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Investment Thesis:

We are giving a sell recommendation for Nike as our implied value for its stock is at $83.02, leaving it overvalued by 12.07% compared to its current stock price of $93.04. We expect revenues to continue to grow, but at a slower pace due to our predictions for a weaker global macroeconomic environment. Declines in leading global macroeconomic drivers for the apparel industry include the PMI manufacturing indexes (most nations experiencing their lowest readings since the Great Recession) predicting contraction and consumer confidence is showing signs of an anomaly in sentiment. We have adjusted growth in revenues downwards by 2% for Nike's North America (42.7% of total revenue), EMEA (Europe, Middle East, Africa-26.36% of total revenue) and 1.5% for APLA (Asia Pacific & Latin America-14.12% of total revenue) regions. For Nike's Greater China region, we left change in revenue growth related to macroeconomic factors unchanged as there was no clear indication for a shifting environment. Nike's Greater China region (16.68% of total revenue) is its biggest opportunity for growth, with revenue growth predicted to be between 13-20% up until 2023. This is all reflected in our financial projections for each region which you can see throughout the report.

Company Snapshot	
Price (as of 11/15/19)	93.04
52 Week Range	$66.51-$96.87
Market Cap	$125.24B
Shares Outstanding	1.25B
Price Target	$83.02
Beta	0.84
Implied WACC	7.10%
Enterprise Value	$92.48B
Implied Equity Value	$103.74B

Source for data: Bloomberg

Source for data: Bloomberg

Recommendation: Sell

1. Introduction

The NIKE Brand offers products in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear (our sports-inspired lifestyle products). They also market products designed for kids, as well as for other athletic and recreational uses such as American football, baseball, cricket, golf, lacrosse, skateboarding, tennis, volleyball, walking, wrestling and other outdoor activities. NIKE's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. They place considerable emphasis on innovation and high-quality construction in the development and manufacturing of their products. See below, in table 1, Nike's consolidated Income Statement for the last 3 years and our projections up until 2024, assuming the fiscal year ends in October each year. Our assumptions for each projection figure are also listed below in table 2.

	Historical Period				Projection Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	$32,376.0	$34,350.0	$36,397.0	$39,117.0	**$41,921.7**	**$44,202.2**	**$46,308.9**	**$48,238.1**	**$49,942.9**
% growth	*5.8%*	*6.1%*	*6.0%*	*7.5%*	*7.2%*	*5.4%*	*4.8%*	*4.2%*	*3.5%*
Cost of Goods Sold	17,405.0	19,038.0	20,441.0	21,643.0	23,015.01	24,267.0	25,423.6	26,482.7	27,418.6
Gross Profit	**$14,971.0**	**$15,312.0**	**$15,956.0**	**$17,474.0**	**$18,906.7**	**$19,935.2**	**$20,885.3**	**$21,755.4**	**$22,524.2**
% margin	*46.2%*	*44.6%*	*43.8%*	*44.7%*	*45.1%*	*45.1%*	*45.1%*	*45.1%*	*45.1%*
Selling, General & Administrative	10,469.0	10,563.0	11,511.0	12,702.0	13,331.1	14,056.3	14,726.2	15,339.7	15,881.8
EBITDA	**$4,502.0**	**$4,749.0**	**$4,445.0**	**$4,772.0**	**$5,575.6**	**$5,878.9**	**$6,159.1**	**$6,415.7**	**$6,642.4**
% margin	*13.9%*	*13.8%*	*12.2%*	*12.2%*	*13.3%*	*13.3%*	*13.3%*	*13.3%*	*13.3%*
Depreciation & Amortization	649.0	706.0	747.0	705.0	829.5	874.6	916.3	954.5	988.2
EBIT	**$3,853.0**	**$4,043.0**	**$3,698.0**	**$4,067.0**	**$4,746.1**	**$5,004.3**	**$5,242.8**	**$5,461.2**	**$5,654.2**
% margin	*11.9%*	*11.8%*	*10.2%*	*10.4%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*	*11.3%*
Taxes	863.0	646.0	2,392.0	772.7	901.8	950.8	996.1	1,037.6	1,074.3
EBIAT	**$2,990.0**	**$3,397.0**	**$1,306.0**	**$3,294.3**	**$3,844.3**	**$4,053.5**	**$4,246.7**	**$4,423.6**	**$4,579.9**

Table 1   Source for Data: Bloomberg

Assumptions	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales (% growth)	6.8%	6.1%	6.0%	7.5%	7.2%	5.4%	4.8%	4.2%	3.5%
COGS (% sales)	53.8%	55.4%	56.2%	55.3%	54.9%	54.9%	54.9%	54.9%	54.9%
SG&A (% sales)	32.3%	30.8%	31.6%	32.5%	31.8%	31.8%	31.8%	31.8%	31.8%
Depreciation & Amortization (% sa	2.0%	2.1%	2.1%	1.8%	2.0%	2.0%	2.0%	2.0%	2.0%
Capital Expenditures (% sales)	4.4%	4.0%	4.0%	4.0%	3.3%	3.3%	3.3%	3.3%	3.3%
Tax Rate	22.4%	16.0%	64.7%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Working Capital (% sales)	7.2%	18.7%	17.5%	21.7%	17.9%	17.5%	17.5%	17.6%	17.6%

Table 2   Source for data: Bloomberg

Since Nike has a strong global presence, next we will give you a brief overview on performance in each of its four main regions (North America, EMEA, Greater China and APLA), discuss our future projections for each region and explain our reasoning. For our future projections we partially used some of the main leading macroeconomic drivers in each of Nikes main regions and as well as analysing the current trend in its financials and what is driving this.

2. Segment Analysis

In this section we have performed an analysis on each of Nike's four main global segments: North America, EMEA, Greater China and APLA. Firstly, see below in table 3, a breakdown, region by region, of Nike's revenue over the last 2 years. Nike's total revenues are up 7% in 2019 and you can see that this can be interpreted as company specific growth being positive and negative effects from changes in exchange rates have all pretty much cancelled each other out.

$ in millions	2018	2019	% Change	% Change Excluding currency changes
North America	14,855	15,902	7%	7%
EMEA	9,242	9,812	6%	11%
Greater China	5,134	6,208	21%	24%
Asia Pacific & Latin America	5,166	5,254	2%	13%
Global Brand Divisions	88	42	-52%	-53%
Total Nike Brand	**34,485**	**37,218**	**8%**	**11%**
Converse	1,886	1,906	1%	3%
Corporate	26	-7	-	-
Total Nike, Inc Revenues	**36,397**	**39,117**	**7%**	**7%**

Table 3   Source for data: Bloomberg

For our projections in each region we partially used leading macroeconomic variables as Nike is a very cyclical company and then looked at the current trend in each segment's financials. The main way we did this was to try and predict future GDP growth. The two main leading macroeconomic variables we used to do this are the Purchasing Managers Indices (PMI) and Consumer Confidence Indicators. PMI is a survey which measures whether manufacturing conditions are expected to expand, contract or stay neutral. Consumer confidence indicators measure the future developments in households' consumption plans.

A. North America

Revenues in Nike's North American region currently account for approximately 42.7% of total sales. See below, in table 4, historical income statement figures and projections for this region up until 2024. Specifically, in North America we anticipate continued evolution within the retail landscape, driven by shifting consumer traffic patterns across digital and physical channels. The evolution of the North America marketplace is resulting in third-party retail store closures; however, Nike is starting to see stabilization and momentum building with its strategic wholesale customers, fuelled by innovative product and NIKE Brand consumer experiences, leveraging digital. We predict Nike's North American revenue growth to decline based on current leading macroeconomic drives, but we still expect company specific growth. We have adjusted this downward by 2% for 2020 and 2021, with smaller macro adjustments in later years as we believe it's likely these will lessen over time. See description of macroeconomic adjustments on the following page.

	Historical Period			2019	Projection Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	14,764.0	15,216.0	14,855.0	15,902.0	$16,697.1	$17,198.0	$17,542.0	$17,892.8	$18,250.7
% growth	4.3%	3.1%	(2.4%)	7.0%	5.0%	3.0%	2.0%	2.0%	2.0%
Cost of Goods Sold	6,821.0	6,786.3	6,506.5	7,108.2	7,530.4	7,756.3	7,911.4	8,069.7	8,231.1
Gross Profit	$7,943.0	$8,429.7	$8,348.5	$8,793.8	$9,166.7	$9,441.7	$9,630.5	$9,823.2	$10,019.6
% margin	53.8%	55.4%	56.2%	55.3%	54.9%	54.9%	54.9%	54.9%	54.9%
Selling, General & Administrative	4,768.8	4,686.5	4,694.2	5,168.2	5,343.1	5,503.4	5,613.4	5,725.7	5,840.2
EBITDA	$3,174.3	$3,743.1	$3,654.3	$3,625.7	$3,823.6	$3,938.3	$4,017.1	$4,097.5	$4,179.4
% margin	21.5%	24.6%	24.6%	22.8%	12.5%	12.5%	12.5%	12.5%	12.5%
Depreciation & Amortization	295.3	319.5	312.0	286.2	333.9	344.0	350.8	357.9	365.0
EBIT	$2,879.0	$3,423.6	$3,342.4	$3,339.4	$3,489.7	$3,594.4	$3,666.3	$3,739.6	$3,814.4
% margin	19.5%	22.5%	22.5%	21.0%	10.5%	10.5%	10.5%	10.5%	10.5%
Taxes	538.4	547.8	2,162.5	634.5	628.1	647.0	659.9	673.1	686.6
EBIAT	$2,340.6	$2,875.8	$1,179.9	$2,704.9	$2,861.5	$2,947.4	$3,006.3	$3,066.5	$3,127.8

Table 4   Source for data: Bloomberg

In analysing the macroeconomic drivers in this region, we looked at the US ISM (Institute for Supply Management) PMI Manufacturing Index and the UMCSI (University of Michigan Consumer Sentiment Index). Data from the most recent US ISM PMI Manufacturing Index reports over the last year shows that future expectations have declined, with the last three readings below the 50-threshold level (August-49.1, September-47.8, October-48.3). September's 2019 PMI figure was also the lowest reading in the last decade. This is also the first time in the last decade with readings below 50 for 3 months in a row. This, to us, means that supply chain managers are very pessimistic and that future contraction in US manufacturing is very likely. And, in turn, reductions in GDP growth rates. According to the survey, the apparel industry is the top ranked industry predicted to see contraction this year, so this index predicts it to perform well below average. The report shows that, for the apparel industry, there is a continuation in new orders being contracted, decreases in production, reductions in employment, increases in inventories, and an increase in order back logs. Average future revenue declines for companies expected to contract, at below average rates, is 2%, which is the minimum affect we believe Nike's revenue growth will decline over the next two years. The ISM PMI Manufacturing index is seen to have a very strong relationship with future GDP growth as seen in figure 1 below. With ISM PMI data starting to see declines this year, we predict contraction in future GDP growth rates, as well as a slight contraction in Nike's revenue growth. We, therefore, have made sure that our predictions, related to these macroeconomic drivers, for Nike's future revenue growth is that they will see a drop of 2% related to this factor.

ISM Manufacturing PMI vs. GDP Growth q/q
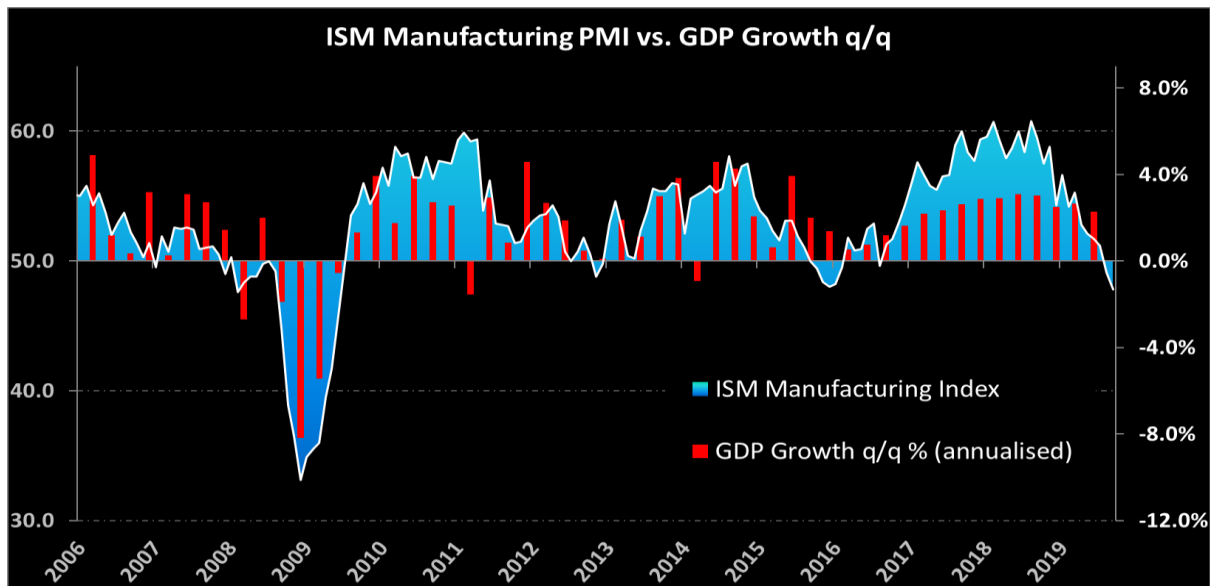
Figure 1   Source for data: Bloomberg

The overall trend in US Consumer Sentiment remains quite favourable but has shown signs of a slow erosion. The UMCSI averaged 86.59 Index Points from 1952 until 2019, so we are still a bit above average with recent readings at 93.2 for September and 96 for October. The survey indicates that consumers comments are currently more confident due to more favourable income trends, which in turn could lead to increased future purchases for products like Nike who target customers from all income brackets. The UMCSI is also seen to have a very strong relationship with future GDP growth as can be seen in figure 2 on the following page. While consumer sentiment is quite high, it's currently not that close to the GDP growth rate. Therefore, we find it likely that Consumer confidence is likely to converge to levels closer to the GDP growth rate in the upcoming months. We believe the impact of US-China tariffs is the major fundamental reason consumer sentiment is likely to drop. The US president has recently moved tariffs on Chinese goods up to 25%, up from 10% previously. Apparel CEO's have said that these new tariffs will hurt the firm's future profitability and that they could increase COGS as a portion of sales to as much as 5%. Apparel CEO's are also hopeful that this situation will be resolved in the next 2-3 years, so we reduced the effect of this in our financial projections over time. A portion of these tariffs were implemented in June, with the rest being employed this past August and September. The National Bureau of Economic Research estimates that higher tariffs will impose an annual cost of $831 a year on the typical U.S. household. This is almost half of the average amount spent by U.S. households on apparel, which is $1803. We, therefore, predict that consumers spending on apparel, on a relative basis, will likely drop 20-25%. This factor is reflected in our average revenue growth declines of 2% as ISM PMI surveyors have incorporated this into their answers for predictions of their future business environment.
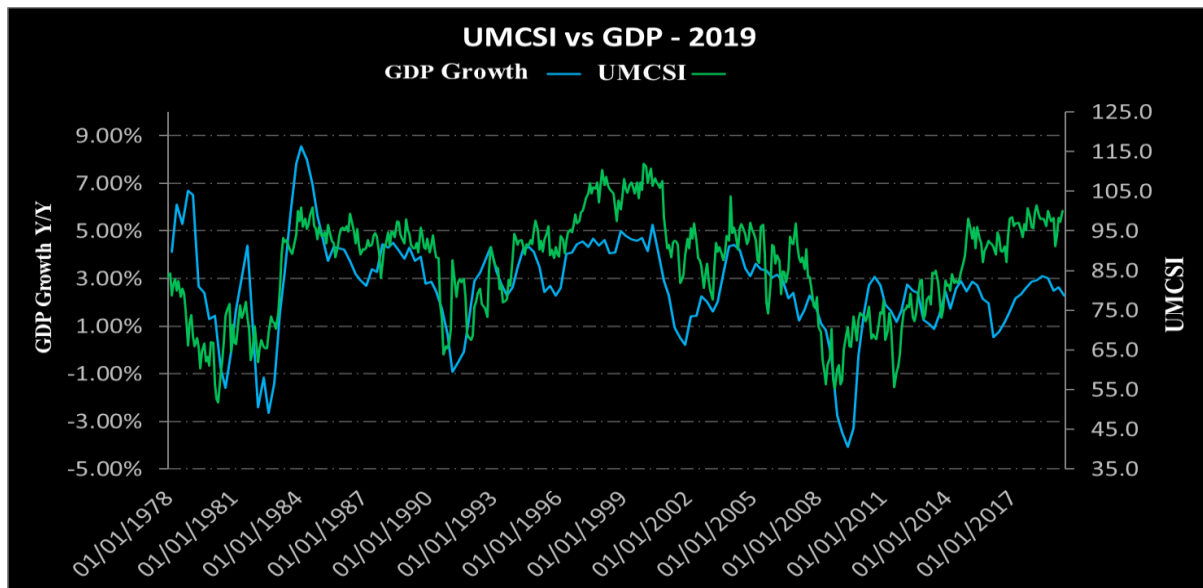
Figure 2   Source for data: Bloomberg

B. EMEA (Europe, Middle East and Africa)

Revenues in Nike's EMEA region account for approximately 26.36% of total sales. For EMEA, the main cities for Nikes revenues are London, Paris, Berlin, Barcelona, and Milan. From table 5, below, it's clear that Nike Brand Label sales have been increasing in the EMEA region. See on the following page, in table 6, historical income statement figures and projections for this region up until 2024. Our projections are based on the leading macroeconomic drivers in the region and the current trend due to company specific factors. See a detailed explanation for the projections after the financial statement.

Revenue ($) by Distribution Channel	2019	2018	%Change (Including changes in currency)	2017	% Change (Including changes in currency)
Sales to Wholesale Customers	7076	6765	5%	5917	14%
Sales through Nike Direct	2736	2477	10%	2053	21%
Total Revenue	9812	9242	6%	7970	16%
EBIT	1995	1587	26%	1507	5%

Table 5   Source for Data: Company 10-K

	Historical Period			2019	Projection Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	7,568.0	7,970.0	9,242.0	9,812.0	$10,224.1	$10,602.4	$10,941.7	$11,269.9	$11,551.7
% growth	12.2%	5.3%	16.0%	6.2%	4.2%	3.7%	3.2%	3.0%	2.5%
Cost of Goods Sold	3,496.4	3,554.6	4,048.0	4,386.0	4,519.1	4,686.3	4,836.2	4,981.3	5,105.8
Gross Profit	$4,071.6	$4,415.4	$5,194.0	$5,426.0	$5,705.1	$5,916.1	$6,105.5	$6,288.6	$6,445.8
% margin	53.8%	55.4%	56.2%	55.3%	55.8%	55.8%	55.8%	55.8%	55.8%
Selling, General & Administrative	2,444.5	2,454.8	2,920.5	3,188.9	3,271.7	3,392.8	3,501.3	3,606.4	3,696.5
EBITDA	$1,627.1	$1,960.6	$2,273.5	$2,237.1	$2,433.3	$2,523.4	$2,604.1	$2,682.2	$2,749.3
% margin	21.5%	24.6%	24.6%	22.8%	23.8%	23.8%	23.8%	23.8%	23.8%
Depreciation & Amortization	151.4	167.4	194.1	176.6	204.5	212.0	218.8	225.4	231.0
EBIT	$1,475.8	$1,793.3	$2,079.5	$2,060.5	$2,228.9	$2,311.3	$2,385.3	$2,456.8	$2,518.3
% margin	19.5%	22.5%	22.5%	21.0%	21.8%	21.8%	21.8%	21.8%	21.8%
Taxes	330.6	286.9	1,345.4	391.5	445.8	462.3	477.1	491.4	503.7
EBIAT	$1,145.2	$1,506.3	$734.0	$1,669.0	$1,783.1	$1,849.1	$1,908.2	$1,965.5	$2,014.6

Table 6   Source for data: Bloomberg

In the last 7 quarters, revenue from EMEA has consistently increased. Digital platforms are main drivers for growth in these areas with revenue from digital up by 10%, 21% in 2019 and 2018 respectively. On August 15th, 2019, Nike launched its app in 13 more regions in EMEA: Belgium, Luxembourg, Denmark, Sweden, Finland, Portugal, Greece, Hungary, Slovenia, Czech Republic, Poland, Ireland and Austria. We expect this company specific growth to continue and you can see from our projections that we still expect revenue growth but just at a decreasing rate due to our belief for a changing macroeconomic environment. See a description on this below.

We analysed the leading macroeconomic drivers in the EMEA region similarly to North America. Looking at PMI data in these nations we found no major differences to the US. This is likely due to the contagion effect where a contagion is referred to as the spread of an economic condition from one market or region to another. This can occur at both a domestic and international level. We, therefore, saw no need to alter our

Average PMI	EU	Middle East	Africa
Q1 2018	55.74	53.25	52.10
Q2 2018	55.00	49.70	53.17
Q3 2018	53.49	46.35	51.20
Q4 2018	51.89	50.60	50.70
Q1 2019	50.29	49.70	49.40
Q2 2019	48.76	50.30	49.23
Q3 2019	47.96	50.15	48.37

Table 7   Source for data: Bloomberg

forecasts as per the analysis on the US economic conditions. See, in table 7 above and table 8 on the following page, how all the EMEA region has seen a contraction/slowdown in their outlook in future macroeconomic conditions. It's important to note that the consumer confidence measures in each of these countries are measured differently but we used them to gauge the trend. We, therefore, have made sure that our projections, related to EMEA macroeconomic drivers, for Nike's future revenue growth is that it will see a drop of 2% related to these factors.

Consumer Confidence	UK	Ireland	Germany	The Netherlands	France	Spain	Italy	Poland	Turkey	Israel
Q1 2018	-7	108.06	6.3	24	100	-5.9	117.7	2.9	64.39	106
Q2 2018	-9	102.13	4.7	23	96	-0.8	116.3	4	66.45	102
Q3 2018	-9	96.44	10.6	19	94	-6.4	115.9	3.1	58.52	88
Q4 2018	-14	96.52	8.9	9	87	-7.2	113.1	-1.8	73.58	103
Q1 2019	-13	93.14	7.9	-4	96	-2	111.3	4.7	67	115
Q2 2019	-13	90.9	13.6	0	101	-2.1	109.8	7.5	69.43	112
Q3 2019	-12	75.3	23.8	-2	104	-6.2	112.2	7	-	-

Table: 8   Source for data: Bloomberg

C. Greater China

Revenues in Nike's Greater China region account for approximately 16.68% of total sales. See below, in table 10, historical income statement figures and projections for this region up until 2024. The Greater China region has seen the biggest growth in recent times and provides the biggest opportunity for Nikes future growth. The Middle age population in China is rising and there has been an increasing interest into sports in China (see figure 3 in Appendix). China sales, in local currency were up 27% in fiscal 1Q20. The digital sales in China increased by 70%. Nike launched SNKRS app in China with its Partnership with WeChat. Nike also plans to launch its Nike App in China in 2020. The revenue from footwear, and Apparel in Greater China has seen significant growth over the last few years, about 22% over 2018-19 and 20% for 2017-18. See a breakdown of revenue in the Greater China area in table 9, below.

Greater China (Revenue Distribution by Sales Channel)	2019	2018	%Change (Including Currency Changes)	2017	%Change ((Including Currency Changes)
Sales to Wholesale Customers	$ 3,726.00	$ 3,216.00	16%	$ 2,774.00	16%
Sales through Nike Direct	$ 2,482.00	$ 1,918.00	29%	$ 1,463.00	31%
Total Revenue	$ 6,208.00	$ 5,134.00	21%	$ 4,237.00	21%
EBIT	$ 2,376.00	$ 1,807.00	31%	$ 1,507.00	20%

Table 9   Source for Data: Company 10-K

Sales of Nike through its Direct channels has increased by 29% over the last three years and 16% in 2018-19 and 2017-18 respectively. The Nike Direct channels provide higher margins than the wholesale channel. EBIT has grown by about 31% over 2018-19, in Greater China, which is mainly driven by expansion through the Nike Direct channel. The Gross margin has increased mainly because of lower discounts, favourable currency exchange rates, and sales. SGA costs have been increasing in Greater China due to increase in operating overhead expenses and higher demand creation through advertising and marketing, Growth in overhead expense was driven mainly by higher administrative costs and increase in the investment in the Nike direct operation. With expansion in the Greater China region expected to keep increasing,

we foresee no major changes in its cost structure here. See table 10 below with all our projections and a further detailed explanation below.

	Historical Period				Projection Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	3,785.0	4,237.0	5,134.0	6,208.0	$7,511.7	$8,788.7	$10,107.0	$11,420.9	$12,563.0
% growth	*11.7%*	*11.9%*	*21.2%*	*20.9%*	*21.0%*	*17.0%*	*15.0%*	*13.0%*	*10.0%*
Cost of Goods Sold	1,748.7	1,889.7	2,248.7	2,775.0	3,335.2	3,902.2	4,487.5	5,070.9	5,578.0
Gross Profit	$2,036.3	$2,347.3	$2,885.3	$3,433.0	$4,176.5	$4,886.5	$5,619.5	$6,350.0	$6,985.0
% margin	*53.8%*	*55.4%*	*56.2%*	*55.3%*	*44.5%*	*45.0%*	*45.5%*	*46.0%*	*46.5%*
Selling, General & Administrative	1,222.6	1,305.0	1,622.3	2,017.6	2,403.7	2,812.4	3,234.2	3,654.7	4,020.1
EBITDA	$813.8	$1,042.3	$1,263.0	$1,415.4	$1,772.8	$2,074.1	$2,385.2	$2,695.3	$2,964.9
% margin	*21.5%*	*24.6%*	*24.6%*	*22.8%*	*12.5%*	*13.0%*	*13.5%*	*14.0%*	*14.5%*
Depreciation & Amortization	75.7	89.0	107.8	111.7	150.2	175.8	202.1	228.4	251.3
EBIT	$738.1	$953.3	$1,155.2	$1,303.7	$1,622.5	$1,898.4	$2,183.1	$2,466.9	$2,713.6
% margin	*19.5%*	*22.5%*	*22.5%*	*21.0%*	*10.5%*	*11.0%*	*11.5%*	*12.0%*	*12.5%*
Taxes	165.3	152.5	747.4	247.7	340.7	398.7	458.5	518.1	569.9
EBIAT	$572.7	$800.8	$407.8	$1,056.0	$1,281.8	$1,499.7	$1,724.7	$1,948.9	$2,143.7

Table 10   Source for data: Bloomberg

Our conclusion for the leading macroeconomic drivers in the Greater China region is different than for North America and EMEA. Looking at China PMI and CSI data in these nations we found only a minor drop in PMI and an increase in the CSI index. The Greater China region is one of the few places in the world where consumer confidence has been increasing in recent times. We, therefore, saw no need to alter our forecasts based on Greater China's leading Macroeconomic drivers.
See, in table 11 to the right, China's recent PMI and CSI data.

Leading Indicators	PMI	CSI
Q1 2018	51.5	122.3
Q2 2018	51.5	118.2
Q3 2018	50.8	118.5
Q4 2018	49.4	123
Q1 2019	50.5	124.1
Q2 2019	49.4	125.9
Q3 2019	49.8	124.1

Table 11   Source for data: Bloomberg

We have, however, adjusted the Greater China regions revenue downward to reflect management's expectation on future growth. Management have said that they believe revenue growth in this region should be between 13% and 20% up until 2023. We believe it is most likely that revenue growth will then increase at a decreasing rate in the coming years. This can be seen by look at the percentage growth in sales in table 10. We do not foresee any major changes in its cost structure as a percentage of sales as Nike also continues to expand in this the area as explained earlier.

D. Asia Pacific & Latin America (APLA)

Revenues in Nike's Asia Pacific & Latin America region account for approximately 14.12% of total sales. See below, in table 12, historical income statement figures and projections for this region up until 2024. In APLA (Asia-Pacific, Latin American region, excluding China),

Nike has been a key player, with five of its most important cities being Mexico City, Shanghai, Beijing, Tokyo, Seoul. The revenue in APLA region increased by at least 10% in each of the past 3 years. Like every other region, digital is an integral part of growth in these regions. Nike has formed partnerships with third party channels such as Flipkart, Zozotown and others. The 2020 Summer Olympics are being held in Tokyo and this will likely help sustain growth in the APLA region.

	Historical Period				Projection Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	4,317.0	4,737.0	5,166.0	5,254.0	$5,411.6	$5,546.9	$5,685.6	$5,827.7	$5,973.4
% growth	13.3%	9.7%	9.1%	1.7%	3.0%	2.5%	2.5%	2.5%	2.5%
Cost of Goods Sold	1,994.5	2,112.7	2,262.7	2,348.5	2,440.6	2,501.7	2,564.2	2,628.3	2,694.0
Gross Profit	$2,322.5	$2,624.3	$2,903.3	$2,905.5	$2,971.0	$3,045.3	$3,121.4	$3,199.4	$3,279.4
% margin	53.8%	55.4%	56.2%	55.3%	54.9%	54.9%	54.9%	54.9%	54.9%
Selling, General & Administrative	1,394.4	1,459.0	1,632.5	1,707.6	1,720.9	1,763.9	1,808.0	1,853.2	1,899.5
EBITDA	$928.2	$1,165.3	$1,270.8	$1,197.9	$1,250.1	$1,281.3	$1,313.4	$1,346.2	$1,379.9
% margin	21.5%	24.6%	24.6%	22.8%	23.1%	23.1%	23.1%	23.1%	23.1%
Depreciation & Amortization	86.3	99.5	108.5	94.6	108.2	110.9	113.7	116.6	119.5
EBIT	$841.8	$1,065.8	$1,162.4	$1,103.3	$1,141.9	$1,170.4	$1,199.7	$1,229.6	$1,260.4
% margin	19.5%	22.5%	22.5%	21.0%	21.1%	21.1%	21.1%	21.1%	21.1%
Taxes	188.6	170.5	749.7	209.6	217.0	222.4	227.9	233.6	239.5
EBIAT	$653.2	$895.3	$412.6	$893.7	$924.9	$948.0	$971.7	$996.0	$1,020.9

Table: 12   Source for data: Bloomberg

We analysed the leading macroeconomic drivers in the APLA region similarly to North America and EMEA. Looking across the board at some of the major countries PMI's and CSI data, see table 13 to the right and table 14 on the following page, we found that most countries are

PMI APLM	Japan	Malaysia	India	Australia	Average LATAM
Q1 2018	53.1	49.5	51	54.3	52.05
Q2 2018	53	49.5	53.1	55	51.4
Q3 2018	52.5	51.5	52.2	54	51.85
Q4 2018	52.6	46.8	53.2	54	52.05
Q1 2019	49.2	47.2	52.6	52	50.85
Q2 2019	49.3	47.8	52.1	52	50.1
Q3 2019	48.9	47.9	51.4	50.3	52.15

Table 13   Source for data: Bloomberg

experiencing a decrease in future expectations. This is, again, likely due to the contagion effect as explained in the EMEA segment section. However, overall, we don't believe the leading macroeconomic variables are as bad here as in North America and EMEA. Looking at PMI and CSI in some of the more emerging economies, some have seen a rise in expectations. We, therefore, only reduce revenue growth in this region down 1.5% due to these leading macroeconomic drivers. We also made these reductions based on the average revenue growth rate over the last 3 years in this region as we don't believe using just last years number would be a good reflection of the growth seen in this region in recent times.

As Nike's expansion plans and cost structure are similar to its Greater China region, we did not feel the need to alter its cost structure for the future. SGA costs have been increasing in APLA due to increase in operating overhead expenses and higher demand creation through advertising and marketing. Growth in overhead expense was driven mainly by higher administrative costs

and increase in the investment in the Nike direct operation. With expansion in the APLA region expected to keep increasing, we foresee no major changes in its cost structure here.

CSI APLM	Japan	Malaysia	India	Australia	Brazil	Argentina	Colombia
Q1 2018	44.2	91	45.3	9.9	88.3	43.81	-3.2
Q2 2018	43.7	132.9	47.3	6.1	83.5	35.97	15.5
Q3 2018	43.3	107.5	46.9	6.8	83.1	33.7	-0.7
Q4 2018	42.6	96.8	46.9	2.9	93	35.99	-8.3
Q1 2019	40.5	85.6	46.1	-0.2	91	34.79	1.2
Q2 2019	38.7	93	47.8	2.2	88.5	40.57	-6.3
Q3 2019	35.6	84	-	-0.3	89.7	42.09	-10.7

Table 14   Source for data: Bloomberg

3. Valuation

We have valued Nike's stock at $83.02, leaving it overvalued by 12.07% compared to its current stock price of $93.04. This led to our sell recommendation as we believe the market is currently overvaluing Nike's stock. For our valuation we use the method of forecasted fundamentals. Our method has valued Nike using a discounted cashflow model with our proxy for cashflow being Free Cash Flow (FCF). Free cash flow represents the cash a company generates after cash outflows to support operations and maintain its capital assets. Our economic rationale for using the method of forecasted fundamentals is that the value is equal to the present value of expected future cash flows at the appropriate risk-adjusted rate of return. See table 15 below for our FCF calculations in the past and our predictions up to 2024. Also see net working capital calculations and projections in table 19 in the appendix.

	2016	2017	2018	2019	2020	2021	2022	2023	2024
EBIAT	$2,990.0	$3,397.0	$1,306.0	$3,294.3	$3,844.3	$4,053.5	$4,246.7	$4,423.6	$4,579.9
Plus: Depreciation & Amortization	649.0	706.0	747.0	705.0	829.5	874.6	916.3	954.5	988.2
Less: Capital Expenditures	(1,424.5)	(1,374.0)	(1,455.9)	(1,564.7)	(1,375.0)	(1,449.8)	(1,518.9)	(1,582.2)	(1,638.1)
Less: Inc./(Dec.) in Net Working Capital					1,127.2	(377.5)	(368.0)	(337.0)	(297.8)
Unlevered Free Cash Flow					$4,426.0	$3,100.8	$3,276.0	$3,458.8	$3,632.2

Table 15   Source for data: Bloomberg

We then proceeded to run a discounted cash flow model with 2024 being our terminal year. Nike's current stock price, as of November 15th, 2019, is at $93.04, and we have valued Nike at $83.02. This means its stock is overvalued by 12.07%, which led to our sell recommendation on Nike's stock. See on the next page, in table 16 and table 17, the calculations for the present value of future cash flows and our implied value for Nike:

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Unlevered Free Cash Flow					$4,426.0	$3,100.8	$3,276.0	$3,458.8	$3,632.2
WACC	7.1%								
Discount Period					1.0	2.0	3.0	4.0	5.0
Discount Factor					0.93	0.87	0.81	0.76	0.71
Present Value of Free Cash Flow					**$4,132.6**	**$2,703.3**	**$2,666.7**	**$2,628.9**	**$2,577.6**

Table 16   Source for data: Bloomberg

Enterprise Value	
Cumulative Present Value of FCF	**$14,709.0**
Terminal Value	
Terminal Year EBITDA (2024E)	$6,642.4
Exit Multiple	16.5x
Terminal Value	**$109,599.6**
Discount Factor	0.71
Present Value of Terminal Value	**$77,778.9**
Enterprise Value	**$92,487.9**

Implied Equity Value and Share Price	
Enterprise Value	$92,487.9
Less: Total Debt	6,821.0
Less: Preferred Stock	-
Less: Noncontrolling Interest	-
Plus: Cash and Cash Equivalents	4,466.0
Implied Equity Value	**$103,774.9**
Fully Diluted Shares Outstanding	1,250.0
Implied Share Price	**$83.02**

Table 17   Source for data: Bloomberg

Description of important model inputs

- Present value of free cash flow: Free cash flow discounted at the firms WACC (weighted average cost of capital). We calculated Nike's cumulative present value of FCF to be $14,709.

- Fully diluted shares outstanding: The total number of common shares that will be outstanding and available to trade on the open market after all possible sources of conversion, including convertible bonds and employee stock options, are exercised. Fully diluted shares include not only those which are currently issued but also those that could be claimed through conversion. We felt that this would be a better representation than just total shares outstanding as although full dilution may not occur all at once, it indicates how many shares might be outstanding in the future, based on Nike's current policy regarding conversions.

- Exit Multiple: The exit multiple used is higher than the average apparel industry exit multiple (7.95) over the last 3 years. Nike, however, tends to get valued at a much higher multiple relative to the industry with the average at 18.4. We found this a bit too high given

our predictions for a changing macroeconomic environment and adjusted it downwards to 16.5 to incorporate this predicted change.

- WACC: We calculated a WACC of 7.1% for Nike. See to the right our calculations and below a description of the reasons how we came to this number:
  - o The *cost of debt* is the interest paid divided by the average level of debt for the last 3 years.
  - o The *tax rate* is the firm's average effective tax rate over the last 10 years adjusted downward to reflect the new tax code since 2017.
  - o The *risk-free rate* we opted for is the US ten-year treasury yield which is currently at 1.84% as of November 15th, 2019. We believe this measure is a good barometer for the risk-free rate as we find it extremely unlikely that the US government will be unable to fulfil their obligations on these bonds.

WACC Calculation	
Target Capital Structure	
Debt-to-Total Capitalization	28.0%
Equity-to-Total Capitalization	72.0%
Cost of Debt	
Cost-of-Debt	2.6%
Tax Rate	19.0%
After-tax Cost of Debt	**2.1%**
Cost of Equity	
Risk-free Rate (1)	1.8%
Market Risk Premium (2)	8.5%
Beta	0.84
Cost of Equity	**9.0%**
WACC	**7.1%**

Table 18 Source for data: Bloomberg

  - o The *market risk premium* is the average market risk premium over the last 40 years throughout the main regions which Nike operates in. We adjusted the weight of the risk premium based on the weight of revenue from each region and we ended up with a total market risk premium of 8.5%.
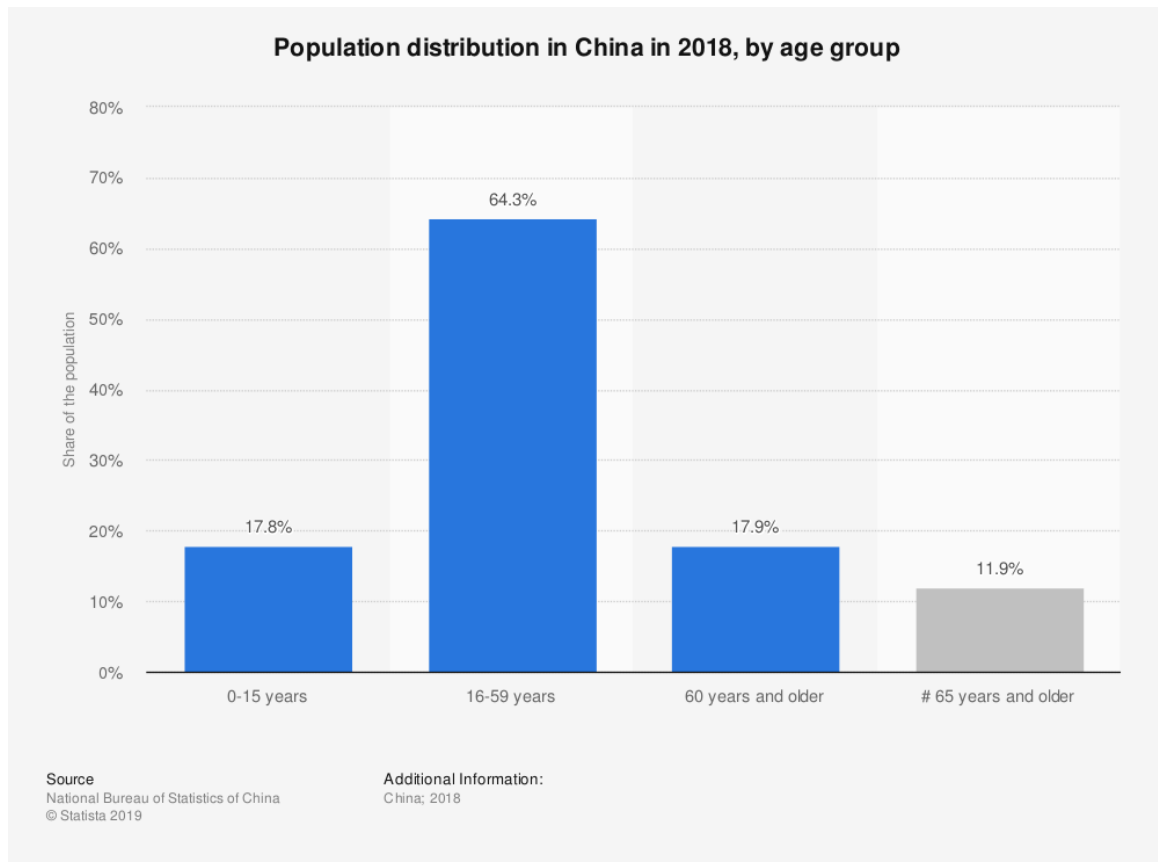 - o The *beta* used is the 3-year beta for Nike's stock.

4. Appendix

Population distribution in China in 2018, by age group

Age group	Share of the population
0-15 years	17.8%
16-59 years	64.3%
60 years and older	17.9%
# 65 years and older	11.9%

Source
National Bureau of Statistics of China
© Statista 2019

Additional Information:
China; 2018

Figure 3   Source: National Bureau of Statistics China

Working Capital:

Cost of Goods Sold	Historical Period				Projection Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024
Sales	$32,376.0	$34,350.0	$36,397.0	$39,117.0	$41,921.7	$44,202.2	$46,308.9	$48,238.1	$49,942.9
Cost of Goods Sold	17,405.0	19,038.0	20,441.0	21,643.0	23,015.0	24,267.0	25,423.6	26,482.7	27,418.6
Current Assets									
Accounts Receivable	3,241.0	3,677.0	3,498.0	4,656.0	4,029.0	4,248.1	4,450.6	4,636.0	4,799.9
Inventories	4,838.0	5,055.0	5,261.0	5,835.0	6,088.84	6,420.1	6,726.0	7,006.3	7,253.9
Prepaid Expenses and Other	1,489.0	1,150.0	1,130.0	1,968.0	1,341.5	1,414.5	1,481.9	1,543.6	1,598.2
Total Current Assets	$9,568.0	$9,882.0	$9,889.0	$12,459.0	$11,459.3	$12,082.7	$12,658.5	$13,185.9	$13,651.9
Current Liabilities									
Accounts Payable	2,191.0	2,048.0	2,279.0	2,716.0	2,626.2	2,769.1	2,901.1	3,022.0	3,128.7
Accrued Liabilities	5,010.0	1,219.0	1,080.0	1,109.0	1,299.6	1,370.3	1,435.6	1,495.4	1,548.2
Other Current Liabilities	52.0	184.0	168.0	162.0	188.6	221.0	231.5	241.2	249.7
Total Current Liabilities	$7,253.0	$3,451.0	$3,527.0	$3,987.0	$4,114.5	$4,360.4	$4,568.2	$4,758.5	$4,926.7
Net Working Capital	$2,315.0	$6,431.0	$6,362.0	$8,472.0	$7,344.8	$7,722.3	$8,090.3	$8,427.4	$8,725.2
% sales	7.2%	18.7%	17.5%	21.7%	17.5%	17.5%	17.5%	17.5%	17.5%
(Increase) / Decrease in NWC		($4,116.0)	$69.0	($2,110.0)	$1,127.2	($377.5)	($368.0)	($337.0)	($297.8)
Assumptions									
Current Assets									
Days Sales Outstanding	36.5	39.1	35.1	35.1	35.1	35.1	35.1	35.1	35.1
Days Inventory Held	101.5	96.9	93.9	93.9	96.6	96.6	96.6	96.6	96.6
Prepaids and Other CA (% of s	4.6%	3.3%	3.1%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%
Current Liabilities									
Days Payable Outstanding	45.9	39.3	40.7	40.7	41.7	41.7	41.7	41.7	41.7
Accrued Liabilities (% of sales)	15.5%	3.5%	3.0%	3.0%	3.1%	3.1%	3.1%	3.1%	3.1%
Other Current Liabilities (% of s	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%

Table 19   Source for data: Bloomberg

5. Disclaimer

Please read this statement before reading this report.

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