

# NIKE Inc - Financial and Strategic Analysis Review

Publication Date: Jan-2024

Reference Code: GDRT31756FSA

## Company Snapshot

### Key Information

NIKE Inc, Key Information	
Web Address	about.nike.com
Financial year-end	May
Number of Employees	83,700
NYSE	NKE
Source : GlobalData	

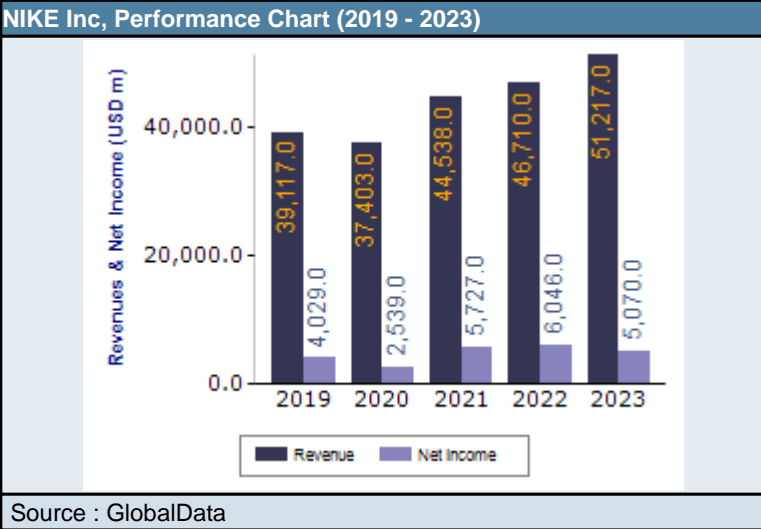
### Key Ratios

NIKE Inc, Key Ratios	
P/E	34.79
EV/EBITDA	24.74
Return on Equity (%)	36.20
Debt/Equity	0.64
Operating profit margin (%)	11.55
Dividend Yield	1.22
Note: Above ratios are based on share price as of 03-Jan-2024	
Source : GlobalData	

### Share Data

NIKE Inc, Share Data	
Price (USD) as on 03-Jan-2024	119.64
EPS (USD)	3.23
Book value per share (USD)	9.14
Shares Outstanding (in million)	1,569.80
Source : GlobalData	

### Performance Chart



## Company Overview

NIKE Inc (NIKE) sells, promotes, and designs athletic footwear, clothes, equipment, and accessories for men, women, and children. It also markets and distributes various products for kids and other recreational and athletic activities such as football, skateboarding, tennis, volleyball, wrestling, baseball, cricket, lacrosse, walking, and outdoor activities, and various apparels with licensed college and professional team and league logos.

## SWOT Analysis

NIKE Inc, SWOT Analysis	
Strengths	Weaknesses
Broad Operational Network	Decline In Financial Performance
Focus on Research and Development Activities	
Improved Operational Excellence	
Opportunities	Threats
Increasing Demand for Global Footwear Market	Increase in Labour costs in US
Strategic Partnerships	Competitive Pressures
Positive Outlook for Online Retail Market	Seasonality Changes
Source : GlobalData	

## Financial Performance

The company reported revenues of (US Dollars) US\$51,217 million for the fiscal year ended May 2023 (FY2023), an increase of 9.6% over FY2022. In FY2023, the company's operating margin was 11.5%, compared to an operating margin of 14.3% in FY2022. In FY2023, the company recorded a net margin of 9.9%, compared to a net margin of 12.9% in FY2022.

The company reported revenues of US\$12,939 million for the first quarter ended August 2023, an increase of 0.9% over the previous quarter.

## Key Information

NIKE Inc, Key Information			
Corporate Address	One Bowerman Drive, Beaverton, OR, 97005, United States	Ticker Symbol, Stock Exchange	NKE [New York Stock Exchange]
Telephone	+1 503 6716453	No. of Employees	83,700
Fax		Fiscal Year End	May
URL	about.nike.com	Revenue (in USD Million)	51,217.0
Industry	Consumer Goods, Retail, Wholesale & Foodservice		
Locations	Argentina, Australia, Austria, Belgium, Bermuda, Brazil, Bulgaria, Canada, Chile, China, Croatia, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Indonesia, Ireland, Israel, Italy, Japan, Lebanon, Luxembourg, Macau, Malaysia, Mexico, Netherlands, New Zealand, Norway, Panama, Philippines, Poland, Portugal, Romania, Russia, Saudi Arabia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, Sri Lanka, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, Uruguay, Vietnam		
Source : GlobalData			

## Company Overview

NIKE Inc (NIKE) sells, promotes, and designs athletic footwear, clothes, equipment, and accessories for men, women, and children. It also markets and distributes various products for kids and other recreational and athletic activities such as football, skateboarding, tennis, volleyball, wrestling, baseball, cricket, lacrosse, walking, and outdoor activities, and various apparels with licensed college and professional team and league logos. The company sells eyewear, clocks, digital devices, backpacks, socks, sport balls, bats, gloves, protective equipment and other equipment made for sporting activities; and offer modest quantities of diverse plastic products to other manufacturers. Nike sells these products through the company-owned retail stores, licensees, and sales representatives located worldwide. It also merchandises these products through its e-commerce portals, independent distributors, e-commerce portal nike.com. It has presence in the Americas, Africa, Asia-Pacific, the Middle East, and Europe. Nike is headquartered in Beaverton, Oregon, the US.

## NIKE Inc - SWOT Analysis

### SWOT Analysis - Overview

NIKE Inc (NIKE) sells, distributes, designs, and retails athletic footwear, equipment, clothing and accessories. Store network, inventory turnover ratio, broad operational network, and focus on R&D activities are the company's major strengths, whereas decline in financial performance remain the causes for concern. The global sports equipment industry, strategic partnerships, global footwear market, and global online retail market are likely to offer growth opportunities to the company. However, seasonality changes, competitive pressures, and labour costs in US could affect its business operations.

### NIKE Inc - Strengths

#### Strength - Broad Operational Network

Nike markets its products through physical stores, online platforms, and mobile applications. The company has a diversified store network that expands customer reach and enhances market position. As of May 2023, the company operated 369 retail stores in the US and 663 stores outside the US. It sells its Jordan, NIKE, and Converse brand products through a mix of footwear stores, athletic specialty stores, tennis and golf shops, skate, sporting goods stores, department stores, and other retail outlets, and digital platforms in the US, while distributes NIKE and Converse brand products through company-own NIKE Direct operations, digital platforms and a mix of independent distributors, sales representatives and licensees internationally. As of May 2023, it operated 560 non-US NIKE Brand factory stores; 213 US NIKE Brand factory stores, 74 US NIKE Brand in-line stores including employee-only stores, 49 non-US NIKE Brand in-line stores such as employee-only stores; 82 US Converse stores and 54 non-US Converse stores. It also had Converse and NIKE owned digital commerce platforms in 40 countries outside the US.

#### Strength - Focus on Research and Development Activities

Nike R&D focuses on the development of new and innovative products and improvement of existing product lines. Its advanced technological innovations and designing and manufacturing capabilities improve the durability and performance of the product, reduce waste, eliminate injuries and offer comfort for its users. Its R&D team comprises experts from various fields such as biomechanics, exercise physiology, chemistry, industrial design, engineering, and sustainability. The company is well supported from its robust R&D facilities. Innovation-based strategies enable the company to stay abreast of changes in the industry and provide it the 'first mover' advantage by launching products ahead of competition and delivering advanced products and services to its customers. They collaborate with research committees and advisory boards consisting of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists, and other specialists. These collaborations help review designs, concepts, and safety standards related to the company's products. Some of its innovative technologies include Nike Air, Flywire, Dri-Fit, Flyknit, Zoom, Free, Flyweave, ZoomX, and FlyEase under its running, basketball, football, men's training, women's training and sportswear categories. As of May 2023, the company registered its trademarks in approximately 190 jurisdictions across the world.

#### Strength - Improved Operational Excellence

The company's supply chain activities, as well as its future growth and expansion plans, benefit from a strong operational network. This assists the organisation in ensuring a consistent supply of inputs and managing supply risks, price changes, and complexities. As of May 2023, its contract manufacturers operated 123 finished footwear factories in 11 countries. NIKE Brand footwear finished goods are produced by 15 contract manufacturers. Its footwear products were manufactured outside the US by independent contract manufacturers. In FY2023, its four footwear contract manufacturers accounted for approximately 58% of Nike brand's footwear production, while each contractor accounted for more than 10% of production. Its contract manufacturers operated 291 finished goods apparel factories in 31 countries. In FY2023, its Footwear contract factories in Vietnam, Indonesia, and China produced approximately 50%, 27% and 18% of Nike brand footwear products, respectively. The company also had manufacturing contracts with independent manufacturers outside the US to manufacture and sell its footwear in their countries. During FY2023, the company's apparel contract factories in Vietnam, China and Cambodia manufactured 29%, 18% and 16% of its total apparel production, respectively. Its top five contract manufacturers accounted for 52% of NIKE brand's apparel production. Nike distributes its products through eight distribution centers in the US and 67 centers outside the US.

### NIKE Inc - Weaknesses

#### Weakness - Decline In Financial Performance

Decrease in financial performance could affect NIKE's ability to pursue growth and expansion plans. The company reported operating income of US\$5,915 million in FY2023, which fell 11.4% from US\$6,675 million in FY2022. The decline was due to the impact of foreign currency exchange transactions and increase in restructuring charges. In FY2023, the company also reported a decline in the operating margin, which decreased to 11.5% from 14.3% in FY2022. Similarly, NIKE reported net income of US\$5,070 million in FY2023, compared to US\$6,046 million in FY2022, which shows a decline of 16.1%.

**NIKE Inc - Opportunities****Opportunity - Increasing Demand for Global Footwear Market**

According to the in-house research report, the global footwear market is expected to reach approximately US\$321,698.5 million by 2025, with a CAGR of 2.9%. The company stands to benefit from growth in the global footwear market. Geographically, Asia-Pacific accounted for 32.2% of the global footwear market sales, followed by Europe with 28.9%, the US with 28.4%, Middle East with 1.6% and Rest of the World with 8.9%. Category wise, Women's footwear is the largest segment of the global footwear market, accounting for 52.2% of the market's total value, while the Men's footwear segment accounts for a further 29.3% of the market followed by Children's footwear segment for 18.5%. The growth will be primarily driven by growing world population, expanding base of middle-class consumers, rising standards of living, increasing household income and per capita spend. The company through NIKE brand offers products in many key categories, including running, NIKE Basketball, Jordan Brand, Football (Soccer), Training and Sportswear (sports-inspired lifestyle products). In February 2023, the company launched Tatum 1 shoe under Jordan brand. The lightweight, reinforced TPU frame shoe is launched for the next generation of player to improve their interest in game. In January 2023, the company launched 23/7, a shoe designed for kid's experience under the Jordan brand. The lightweight and durable shoe makes kids feel independent to play their activities.

**Opportunity - Strategic Partnerships**

In July 2023, the company and Vibram enter into new partnership to bring Vibram's outsoles to the Nike Trail footwear range. The will extend the number of trail runners by combining Nike's top-notch running shoes with Vibram's highly sought-after innovations. In June 2023, the company entered into a partnership with Epic Games to create Airphoria. This would help NIKE to strengthen its relationship with fans and increase access points throughout its digital ecosystem. In May 2023, the company entered into a partnership with FPS to launch hydrogen-powered container ship. In this partnership, Nike hopes to hasten the transition to zero-waste and zero-carbon-emission shipping. In January 2023, the company entered into a partnership with Netflix to launch a new physical health fitness program. Workouts for all fitness levels and interests would be offered on all of the most popular network plans throughout the world in many languages.

**Opportunity - Positive Outlook for Online Retail Market**

According to in-house research, the global online retail sector is expected to grow at a CAGR of 8.5% during 2020-2025 to reach a value of US\$2,796.4 billion in 2025. The Asia-Pacific accounted for 42.8% of the global online retail sector value, followed by the US for 31.2%, Europe for 21.7%, Middle East 0.7%, and Rest of the World for 3.7%. Growth is primarily driven by rise on the internet and smartphone penetration, unending innovations in payment systems, and consistent streamlining of logistic services, along with exclusive deals and discounts being offered by e-retailers. The company has Converse and NIKE owned digital commerce platforms in 40 countries. The company being an operator of physical and online retail stores stands to benefit from the growing global online retailing, which provides consumers the convenience of shopping from home. With increase in interactive methods and limitless content, the retail e-commerce is growing at a faster rate. Rising internet penetration, user-friendly interface of web portals, enhanced discounts and offers, changing consumer patterns and purchasing power are driving growth of the e-retail market.

**NIKE Inc - Threats****Threat - Increase in Labour costs in US**

The tight labour markets, government mandated increase in minimum wages and a higher proportion of full-time employees result in an increase in labour costs. Labour costs in the US have been increasing. Increase in minimum wages could increase the company's operating costs, which affects its profit margins. The federal minimum Labour costs are increasing significantly in the US. As of January 2023, the minimum wage rate in the US was US\$7.25 per hour. The minimum wage rate in 29 states and the District of Columbia is more than the federal rate. The hourly wages range from US\$15 in Massachusetts, US\$11 in Florida, US\$13 in Illinois, US\$10.10 in Michigan, US\$12 in Hawaii, US\$13.25 in Maryland, US\$14 in Connecticut and US\$15.5 in California. The minimum hourly wage in the District of Columbia reached US\$16.1.

**Threat - Competitive Pressures**

As one of the leading companies in apparel and footwear industries, Nike is subjected to tough competition across its markets. The factors that determine the level of competition within the industry include breadth of product offerings, quality, comfort, brand reputation and loyalty, customer service, price, store location, distribution network, and advertising and marketing capabilities. Its major competitors include adidas AG, Puma SE, Lululemon Athletica Inc, Clarus Corporation, Crocs Inc, Ralph Lauren Corp, Reebok International Ltd, Skechers USA Inc, Under Armour Inc and VF Corporation. Some of these competitors have higher operating histories, technical, marketing, distribution and support resources; greater brand recognition and higher financial capability. Such competitive scenario could impact the company's growth prospects.

**Threat - Seasonality Changes**

Seasonal variations may have an impact on the company's growth. To mitigate business risks, the corporation stocks or restocks popular products in sufficient amounts to meet client demand. The mix of product sales may vary significantly due

to strategic shifts in NIKE's business, seasonal or geographic demand, and the timing of major sporting events like the Olympics, NBA Finals, or the World Cup. Moreover, its customers may make changes to their orders, delivery schedules, or product mix with short notice, making it challenging to predict the quarterly sales accurately. As a result, the company's financial results are likely to fluctuate significantly from one period to another. Seasonal patterns, coupled with external factors beyond the control, such as economic conditions, consumer preferences, weather conditions, disease outbreaks, transportation disruptions, social or political unrest, import quotas availability, and currency exchange rate fluctuations, have previously and could potentially continue to impact its business adversely. Furthermore, NIKE's operating margins are influenced by various factors beyond its control, including manufacturing and transportation costs, shifts in product sales mix, and geographic sales trends, which are expected to persist. Consequently, the results of its operations in any given period may not accurately reflect the outcomes expected for future periods.

**NOTE:** The above strategic analysis is based on in-house research and reflects the publishers opinion only