2,207
Prepaid Expenses	333	359	311	272	-
Miscellaneous Current Assets	1,635	771	839	1,217	2,207
Total Current Assets	16,525	15,134	16,061	15,025	15,976
Buildings	2,445	2,195	1,564	1,467	1,250
Accumulated Depreciation	4,725	4,437	3,969	3,518	3,341
Total Investments and Advances	11	11	10	10	8
Other Long-Term Investments	11	11	10	10	8
Intangible Assets	437	439	422	412	412
Tangible Other Assets	1,560	2,127	2,530	2,144	1,576
Total Assets	23,717	22,536	23,259	21,379	21,951
Assets - Total - Growth	5.24%	-3.11%	8.79%	2.61%	-

Balance Sheet

Analysis of Liabilities

- Nike has been able to reduce debt from \$342 million to just \$15 million in a year's time in 2019.
- Their accounts payable growth has increased 3%.
- Total liabilities and assets have increased 5% in 2019.
- Nike has \$6 million in long term debt.

All values USD Millions.	2019	2018	2017	2016	2015
ST Debt & Current Portion LT Debt	15	342	331	45	181
Short Term Debt	9	336	325	1	74
Current Portion of Long Term Debt	6	6	6	44	107
Accounts Payable	2,612	2,279	2,048	2,191	2,131
Accounts Payable Growth	14.61%	11.28%	-6.53%	2.82%	-
Income Tax Payable	229	150	84	85	71
Other Current Liabilities	5,010	3,269	3,011	3,037	3,951
Dividends Payable	346	320	300	271	240
Accrued Payroll	1,656	1,322	1,267	1,336	1,385
Miscellaneous Current Liabilities	3,008	1,627	1,444	1,430	2,326
Total Current Liabilities	7,866	6,040	5,474	5,358	6,334
Current Ratio	2.10	2.51	2.93	2.80	2.52
Quick Ratio	1.39	1.63	2.01	1.90	1.84
Cash Ratio	0.59	0.87	1.13	1.02	0.94
Long-Term Debt	3,464	3,468	3,471	1,993	1,079
Provision for Risks & Charges	73	70	107	93	100
Other Liabilities	3,274	3,146	1,800	1,677	1,380
Total Liabilities	14,677	12,724	10,852	9,121	9,244
Total Liabilities / Total Assets	61.88%	56.46%	46.66%	42.66%	42.11%
Common Equity (Total)	9,040	9,812	12,407	12,258	12,707
Common Stock Par/Carry Value	3	3	3	3	3
Additional Paid-In Capital/Capital Surplus	7,163	6,384	5,710	7,786	6,773
Retained Earnings	1,643	3,517	6,907	4,151	4,685
Other Appropriated Reserves	577	81	(22)	525	1,257
Common Equity / Total Assets	38.12%	43.54%	53.34%	57.34%	57.89%
Total Shareholders' Equity / Total Assets	38.12%	43.54%	53.34%	57.34%	57.89%
Total Equity	9,040	9,812	12,407	12,258	12,707
Liabilities & Shareholders' Equity	23,717	22,536	23,259	21,379	21,951

Cash Flow Analysis of Operating & Investing Activities

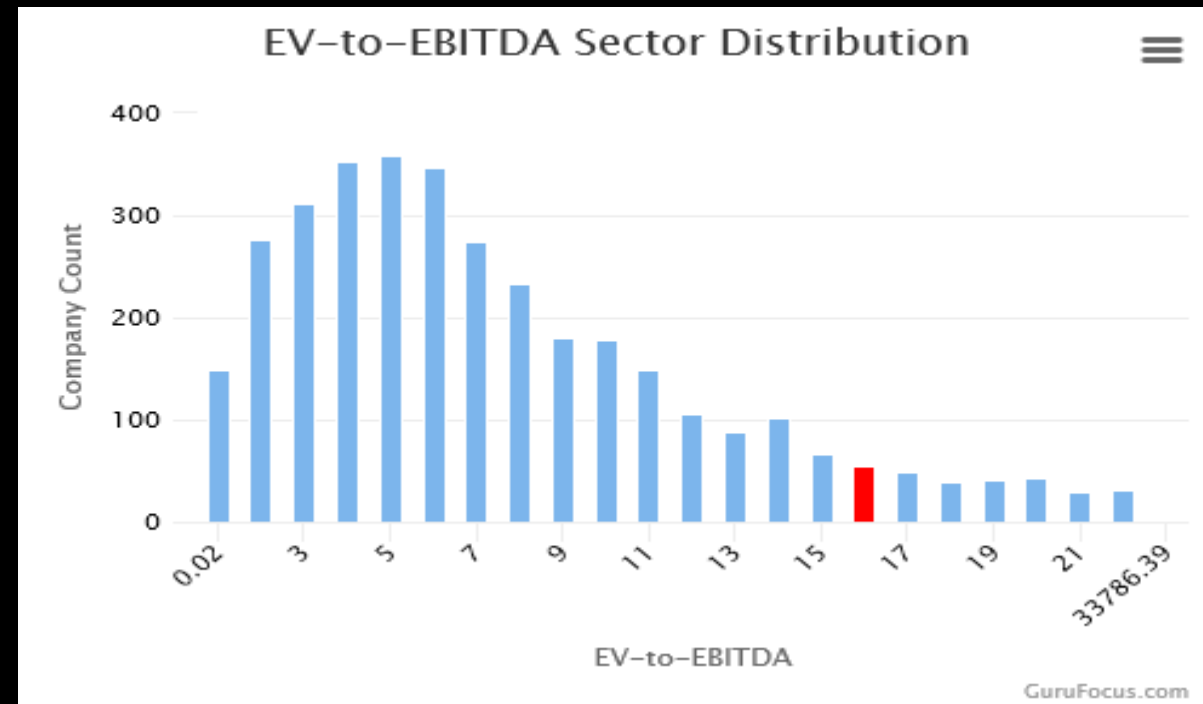
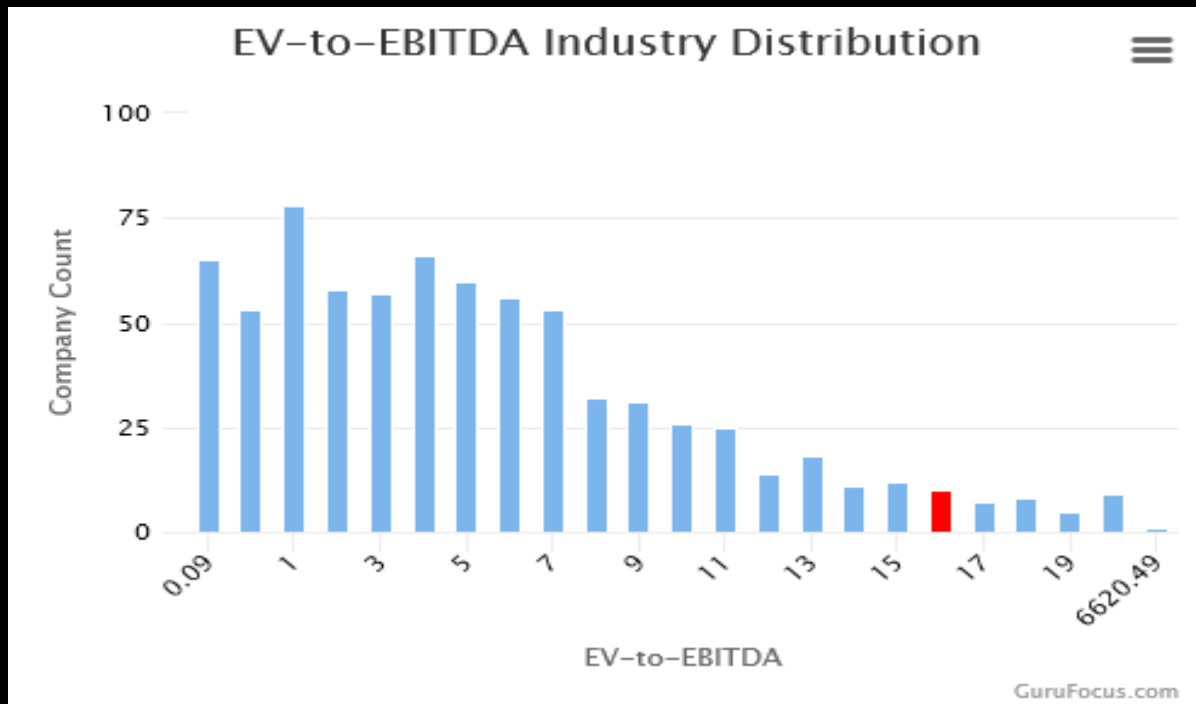
Fiscal year. In USD millions.	2015	2016	2017	2018	2019
Net Income before Extraordinaires	3.27B	3.76B	4.24B	1.93B	4.03B
Depreciation, Depletion & Amortization	606M	649M	706M	747M	705M
Depreciation and Depletion	606M	649M	706M	747M	705M
Deferred Taxes & Investment Tax Credit	(113M)	(80M)	(273M)	647M	34M
Deferred Taxes	(113M)	(80M)	(273M)	647M	34M
Other Funds	658M	347M	108M	146M	573M
Funds from Operations	4.42B	4.68B	4.78B	3.47B	5.34B
Changes in Working Capital	256M	(1.58B)	(935M)	1.48B	562M
Receivables	(216M)	60M	(426M)	187M	(270M)
Other Assets/Liabilities	1.09B	(1.05B)	(278M)	1.55B	1.32B
Net Operating Cash Flow	4.68B	3.1B	3.85B	4.96B	5.9B

Fiscal year. In USD millions.	2015	2016	2017	2018	2019
Capital Expenditures	(963M)	(1.14B)	(1.11B)	(1.03B)	(1.12B)
Capital Expenditures (Fixed Assets)	(963M)	(1.14B)	(1.11B)	(1.03B)	(1.12B)
Sale of Fixed Assets & Businesses	3M	10M	13M	3M	5M
Purchase/Sale of Investments	935M	93M	118M	1.33B	850M
Purchase of Investments	(4.94B)	(5.37B)	(5.93B)	(4.78B)	(2.94B)
Sale/Maturity of Investments	5.87B	5.46B	6.05B	6.11B	3.79B
Other Uses	(150M)	-	(34M)	(25M)	-
Net Investing Cash Flow	(175M)	(1.03B)	(1.01B)	276M	(264M)

Cash Flow Financing Activities Analysis Chart

Fiscal year. In USD millions.	2015	2016	2017	2018	2019
Cash Dividends Paid - Total	(899M)	(1.02B)	(1.13B)	(1.24B)	(1.33B)
Common Dividends	(899M)	(1.02B)	(1.13B)	(1.24B)	(1.33B)
Change in Capital Stock	(2.02B)	(2.73B)	(2.73B)	(3.52B)	(3.59B)
Repurchase of Common & Preferred Stk.	(2.53B)	(3.24B)	(3.22B)	(4.25B)	(4.29B)
Sale of Common & Preferred Stock	514M	507M	489M	733M	700M
Other Proceeds from Sale of Stock	514M	507M	489M	733M	700M
Issuance/Reduction of Debt, Net	(89M)	801M	1.75B	(16M)	(358M)
Change in Current Debt	(63M)	(67M)	327M	13M	(325M)
Change in Long-Term Debt	(26M)	868M	1.42B	(29M)	(33M)
Reduction in Long-Term Debt	(26M)	(113M)	(61M)	(29M)	(33M)
Other Funds	218M	281M	(29M)	(55M)	(17M)
Net Financing Cash Flow	(2.79B)	(2.67B)	(2.15B)	(4.84B)	(5.29B)
Net Financing Cash Flow Growth	-	4.27%	19.58%	-125.09%	-9.47%
Net Financing Cash Flow / Sales	-9.09%	-8.23%	-6.27%	-13.30%	-13.53%
Exchange Rate Effect	(83M)	(105M)	(20M)	45M	(129M)
Net Change in Cash	1.63B	(714M)	670M	441M	217M
Free Cash Flow	3.72B	1.95B	2.74B	3.93B	4.78B

P/E Ratio & EBITDA Multiple



- Price to Earnings Ratio is the most used metric for determining a company's value relative to its earnings
- NIKE has a trailing-twelve-months P/E of 23.58X compared to the Shoes and Retail Apparel industry's P/E of 10.65X.
- As of today, Nike's enterprise value is \$101,223 Mil. Nike's EBITDA for the trailing twelve months ended in Nov. 2019 was \$5,961 Mil. Therefore, Nike's EV-to-EBITDA for today is 16.98.
- During the past 13 years, the highest EV-to-EBITDA of Nike was 28.50. The lowest was 7.60. and the median was 16.10.

Summary & Final Recommendation

- In the mix of one of the worst financial crisis Nike provides a ray of light as they exceeded expectations on earnings this quarter. This was an unexpected occurrence for a blue-chip like Nike to beat earnings at a time of recession.
- Nikes brand is stronger than ever and pairing with billionaire athletes like LeBron James and Michael Jordan will allow their exposure to grow.
- Their international positions in big markets like China and the UK allows them to be more appealing worldwide.
- Nike's stock price will post constant returns overtime and they will grow at a similar dividend to the DOW at 10% per year making it an intriguing investment for long term buyers.

