Financial Research Report: Nike, Inc

A Student
College Finance Course
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In this report, Team A will provide a comprehensive financial statement analysis of Nike, Incorporated. This report will cover the following topics:

1. Company Overview
2. Financial Statements
3. Ratio Analysis
4. Stock Price Analysis
5. Foreign Operations
6. Global Analysis.

After analyzing the company's financial statements, Team A will make an investment recommendation.

Company Overview

Known for its unmistakable and remarkable "swoosh" symbol, Nike has become one of the largest producers of footwear and apparels in the world. With 45% of the market share, Nike has continued to dominate the industry with dynamic and innovated products with consistency growth throughout the years. The company sells to the U.S. and several international markets such as Canada, Asia, Latin American, and Europe through a mixture of retail stores and distributors around the world. According to the 2008 annual report of Nike, the company sells to more than 27,000 retail accounts internationally ("Nike Inc, Annual Report on Form 10-K [Electronic Version]," 2008). Founded in 1964 by Bill Bowerman and Phillip Knight, Nike was first known as the Blue Ribbon Sports Company which was a distributor for a Japanese shoe company named Onitsuka Tiger. In 1971, the company changed its name to Nike and went public in 1980. Today, Nike is headquartered in Beaverton, Oregon with over 30,000 employees globally and operates in the apparel footwear and accessories industry ("Nikebiz Company Overview," n.d.).

Nike has received numerous rewards and recognitions ("Nikebiz Company Overview: Awards & Recognition," n.d.):

1. 100 Best Companies to Work for in 2008
2. Placed 55 on Top 100 Places to Launch a Career in 2007
3. Recognized as One of the World's Most Ethical Companies in 2009
4. One of the 100 Best Corporate Citizens in 2009
5. One of the World's Top Sustainable Stocks for 2007
6. Fortune's Most Admired Companies
7. Industrial Design Excellence Awards – 2005
8. Best Workplaces for Commuters – 2006
9. Best Place to work for GLBT Equality – 2007
10. Received Top Score in Design Innovation from Ceres

Since going public, Nike has acquired several companies to assist with its diversification strategy. In 1988, Nike acquired Cole Haan. Cole Haan manufactures and distributes elegant causal and dress footwear. The company is located in Yarmouth, Maine and has 500 employees. Hurley International LLC was acquired in 2002 for its appeal that attracted the young active adult that participated in various sport activities. The company is located in Costa Mesa, California and has over 200 employees. Converse Inc became Nike's third acquisition at a cost of $305 million. The company designs and distributes products such as Chuck Taylor®, All Star®, and Jack Purcell® shoes ("Nikebiz Company Overivew Subsidiaries Converse," n.d.).

Converse Inc is located at North Andover, Massachusetts. Lastly, Nike acquired Umbro Ltd. Umbro Ltd is located in Manchester, England and offers football teams' quality footwear, apparel, and equipment in 90 countries. Umbro Ltd was founded in 1924 and helped Nike to stay competitive in the global market.

Financial Statements

To access Nike's financial statements, please click on the following links:

Income Statement	http://finance.yahoo.com/q/is?s=NKE&annual
Balance Sheet	http://finance.yahoo.com/q/bs?s=NKE&annual
Cash Flow Statement	http://finance.yahoo.com/q/cf?s=NKE&annual

Ratio Analysis

Current Ratio	Company	Industry
	2.66	2.01

Current ratio measures the company's ability to pay its current debt. Nike's current ratio was computed by dividing total current assets of $8,839,300 by total current liabilities of $3,321,500 (Total Current Assets/ Total Current Liabilities). Nike's current ratio is above the industry average. The company had cash and cash equivalent of $2,133,900. Because Nike had a positive cash flow and an increase in net accounts receivable, the company was able to outperform the industry.

Quick Ratio	Company	Industry
	1.93	1.38

Quick ratio measures the company's ability to pay its current debt with current assets minus inventory. Nike's quick ratio was computed by dividing current assets of $8,839,300 minus inventory of $2,438,400 by current liabilities of $3,321,500 (Current Assets – Inventory/ Current Liabilities). Nike's quick ratio is above the industry average which means the company's ability to pay cash or sell its accounts receivable will not have a direct effect on the company's ability to pay its current debt. As mentioned in the current ratio, Nike's large portion of cash of $2,133,900 contributed to this success.

Debt Ratio	Company	Industry
	.37	N/A

Nike's debt ratio was computed by dividing total debt of $4,617,100 by total assets of $12,442,700 (Total Debt/ Total Assets). This ratio shows how much debt a company uses to finance its assets. Nike's ratio is below 1 which indicates the company uses very little debt to purchase its assets.

Debt to Equity	Company	Industry
	.59	17.74

Nike's debt to equity ratio was computed by dividing total debt of $4,617,100 by total equity of $7,825,300 (Total Debt/ Total Equity). Having a low ratio number means Nike is able to borrow capital if needed. The company has a relatively large amount of stockholder's equity which consists of $5,073,300 in retained earnings and $2,497,800 in capital surplus.

Gross Profit Margin Ratio	Company	Industry
	4.50	9.95

Nike's gross profit margin ratio was computed by dividing gross profit of $8,387,400 by net sales of $18,627,000 (Gross Profit/ Net Sales). In considering gross profit margin, the higher the ratio the better the company appears. Gross profit margin ratio tells a company how much of each sales dollar is available to cover operating expenses and profits.

Operating Profit Margin Ratio	Company	Industry
	1.30	2.23

Nike's operating margin ratio was computed by dividing operating income of $2,433,700 by net sales of $18,627,000 (Operating Income/ Net Sales). In considering operating profit margin ratio, the higher the ratio the better the company appears when comparing to the industry. Operating profit margin ratio tells a company how much of each sales dollars are available after all operating expenses have been taking into consideration.

Return on Assets	Company	Industry
	.15	2.50

Nike's return on assets was computed by dividing net income of $1,883,400 by total assets of $12,442,700 (Net Income/ Total Assets). Nike is below the industry average in comparing against the industry average. The return on assets ratio measures the performance of management. Nike is not managing its assets efficiently compared to the industry.

Return on Equity	Company	Industry
	.24	4.00

Nike's return on equity was computed by dividing net income of $1,883,400 by total stockholder's equity of $7,825,300 (Net Income/ Total Stockholder's Equity). Nike is below the industry due to an increase in retained earnings with lower then expected net income.

Earnings Per Share	Company	Industry
	3.8	N/A

Nike's earnings per share was computed by dividing net income of $1,883,400 by outstanding shares of 495,630 (Net Income/ Outstanding Shares). This ratio tells investor how much they will earn for each outstanding share.

Interest Coverage	Company	Industry
	N/A	8.56

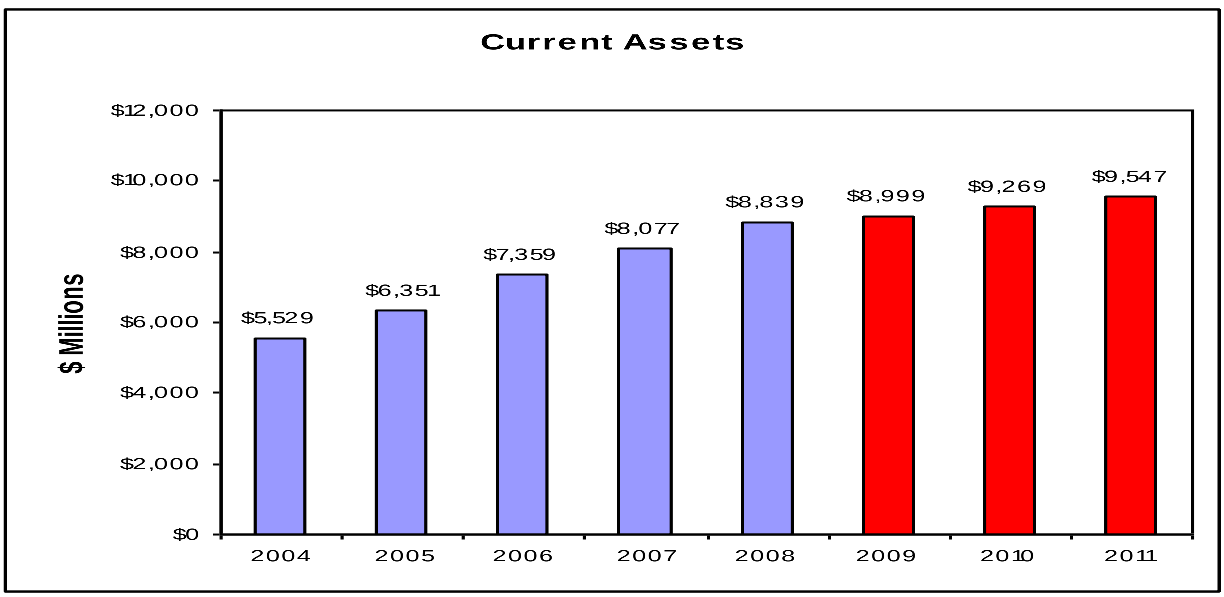
Nike's does not have any interest expense; therefore, the calculation could no be performed. Since Nike does not have any interest, the company is in a favorable position compared to the industry.

Price-to-Book Ratio	Company	Industry
	3.44	3.18

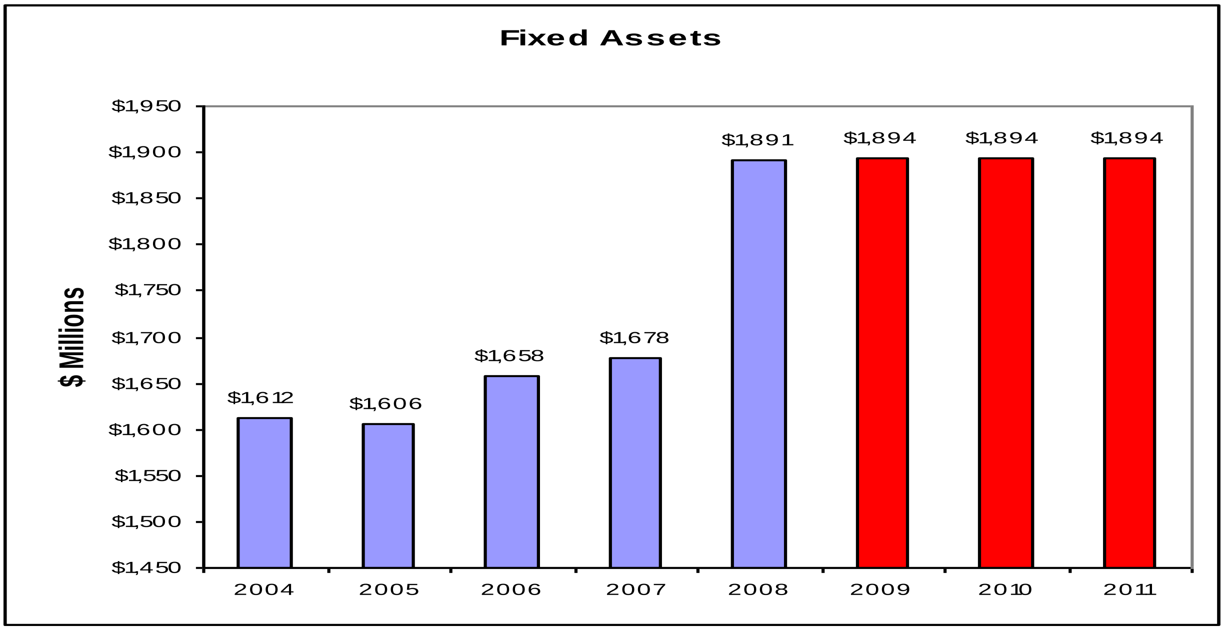
Nike's price-to-book ratio was computed by multiplying outstanding shares of 495,630 by the current market price of $54.39 then divide by the total stockholder's equity of $7,825,600 (Outstanding Shares * Market Price/ Stockholder's Equity). When comparing P/B, Nike is outperforming the industry. Since the ratio is greater than 1, Nike is considered to have a growth stock.

Trend Analysis

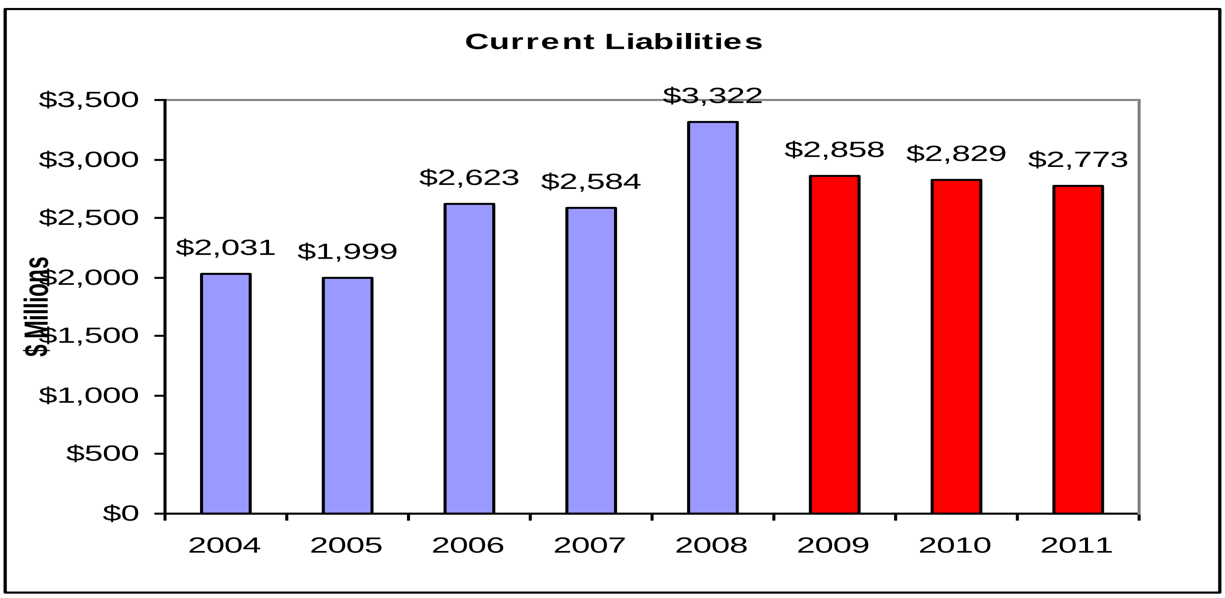
Current Assets for 2009 – 2011 as indicated in the figure below were estimated based on a 2% increase in 2009 and 3% for 2010 & 2011. Due to the worldwide recession, I believe sales will only grow in small increments. My position is based on a Standards and Poor's (S&P) market analysis ("Standard and Poor's Nike Inc Stock Report," 2009).



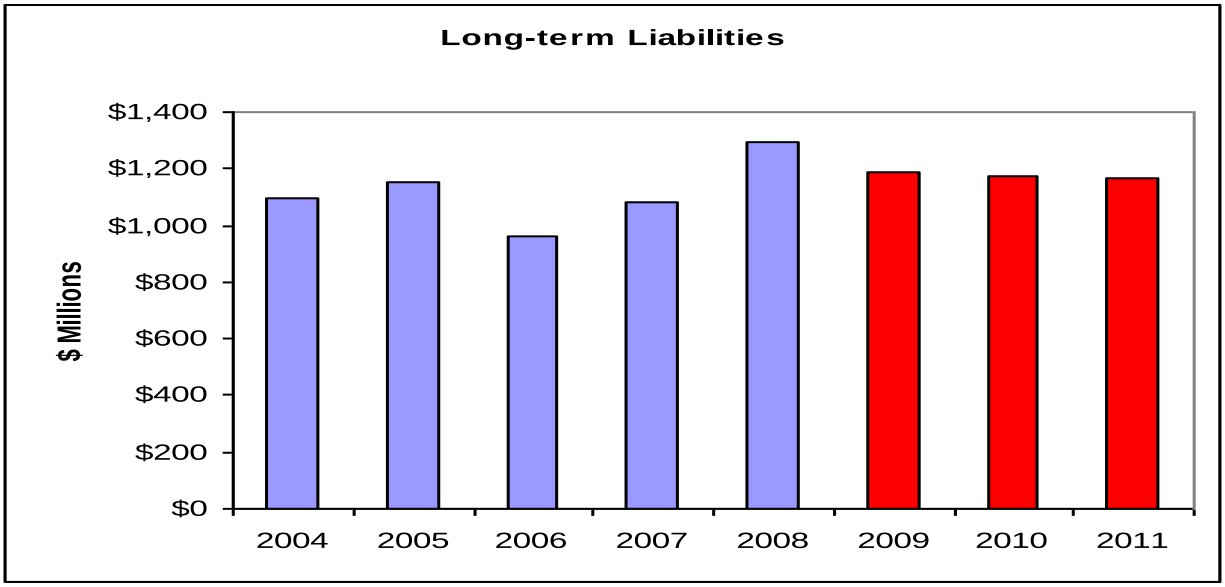
Fixed Assets for 2009 – 2011 as indicated in the figure below were estimated to stay flat for the next three years due to the cash constraint policy Nike has implemented until the economy improves.



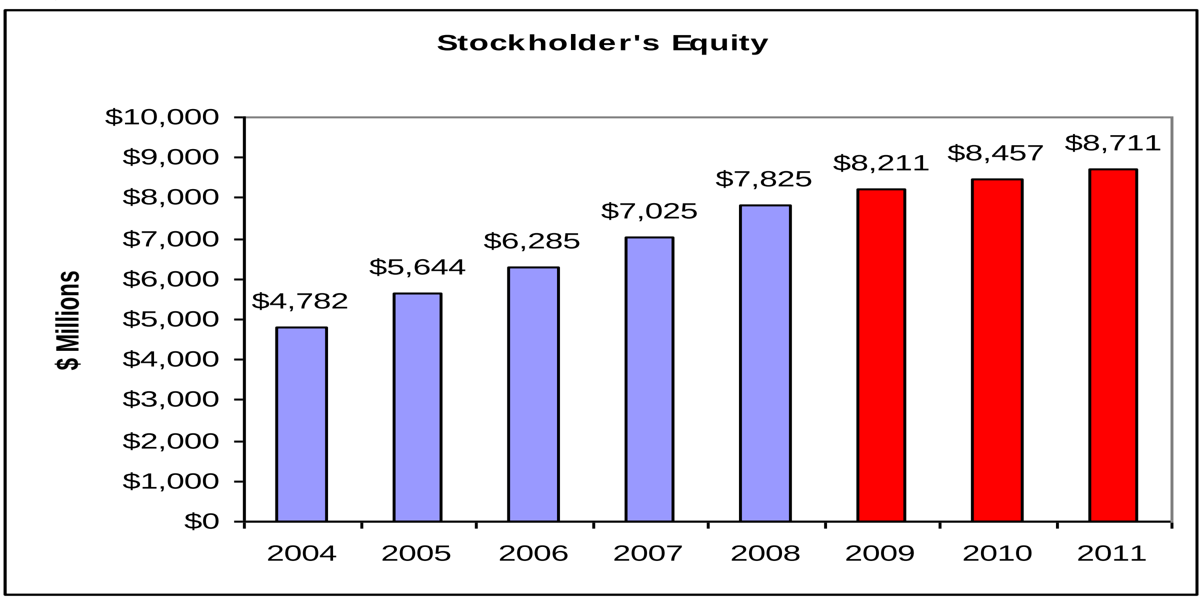
Current Liabilities for 2009 – 2011 as indicated in the figure below were estimated to decrease for the next three years due to the Nike will continue to control cost and pay down debt until the economy improves.



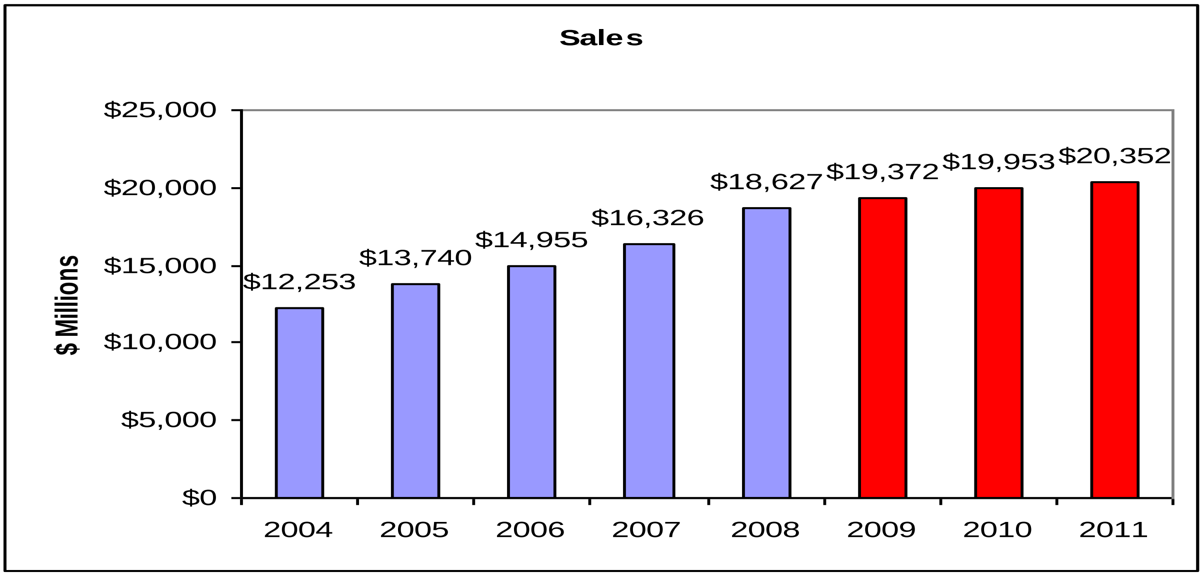
Long Term Liabilities for 2009 – 2011 as indicated in the figure below were estimated to decrease for the next three years due to the Nike will continue to control cost and pay down debt until the economy improves.



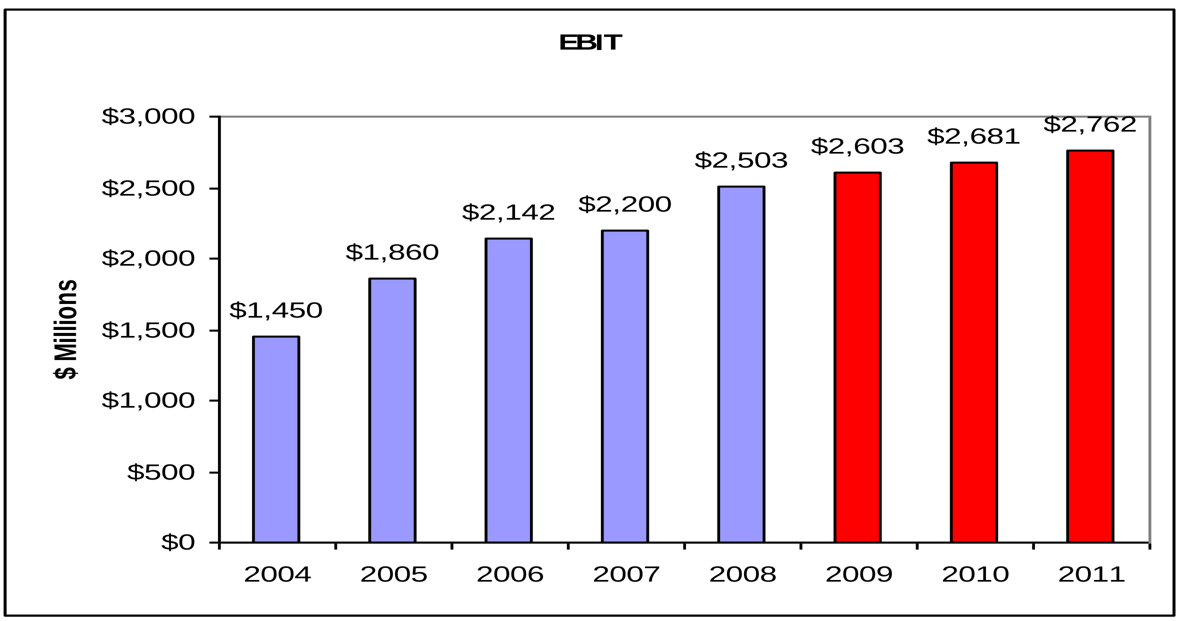
Stockholder's Equity for 2009 – 2011 as indicated in the figure below were estimated based on an increase in net income by 4% in 2009 and 3% for 2010 and 2011. Due to the worldwide recession, I predict sales would only grow in small increments. These estimates are in line Standards and Poor's (S&P) market analysis ("Standard and Poor's Nike Inc Stock Report," 2009).



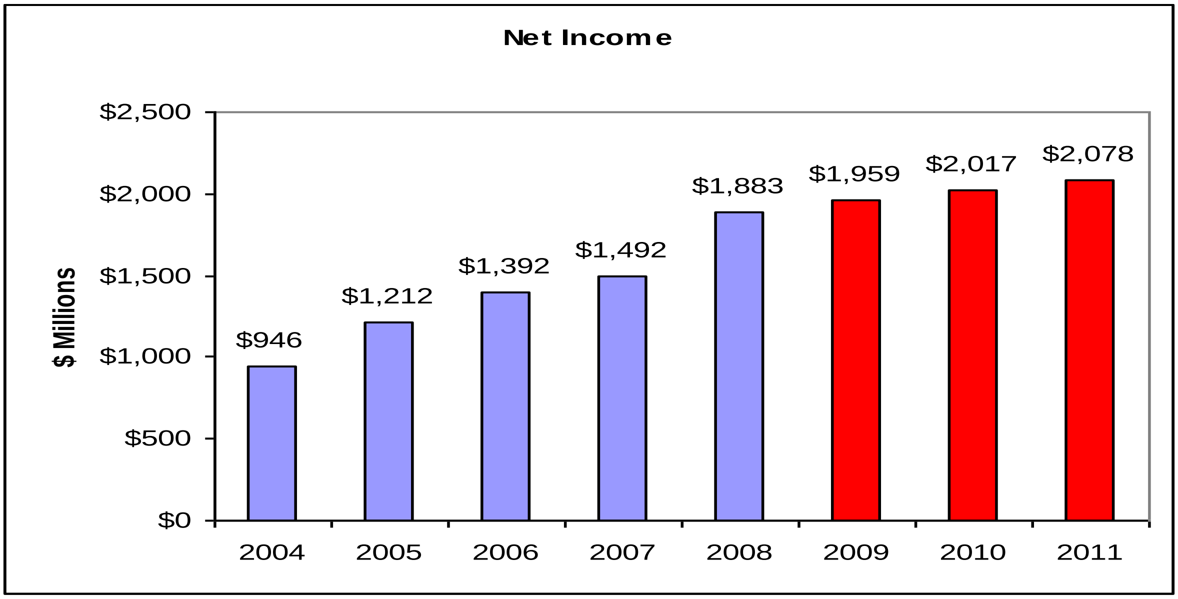
Sales for 2009 – 2011 as indicated in the figure below were estimated based on an increase of 4% in 2009, 3% in 2010, and 2% in 2011. Due to the worldwide recession, I predict sales would only grow in small increment units. However, Nike is very confident that their sales will increase once the recession is over.



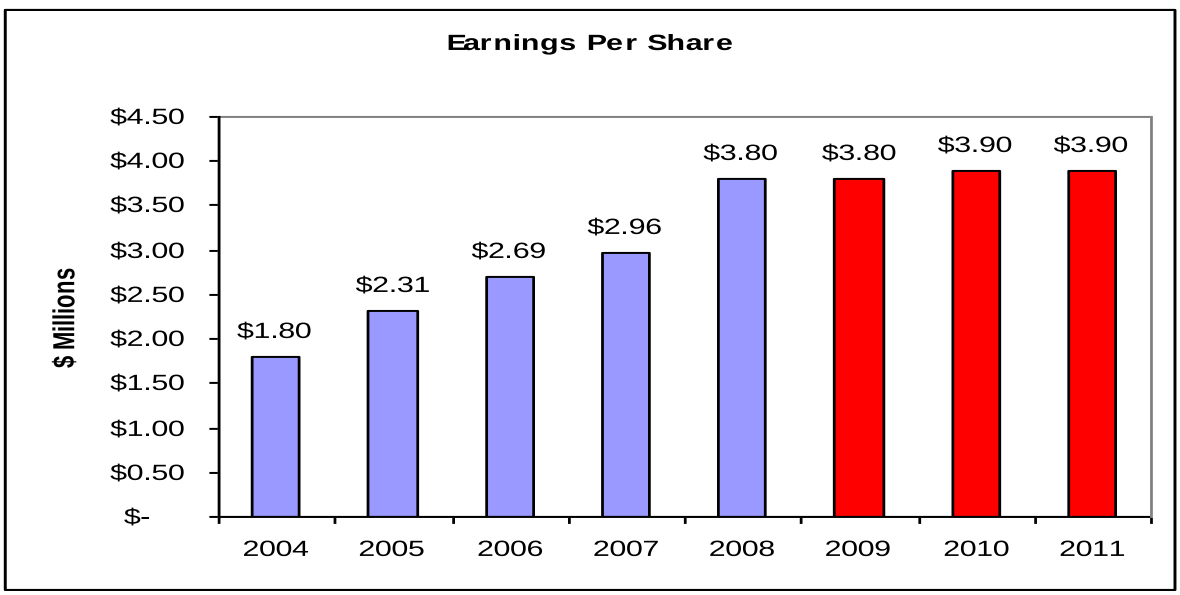
EBIT (Earnings before Interest and taxes) for 2009 – 2011 as indicated in the figure below were estimated based on an increase of 4%, 3%, and 3% in 2009, 2010, and 2011, respectively. Due to the worldwide recession, I predict sales will grow in small increment units and Nike has enforced a cost control plan to monitor expenses accordingly.



Net income for 2009 – 2011 as indicated in the figure below were estimated based on an increase of 4% in 2009, 3% in 2010, and 3% in 2011. Due to the worldwide recession, EBIT would only grow in small increment units.

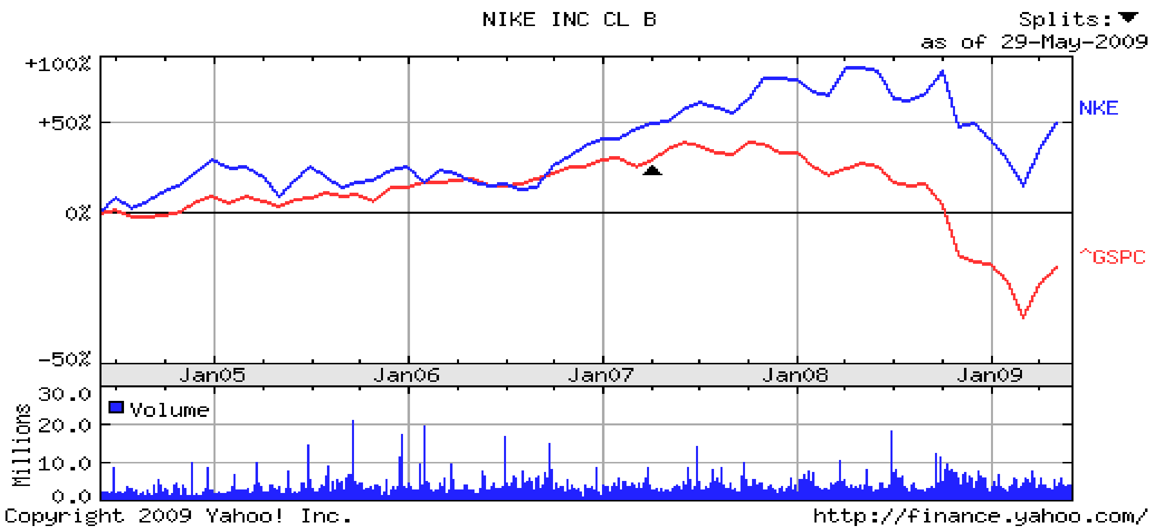


Earnings Per Share (EPS) for 2009 – 2011 as indicated in the figure below were estimated to be $3.80 in 2009 and $3.90 in 2010 which is in line with S&P market analysis ("Standard and Poor's Nike Inc Stock Report," 2009). 2011 was estimated to remain the same due to the unpredictable worldwide recession.



Stock Price Analysis

Despite the worldwide recession, the company stock price has remained competitively strong. For the past five years, Nike has continued to dominate the footwear market against its competitors. When comparing Nike to Standard & Poor's (S&P) 500 stock price, Nike has outperformed S&P's index as indicated in the graph below ("Basic Chart for Nike Inc.," 2009). In fact, S&P gave the company a buy rating of 4 out of 5 stars ("Standard and Poor's Nike Inc Stock Report," 2009). Because of recommendations such as the S&P buy rating, Nike has remained the pioneer leader in the market. As of May 29, Nike had a price-earnings ratio of 17.2, current ratio of 3.15, A+ credit rating, and dividend growth of 26.5%. These facts in addition to Nike's Class B stock outperforming the S&P 500 Index over the last five years makes Nike a relatively safe investment during these troubled financial times (as indicated in the figure below).



Foreign Operations

Umbro Ltd is an international subsidiary of Nike. The company was acquired in 2008 for $583 million dollars and located in Manchester, England with estimated 500 - 1,000 employees. Operating in over 90 countries, Umbro Ltd has developed a strong brand recognition through an extensive marketing campaign to utilize its product diversification strategy. Umbro and Nike's operations are different in nature. All of Nike's manufacturing is conducted outside the United States. Most of the manufacturing is produced by contract suppliers whereas Umbro produces its own products. However, Nike and Umbro use wholly-owned and independent distributors to sell its products around the world. In comparison of financial growth, Nike's sales grew from 8.84%, 9.17% and 14.09% in 2006, 2007 and 2008, respectively. Net income was 14.89%, 7.15%, and 26.28% in 2006, 2007 and 2008, respectively. Umbro sales was (12.37%), 21.52%, and (76%) in 2006, 2007 and 2008, respectively. Net income was 46%, (10%), (167%) in 2006, 2007 and 2008, respectively. In 2008, net income declined to an all time low due to the lost of the England team which directly affected the company's 2008 performance.

Global Analysis

In the event of an economic downturn in the United States, Nike's overseas revenue would sustain its growth. For the past three years, Nike's international sales have continued to grow. In 2008, international sales were 57% or 10.6 billion and U.S. sales were 43% or 8.0 billion. On average, international sales have been 54% compared to 46% U.S. sales.

Nike has become very successful with distributing its products overseas due to several contracted manufacturing facilities, independent distributors, and its international branch offices and subsidiaries. As a result, the company can continue to see growth in its revenue as well as healthy profit margins.

Investment Recommendation

In summary, Nike continues to improve its position in the aggressive footwear and appeal market during the worldwide recession. Even though Nike continues to face fierce competition with such rivals as Adidas, New Balance, and Fila, the company is still in a better position to stay competitive and dominate the footwear industry. In 2008, Nike reached record sales that totaled $18.6 billion which was a 14% increase from 2007. Due to the company international presence, its international sales have increased significantly each year which places Nike in a great position against its competitor. Currently, the company has an A+ credit rating, 26.5% dividend growth, and a price-earning ratio of 17.2 which means Nike has a growth stock. In addition, Nike has outperformed S&P index for the past five years and giving 4 out of 5 star rating by S&P. It is my recommendation that Nike would be a great investment.

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