

# NIKE [NKE] Guru Research Checklist

Thursday, 26 March 2020

13.13

## 1. Do I understand the business?

- a. Nike Inc. ([NKE](#)) is a global company that designs, develops, markets and sells athletic footwear, apparel, equipment, accessories, and services. Although primarily designed for athletic use, many of its products are worn for casual or leisure activities. The majority of Nike's products are manufactured by independent contractors, and are sold either direct-to-consumers through Nike retail outlets and digital platforms, or through independent distributors, licensees, and sales representatives.<sup>1</sup>

## 2. What is the economic moat that protects the company so it can sell the same or a similar product five or ten years from today?

- a. Strong brand recognition. People associate Nike with sports.

## 3. Is this a fast-changing industry?

- a. Not really.
- b. Fashion tastes change, but sports equipment stays pretty much the same.

## 4. Does the company have a diversified customer base?

- a. Yes
- b. Athletes
- c. Lifestyle and leisure, such as street fashion

## 5. Is this an asset-light business? (e.g. Uber, AirBnb, etc.)

- a. No

## 6. Is it a cyclical business?

- a. Yes
- b. Operating Income varies quarter to quarter

### Operating Cash Flow (in m \$)

Year	Q1	Q2	Q3	Q4	Fiscal Year
2015	1,791.00	1,342.00	491.00	545.00	4,680.00
2016	876.00	1,487.00	788.00	982.00	3,399.00
2017	1,114.00	962.00	575.00	1,323.00	3,846.00
2018	787.00	2,270.00	1,301.00	1,524.00	4,955.00
2019	1,068.00	2,010.00	394.00	912.00	5,903.00

1Y

3Y

5Y

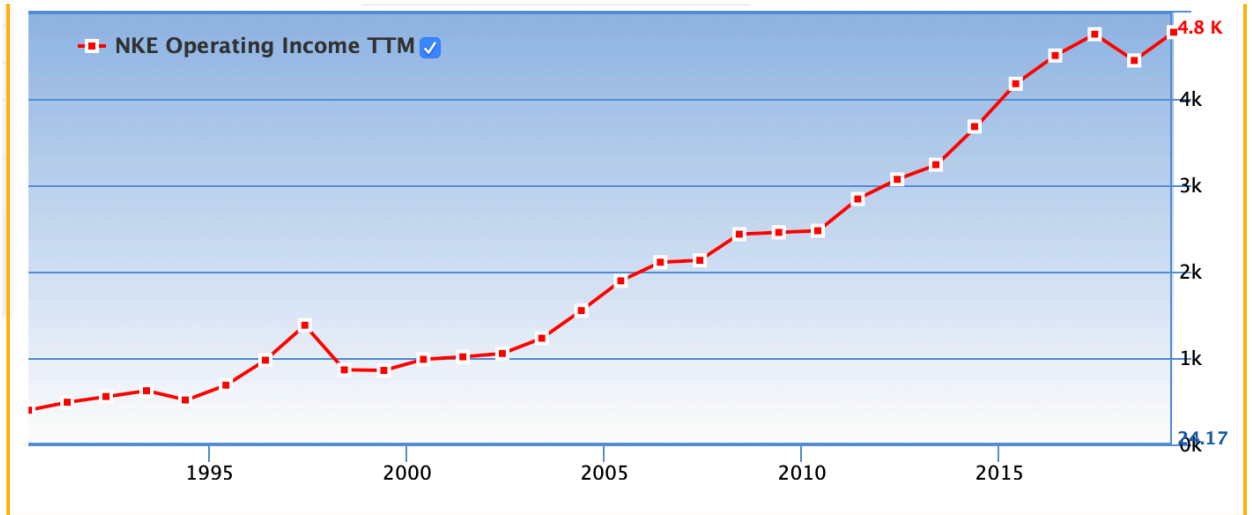
10Y

All

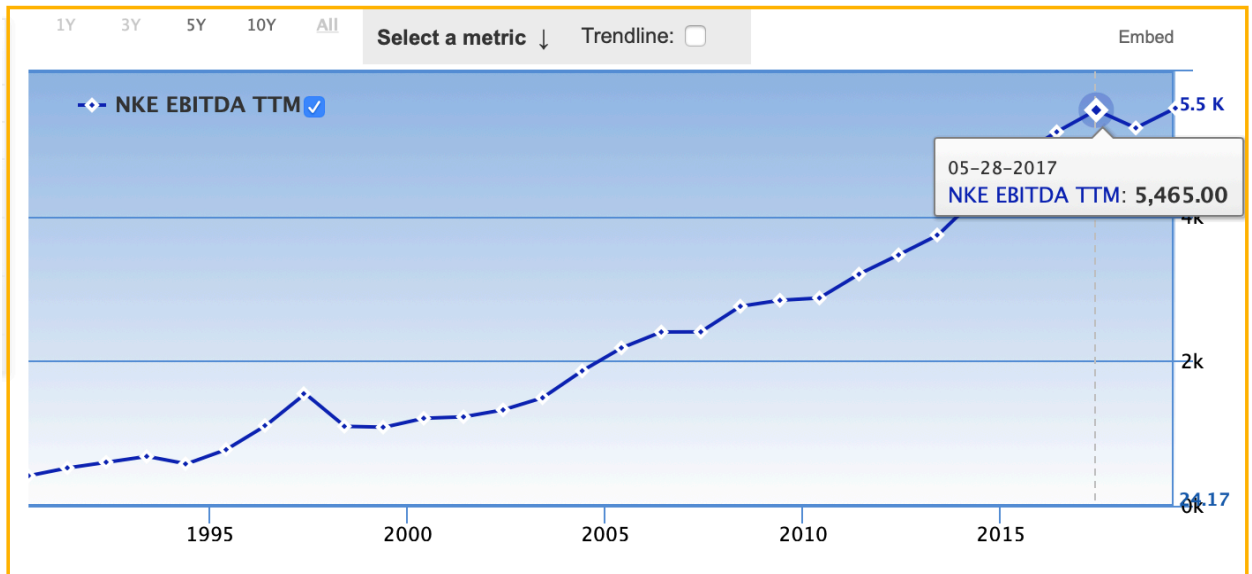
Select a metric ↓

Trendline:

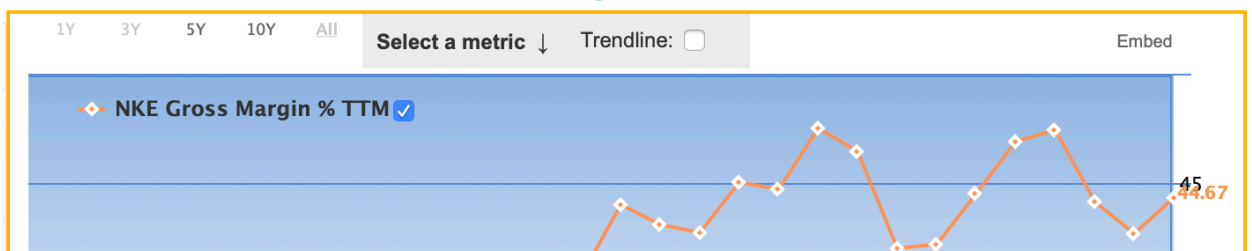
Embed

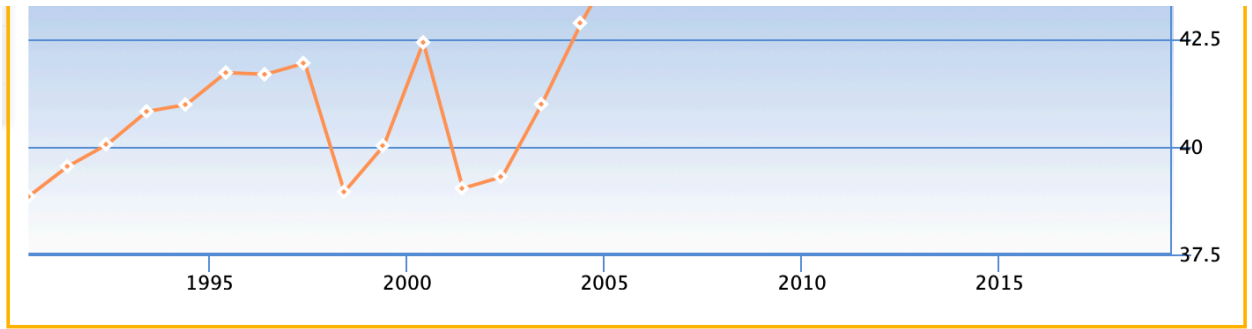


7. Does the company still have room to grow? Is the company has duplicated its successes in more than one city or town to prove that expansion will work?
  - a. Yes, in Greater China.
8. Has the company been consistently profitable over the past ten years, through good times and bad?
  - a. Yes
  - b. EBITDA steady growth shown below



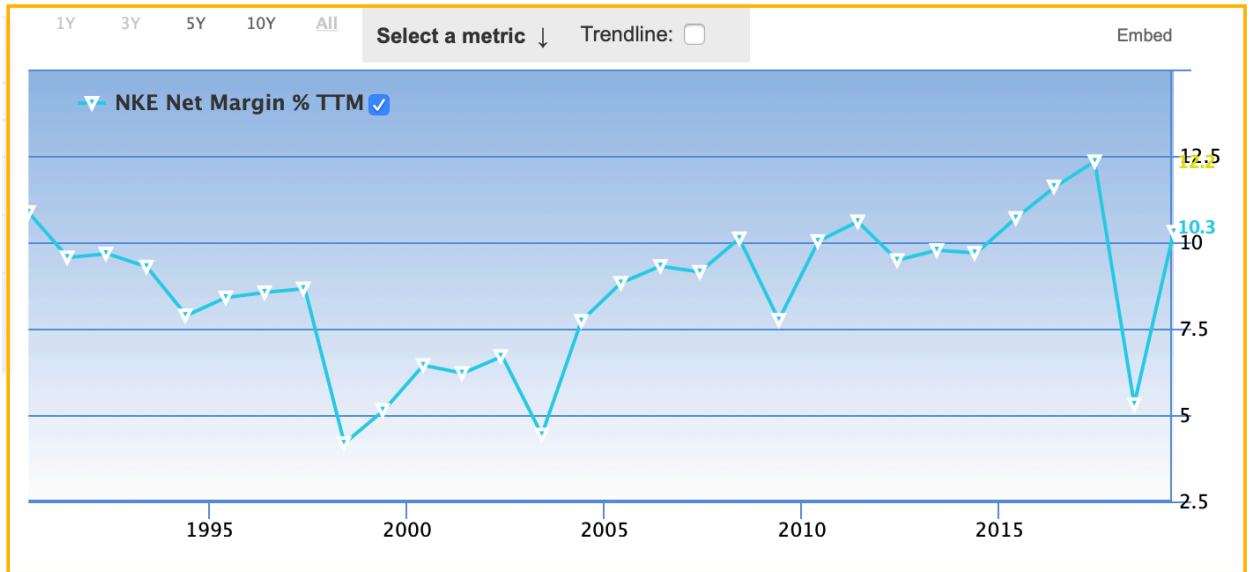
9. Does the company have a stable double-digit operating margin?
  - a. Quite stable operating margin since 2005
  - b. Gross Margin %
    - i. Gross margin % above 30
    - ii. Lowest 38% in 1998 vs highest 46% in 2010





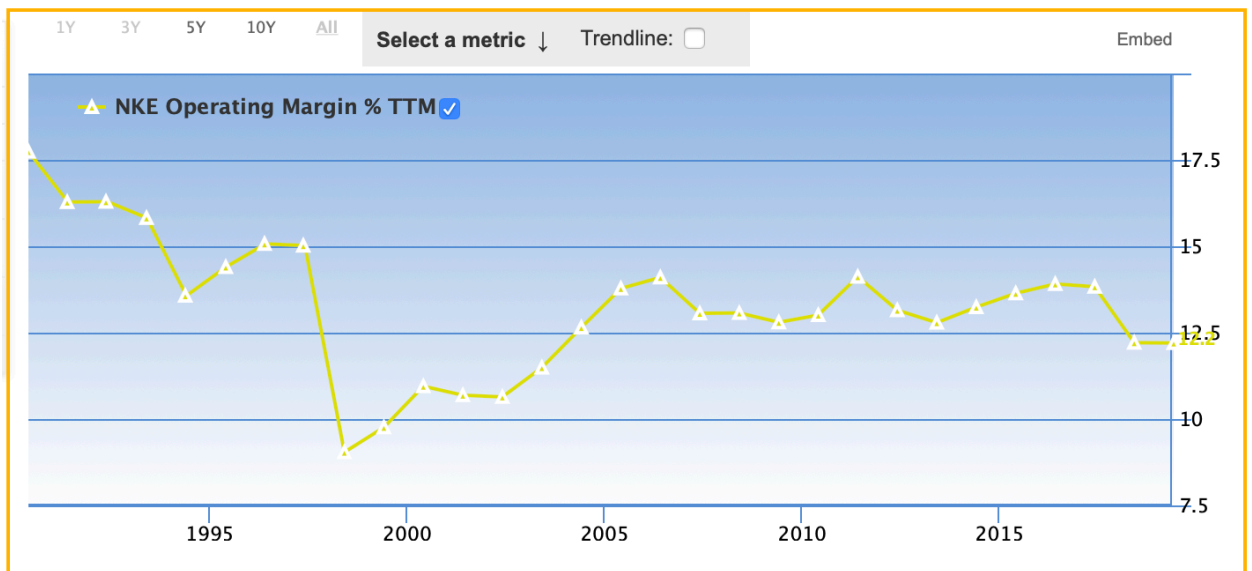
**a. Net Margin %**

- i. Not stable
- ii. Single digits mostly



**a. Operating Margin %**

- i. Double digits, above 10% but below 15%



**10. Does the company have a higher margin than competitors?**

**a. Check profitability of competitors**

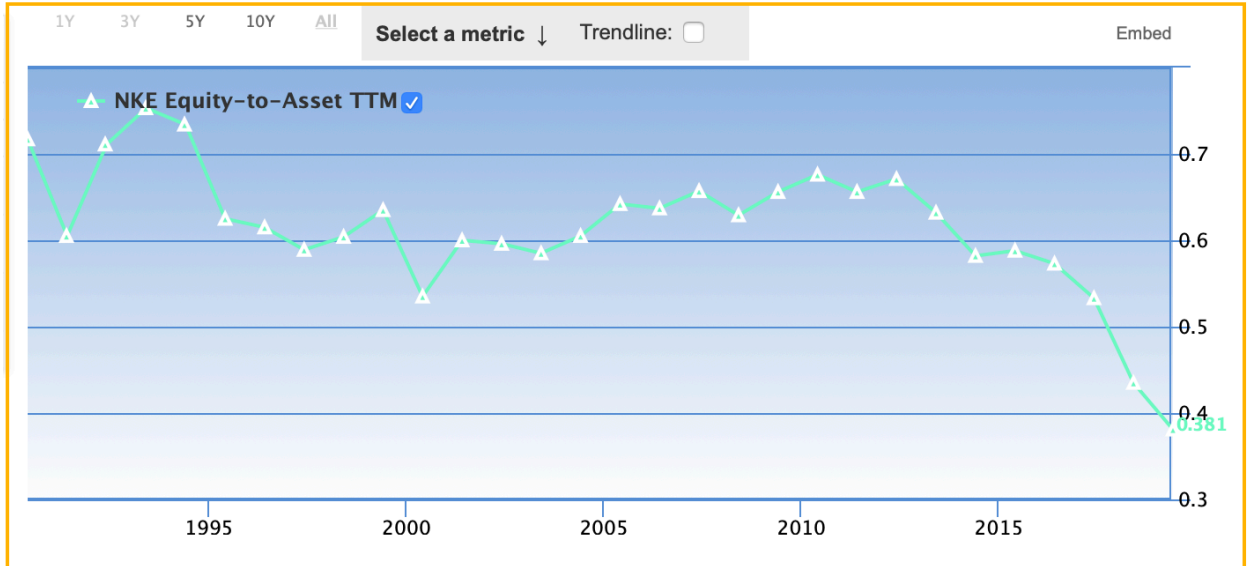
- i. Better 10-year average margins than some main competitors, except Net Margin and Current Ratio.

	Nike	Vfcorp	Under	Adidas
--	------	--------	-------	--------

			Armour	
Net Margin%	10.46	10.54	1.75	8,25
Operating Margin%	12.55	12.11	4.50	10,94
ROE%	47.35	29.41	4.42	27,91
ROA%	17.17	12.16	2.02	10,16
ROC%	46.35	40.37	11.36	Need to be calculated manually
ROIC%	42.04	20.19	5.70	
WACC%	7.23	9.58	7.44	
Days Inventory	92.65	113.78	121.62	
Current Ratio	1.98	2.12	1.90	
Interest Coverage	101.57	16.64	11.15	

11. Does the company have a return on investment capital of 15% percent or higher over the past decade?
  - a. 10 year ROIC %
    - i. Lowest 27% in 2012 & highest 38% in 2019
    - ii. Consistently around 30% for the past 10 years
12. Has the company been consistently growing its revenue and earnings at double digits?
  - a. Revenue growth %
    - i. During the **past 10 years**, the average Revenue per Share Growth Rate was **10.40%** per year
    - ii. During the **past 13 years**, Nike's **highest** 3-Year average Revenue per Share Growth Rate was **164.10%** per year.  
The **lowest** was **-41.50%** per year. And the **median** was **11.50%** per year.
  - b. EPS growth %
    - i. During the **past 10 years**, the average EPS without NRI Growth Rate was **10.20%** per year.
    - ii. During the **past 13 years**, Nike's **highest** 3-Year average EPS without NRI Growth Rate was **133.80%** per year.  
The **lowest** was **-23.60%** per year. And the **median** was **17.00%** per year.
13. Does the company have a strong balance sheet?
  - a. Equity-to-Asset

- i. 34% and was reducing for the past 3 years as the company took on more debt.
- ii. Equity-to-Asset ratio is lower than 72% of companies in the industry and lowest for the past 10 years. Highest was 79%
- iii. The ratio was in a down trend since 2012, meaning that company increased its debt since that time.

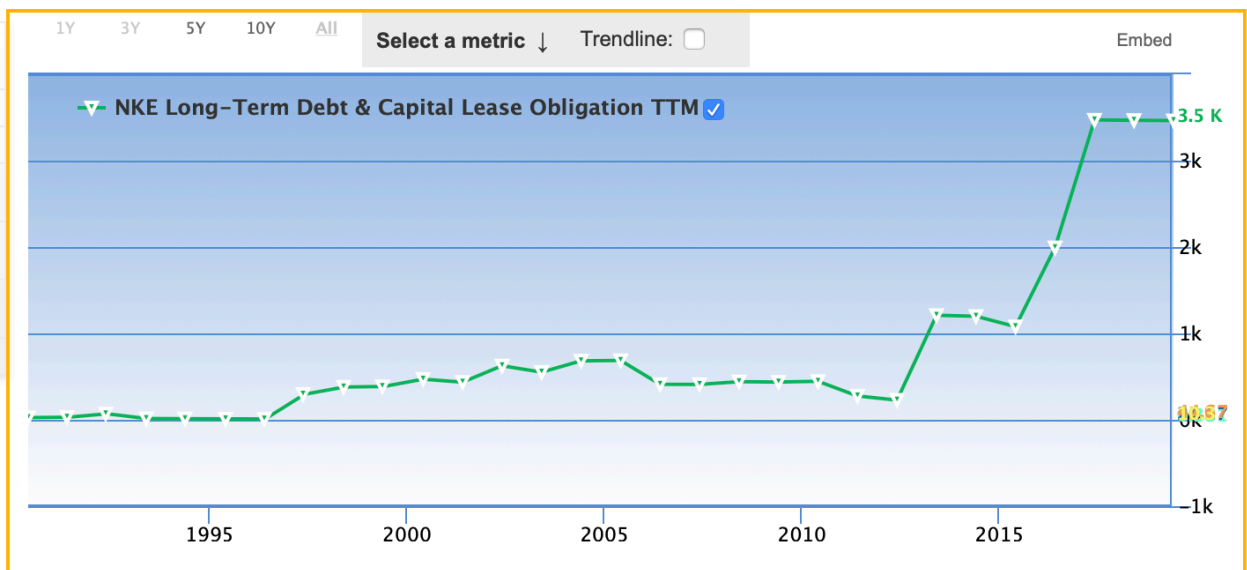


**a. Debt-to-Asset**

- i. 15% of assets is debt

**b. Long-Term Debt & Capital Lease Obligation**

- i. Increased since 2012 from 228 mil to 3.5 bil



**14. Do company executives own decent shares of stock of the company?**

- a. Insider ownership 1,15%
- b. Institutional ownership 42,75% - bad

? **15. How are the executives paid compared with other similarly sized companies?**

- a. Mark Parker is paid around the same as most CEOs of large companies.  
Source

16. Are insiders buying?

a. No, insiders are selling but not selling out. Selling as stock becomes overpriced. Need to confirm if they will buy when it becomes cheaper

17. Is the stock valuation reasonable as measured by intrinsic value, or P/E ratio?

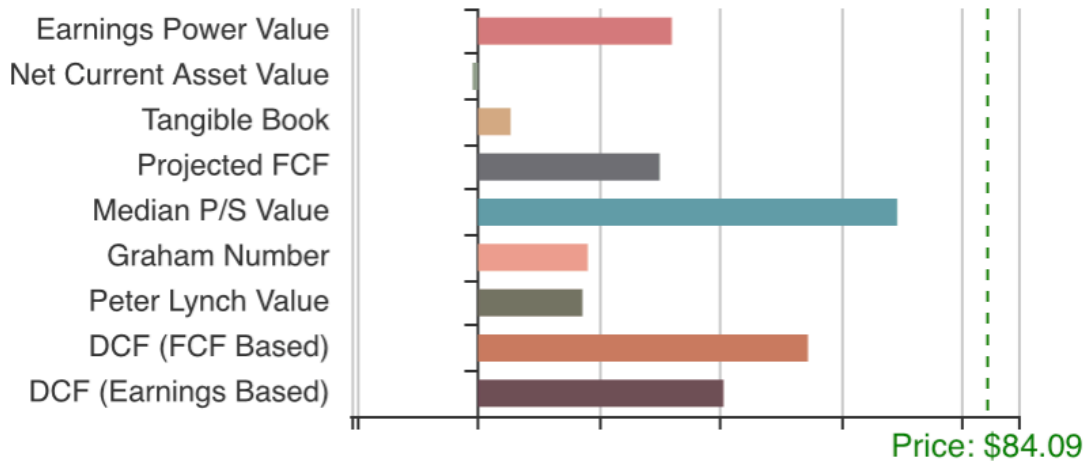
a. Current stock price around \$84 - Overpriced

b. Fair value with MARR 15%-22% is:

i. \$20-\$31 at 10% growth rate

ii. \$18-\$22 at 8% GR

iii. \$16-\$24 at 6%



18. How is the current valuation relative to historical range?

a. Overpriced

b. Historical PE graph below



19. How did the company's stock price fare during the previous recessions?

a. 2008 crisis lost about 43%

20. How much confidence do I have in my research?

a. 4/5