



McIntire Investment Institute

At the University of Virginia

Long Pitch: Nike, Inc. (NYSE: NKE)



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April 20th, 2010

Presentation Overview



- Business Overview
- Stock Overview
- Thesis Points
- Competitive Advantage
- Operations
- Risks
- Value Added Research



Business Overview



- A major publicly traded sportswear and equipment supplier based in the United States.
- The company is headquartered near Beaverton, Oregon, which is part of the Portland metropolitan area.
- Operates 700 stores in 46 different countries
- According to a New England-based environmental organization Clean Air-Cool Planet, Nike ranks among the top 3 companies (out of 56) on a survey conducted about climate-friendly companies
 - Nike's Trash Talk Shoe & Nike's Reuse-A-Shoe program
 - Low environmental foot-print 2010 World Cup Kits

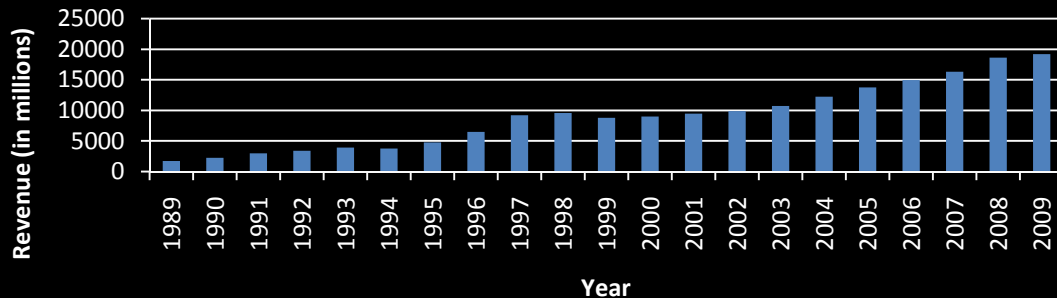


Business Overview

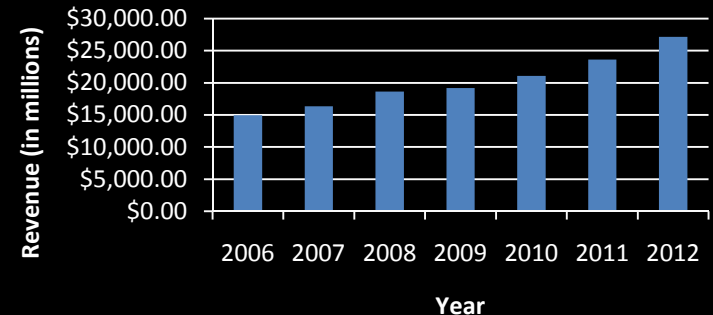


- Since its establishment in 1964 Nike has shown continuous substantial growth as a corporation both domestically and globally
- With sound financial practices and innovation strategies, it is likely that Nike will continue to grow between 10-15% annually.

Nike's Revenue



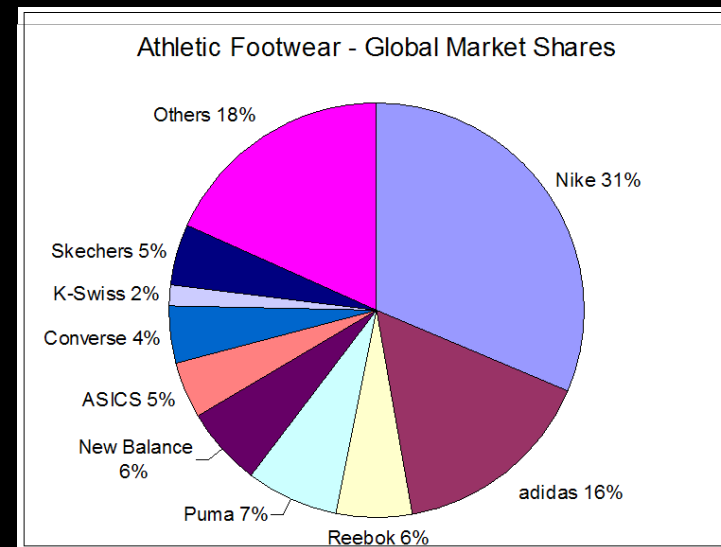
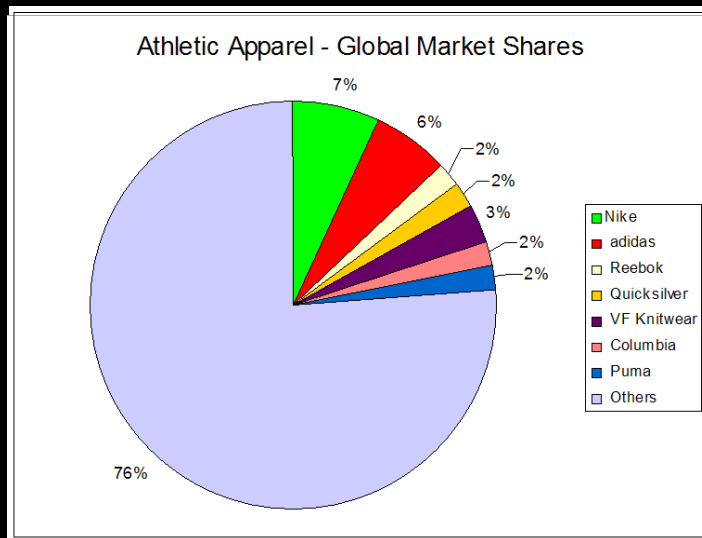
Projected Revenue Growth



Business Overview



- Leads the global sports wear industry, even after Adidas' recent acquisition of Reebok
- Increases Market share through M&A's such as Cole Haan and Hurley



Stock Overview



- Incredible track record
- Consistently outperforms the S&P 500
- Shows resilience even during periods of economic recession

NIKE INC -CL B(NKE)
20 YEAR PERFORMANCE RESULTS
Amount Invested: \$ 100,000 Shares: 19,877 **Closing Value: \$1,469,109.07**
 Split-adjusted Price(12/31/1990): 5.03 Closing Price(04/06/2010): 73.91

Dividend Cash Flow			
YEAR	Dividend/Share	Cash Dividend	% Return
1991	0.07	\$1,431.14	1.4%
1992	0.09	\$1,729.30	1.7%
1993	0.10	\$1,987.70	2.0%
1994	0.11	\$2,226.22	2.2%
1995	0.14	\$2,743.03	2.7%
1996	0.17	\$3,478.47	3.5%
1997	0.22	\$4,372.94	4.4%
1998	0.24	\$4,770.48	4.8%
1999	0.24	\$4,770.48	4.8%
2000	0.24	\$4,770.48	4.8%
2001	0.24	\$4,770.48	4.8%
2002	0.26	\$5,168.02	5.2%
2003	0.34	\$6,758.18	6.8%
2004	0.45	\$8,944.65	8.9%
2005	0.56	\$11,131.12	11.1%
2006	0.68	\$13,516.36	13.5%
2007	0.83	\$16,497.91	16.5%
2008	0.96	\$19,081.92	19.1%
2009	1.08 E	\$21,467.16	21.5%
2010	1.22 E	\$24,150.56	24.2%

Total Cash Dividends:	\$163,766.60	S&P 500
Closing Cash Value:	\$1,469,109.07	\$360,400.32
Closing Annualized ROR:	15.0%	6.9%
Total Value:	\$1,632,875.67	
Total Annualized ROR:	15.6%	

Performance History for NKE - Copyright © 2009, EDMP, Inc. - All Rights Reserved

NIKE INC -CL B(NKE)
5 YEAR PERFORMANCE RESULTS
Amount Invested: \$ 100,000 Shares: 2,471 **Closing Value: \$182,631.61**
 Split-adjusted Price(01/31/2006): 40.48 Closing Price(04/06/2010): 73.91

Dividend Cash Flow			
YEAR	Dividend/Share	Cash Dividend	% Return
2006	0.68	\$1,680.28	1.7%
2007	0.83	\$2,050.93	2.1%
2008	0.96	\$2,372.16	2.4%
2009	1.08 E	\$2,668.68	2.7%
2010	1.22 E	\$3,002.27	3.0%

Total Cash Dividends:	\$ 11,774.32	S&P 500
Closing Cash Value:	\$182,631.61	\$ 92,776.32
Closing Annualized ROR:	15.5%	-1.8%
Total Value:	\$194,405.93	
Total Annualized ROR:	17.2%	

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Stock Overview



Nike's 2 year stock returns compared to Adidas and S&P 500 shows recession recovery



Thesis Points



- **Strong historical growth and opportunities for future growth**
- **Healthy cash flows and operations**
- **Interests aligned with shareholders**
- **Ability to sell athletes on its products**
- **Highly innovative**



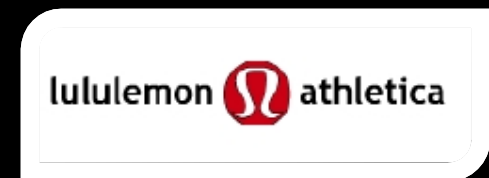
Growth Attitude and Opportunities



- “There is no finish line” –the internal ethos of Nike
 - “endless possibilities for human potential”
 - “sports are a universal language”
 - largest growth opportunities: action sports, basketball, football (soccer), men’s training, running, sportswear, and women’s training

- Possible acquisition of Lululemon Athletica (high quality Yoga wear)

- 2010 World Cup in Africa
 - currently has only 4 factories in South Africa



Healthy operations and Cashflows



- Current Ratio: 2.97
- Quick Ratio: 2.23
- Cash to Debt ratio: 1.19
- “Cash is King”—part of its growth strategy
- ROI: 22%
- ROA: 1.3



Interests aligned with shareholders



- “Over the past 10 years, Nike has returned \$5.5 billion to shareholders through stock repurchases and dividends.”
- “From FY05 to the end of FY09 we averaged 9% growth in revenue, 12% growth in EPS, and delivered a 60% increase in stock price while the S&P 500 averaged down 18%.”



Competitive Advantage



- Sponsors some of sports most renowned athletes:
 - Roger Federer, Pete Sampras & Rafa Nadal
 - Michael Jordan
 - Tiger Woods
 - Serena Williams & Maria Sherapova
 - Lance Armstrong
 - Ronaldo & Ronaldinho
 - Steve Prefontaine
 - New York Yankees & Boston Red Sox
 - 86 top athletic colleges

- Huge aspect of their competitive advantage and global emergence



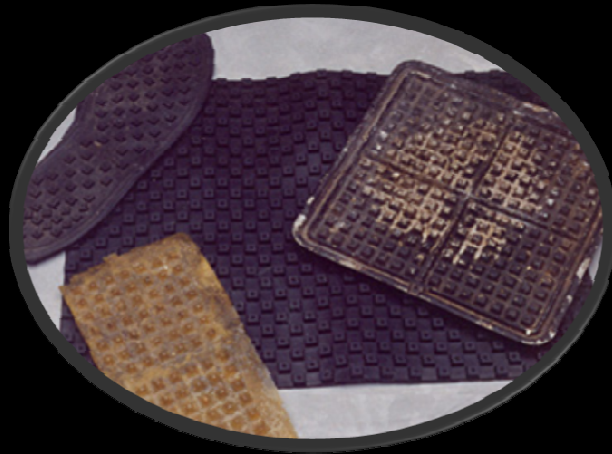
Competitive Advantage Cont.



- Has strategically diversified itself
 - Cole Haan, Hurley, NIKE Golf, Nike+, Jordan, Converse, Bauer, Umbro, Exeter
- Market leader in innovation and quality
- Globally recognized brand name, logo, and motto



Innovation at its finest



Risks



- If unable to anticipate consumer preferences and develop new products, it may not be able to maintain or increase net revenues and profits
- Relies on technical innovation and high quality products for competitive advantage
- Failing to obtain high quality endorsers
- Failure of contractors to abide by regulations
- Reductions in consumer confidence spending
- Dependent upon global distribution



Value Added Research



Herbert Heiner—CEO of Adidas

Jim Howard—Category Director at Reebok, Global Business Unit Manager at Adidas, Director Apparel Marketing Services at Nike, Global Apparel Manager at New Balance

Ellyn Moulton—Cashier at a Nike store (Leesburg Premium Outlets, VA)

Tennis on Campus—Received feedback from sponsored athletes



Technical Analysis Chart



Last Trade:	76.36	Day's Range:	75.90 - 76.58
Trade Time:	4:00PM ET	52wk Range:	48.76 - 76.58
Change:	0.78 (1.03%)	Volume:	2,396,130
Prev Close:	75.58	Avg Vol (3m):	2,551,760
Open:	76.02	Market Cap:	37.09B
Bid:	N/A	P/E (ttm):	21.77
Ask:	N/A	EPS (ttm):	3.51
1y Target Est:	79.77	Div & Yield:	1.08 (1.40%)



NIKE, INC.
CONSOLIDATED BALANCE SHEETS

	May 31,	
	2009	2008
	(In millions)	
ASSETS		
Current assets:		
Cash and equivalents	\$ 2,291.1	\$ 2,133.9
Short-term investments	1,164.0	642.2
Accounts receivable, net (Note 1)	2,883.9	2,795.3
Inventories (Notes 1 and 2)	2,357.0	2,438.4
Deferred income taxes (Note 9)	272.4	227.2
Prepaid expenses and other current assets	765.6	602.3
Total current assets	9,734.0	8,839.3
Property, plant and equipment, net (Note 3)	1,957.7	1,891.1
Identifiable intangible assets, net (Note 4)	467.4	743.1
Goodwill (Note 4)	193.5	448.8
Deferred income taxes and other assets (Notes 9 and 18)	897.0	520.4
Total assets	\$13,249.6	\$12,442.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of long-term debt (Note 8)	\$ 32.0	\$ 6.3
Notes payable (Note 7)	342.9	177.7
Accounts payable (Note 7)	1,031.9	1,287.6
Accrued liabilities (Notes 5 and 18)	1,783.9	1,761.9
Income taxes payable (Note 9)	86.3	88.0
Total current liabilities	3,277.0	3,321.5
Long-term debt (Note 8)	437.2	441.1
Deferred income taxes and other liabilities (Note 9)	842.0	854.5
Commitments and contingencies (Notes 15 and 18)	—	—
Redeemable Preferred Stock (Note 10)	0.3	0.3
Shareholders' equity:		
Common stock at stated value (Note 11):		
Class A convertible — 95.3 and 96.8 shares outstanding	0.1	0.1
Class B — 390.2 and 394.3 shares outstanding	2.7	2.7
Capital in excess of stated value	2,871.4	2,497.8
Accumulated other comprehensive income (Note 14)	367.5	251.4
Retained earnings	5,451.4	5,073.3
Total shareholders' equity	8,693.1	7,825.3
Total liabilities and shareholders' equity	\$13,249.6	\$12,442.7

NIKE, INC.
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended May 31,		
	2009	2008	2007
	(In millions, except per share data)		
Revenues	\$19,176.1	\$18,627.0	\$16,325.9
Cost of sales	10,571.7	10,239.6	9,165.4
Gross margin	8,604.4	8,387.4	7,160.5
Selling and administrative expense	6,149.6	5,953.7	5,028.7
Restructuring charges (Note 16)	195.0	—	—
Goodwill impairment (Note 4)	199.3	—	—
Intangible and other asset impairment (Note 4)	202.0	—	—
Interest income, net (Notes 1, 7 and 8)	(9.5)	(77.1)	(67.2)
Other (income) expense, net (Notes 17 and 18)	(88.5)	7.9	(0.9)
Income before income taxes	1,956.5	2,502.9	2,199.9
Income taxes (Note 9)	469.8	619.5	708.4
Net income	1,486.7	1,883.4	1,491.5
Basic earnings per common share (Note 12)	\$ 3.07	\$ 3.80	\$ 2.96
Diluted earnings per common share (Note 12)	\$ 3.03	\$ 3.74	\$ 2.93
Dividends declared per common share	\$ 0.98	\$ 0.875	\$ 0.71

NIKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended May 31,		
	2009	2008	2007
	(In millions)		
Cash provided by operations:			
Net income	\$ 1,486.7	\$ 1,883.4	\$ 1,491.5
Income charges (credits) not affecting cash:			
Depreciation	335.0	303.6	269.7
Deferred income taxes	(294.1)	(300.6)	34.1
Stock-based compensation (Note 11)	170.6	141.0	147.7
Impairment of goodwill, intangibles and other assets (Note 4)	401.3	—	—
Gain on divestitures (Note 17)	—	(60.6)	—
Amortization and other	48.3	17.9	0.5
Changes in certain working capital components and other assets and liabilities excluding the impact of acquisition and divestitures:			
Increase in accounts receivable	(238.0)	(118.3)	(39.6)
Decrease (increase) in inventories	32.2	(249.8)	(49.5)
Decrease (increase) in pre-paid expenses and other current assets	14.1	(11.2)	(60.8)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(220.0)	330.9	85.1
Cash provided by operations	<u>1,736.1</u>	<u>1,936.3</u>	<u>1,878.7</u>
Cash (used) provided by investing activities:			
Purchases of short-term investments	(2,908.7)	(1,865.6)	(2,133.8)
Maturities of short-term investments	2,390.0	2,246.0	2,516.2
Additions to property, plant and equipment	(455.7)	(449.2)	(313.5)
Disposals of property, plant and equipment	32.0	1.9	28.3
Increase in other assets, net of other liabilities	(47.0)	(21.8)	(4.3)
Settlement of net investment hedges	191.3	(76.0)	—
Acquisition of subsidiary, net of cash acquired (Note 4)	—	(571.1)	—
Proceeds from divestitures (Note 17)	—	246.0	—
Cash (used) provided by investing activities	<u>(798.1)</u>	<u>(489.8)</u>	<u>92.9</u>
Cash used by financing activities:			
Proceeds from issuance of long-term debt	—	—	41.8
Reductions in long-term debt, including current portion	(6.8)	(35.2)	(255.7)
Increase in notes payable	177.1	63.7	52.6
Proceeds from exercise of stock options and other stock issuances	186.6	343.3	322.9
Excess tax benefits from share-based payment arrangements	25.1	63.0	55.8
Repurchase of common stock	(649.2)	(1,248.0)	(985.2)
Dividends — common and preferred	(466.7)	(412.9)	(343.7)
Cash used by financing activities	<u>(733.9)</u>	<u>(1,226.1)</u>	<u>(1,111.5)</u>
Effect of exchange rate changes	(46.9)	56.8	42.4
Net increase in cash and equivalents	<u>157.2</u>	<u>277.2</u>	<u>902.5</u>
Cash and equivalents, beginning of year	2,133.9	1,856.7	954.2
Cash and equivalents, end of year	<u>\$ 2,291.1</u>	<u>\$ 2,133.9</u>	<u>\$ 1,856.7</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest, net of capitalized interest	\$ 46.7	\$ 44.1	\$ 60.0
Income taxes	765.2	717.5	601.1
Dividends declared and not paid	121.4	112.9	92.9