

# A Financial Valuation and Strategic Forecast on Nike, Inc.

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**Abstract.** The objective of this article is to evaluate Nike Inc.'s overall performance in the past three years and make predictions about its future prospects. Initially, this paper will analyze the three most significant accounting policies outlined in Nike's annual report for 2023. This analysis will assist us in determining the company's effectiveness in managing its assets, utilizing them, generating profits, and identifying long-term development trends. Furthermore, this paper will conduct a comparative assessment of various financial ratios with competitors within the Nike industry to gauge the company's performance in the previous year. This evaluation will provide valuable insights into Nike's financial position, operational achievements, and market standing. Finally, based on the comprehensive evaluation of Nike's overall performance in 2023, it will offer forecasts regarding its market value and future performance over the next two years. As a globally renowned sports goods brand known for its remarkable success thus far, Nike has strategically implemented a product portfolio strategy that has propelled it forward in terms of market advancements. The conclusion drawn from this article aims to enhance other sports goods brands' understanding of effective marketing strategies employed by Nike while fostering growth across the entire industry.

**Keywords:** Accounting Analysis, Performance Evaluation, Strategic Forecast.

## 1. Introduction

Nike, Inc. established in 1964 and headquartered in Portland, Oregon, is a globally renowned sports brand company [1]. Its portfolio encompasses the Nike, Jordan, and Converse brands united by a shared mission to create a lasting impact. As one of the largest manufacturers of athletic footwear and apparel worldwide, it primarily caters to athletes and fitness enthusiasts.

Nike is the dominant leader in the global sports brand industry, with a prominent presence in both the sports shoes and apparel market. The company boasts extensive worldwide brand recognition and exerts significant influence, making it the preferred choice for numerous athletes and sports enthusiasts. Nike expands its market share through partnerships with top athletes and organizations. Nike employs geographic, demographic, psychographic, and behavioral segmentation strategies.

Firstly, Nike segments its demographic based on age, gender, and financial status in order to offer a diverse range of products for men, women, and children aged 15-55. Special promotions are strategically implemented during special occasions to entice customers through cost reduction strategies. Secondly, Nike utilizes geographic segmentation by establishing physical stores across different regions worldwide and tailoring their products as well as promotional campaigns to align with the specific lifestyle habits, cultural nuances, and sports preferences prevalent in each country or region. Thirdly, Nike's psychographic segmentation focuses on offering a wide selection of products that cater to individual needs and align with personal interests. This stage of market segmentation allows Nike to delve into the unique preferences of every customer. Lastly, Nike employs behavioral segmentation techniques to provide personalized products while cultivating an athletic mindset among customers. By offering high-quality and innovative products that influence purchasing behavior positively.

Nike's global revenue in 2023 is broken down by product, with the apparel department creating about \$13.8 billion in revenue worldwide, and the footwear department with global sales of about \$33 billion [2]. On October 26, 2023 Nike hosted its first SNKRS Showcase, previewing upcoming 2024 shoe releases including nostalgic hits like Air Foamposite Ones and Valentine's Day Dunks [3]. Nike has released a preview of its 2024 releases, which includes rumored drops and early looks, excluding collaborations and Jordan drops. Nike is releasing classic CO.JP throwbacks, LD-1000

returns, and new City Packs are launching in 2024, including a "City of Love Pack" for Valentine's Day inspired by Paris. No mention of the anticipated Versace x Nike collaboration. Nike is bringing back its Clogposites and there may be a collaboration with Supreme in 2024, along with other retro releases like the Pegasus 2K5 and Air Terra Humara. The Nike Air Footscape Woven will also have multiple drops in the new year. Nike plans to release a colorful Air Max collection in 2022, including the revived Air Max 180 in an inverted "Ultramarine" colorway and the return of the Big Bubble Air Max 1 in "Royal" for the new year.

## 2. Accounting Analysis

To maintain the trust and confidence of its stakeholders, Nike provides reliable and accurate financial information that accurately reflects the company's financial health and performance. However, in three key areas - revenue recognition, demand creation expense, and fair value measurements - management must exercise a higher degree of judgement or make significant estimates. By sticking to these policies, Nike ensures the continued growth and success of the business, crucial for maintaining the trust of its shareholders, customers, and other stakeholders.

### 2.1. Revenue Recognition

According to Statista, Nike's global revenue reached approximately \$51.22 billion in 2023, reflecting a growth of around \$4.5 billion compared to the previous fiscal year. Established in January 1964, Nike has emerged as the foremost provider of athletic footwear and apparel worldwide, alongside being a prominent manufacturer of sports equipment. As of 2023, the company boasted a workforce exceeding 83 thousand employees globally [4]. The report from MarketScreener reveals a 10% increase in NIKE's revenues, while the currency-neutral basis indicates a more substantial growth of 16%, primarily fueled by robust expansion in both NIKE Direct and wholesale business segments. Notably, NIKE Direct experienced a remarkable surge of 14% in revenue generation, with digital sales witnessing an impressive growth rate of 24%, complemented by owned stores' solid performance at 14% [5]. Nike reported impressive financial results for the twelve months ending November 30, 2023, with a substantial revenue of \$51.54 billion and a year-over-year growth rate of 4.96%, attributed to innovative products, effective marketing strategies, and successful partnerships in the sports industry.

In the quarter ending November 30, 2023, Nike continued to exhibit resilience by achieving a revenue of \$13.39 billion with a modest year-over-year growth rate of 0.55%. Despite potential challenges faced during this period, including supply chain disruptions or changing consumer preferences due to external factors like economic conditions or emerging trends in fashion and sportswear industry; Nike managed to maintain steady growth. Looking back at the fiscal year ending May 31, 2023, Nike's annual revenue reached an impressive \$51.22 billion with remarkable growth of 9.65%. This exceptional performance reflects the brand's ability to adapt to evolving market dynamics while consistently delivering high-quality products that resonate with consumers globally. Nike's success is attributed to its commitment to innovation and sustainability, from responsible sourcing to sustainable manufacturing practices, making it a leading player in the athletic footwear and apparel industry.

### 2.2. Demand Creation Expense

Nike's demand creation expense in 2023 was \$4.1 billion, reflecting a 5 percent increase compared to the previous year. This growth can be primarily attributed to the company's investments in advertising and marketing, as well as sports marketing activities [6]. Nike's commitment to advertising and marketing has played a crucial role in driving consumer awareness and engagement with their products. By strategically promoting their brand through various channels such as television commercials, digital campaigns, and social media influencers, Nike has successfully captured the attention of target audiences worldwide.

Nike's sports marketing expenses and partnerships with professional athletes have significantly boosted demand for their products, enhancing brand visibility and credibility. Nike invests in advertising, marketing, and sports sponsorships to engage consumers and reinforce their brand image of innovation, quality craftsmanship, and empowering athletes worldwide. Overall, Nike's increased demand creation expenses reflect their unwavering dedication towards expanding market reach and solidifying customer loyalty through effective promotional strategies that resonate with consumers globally.

### 2.3. Operating Leases

The operating lease is treated as a rental agreement, whereby neither the leased asset nor the associated liability is included in the lessee's balance sheet. However, it should be noted that the rights conferred may closely resemble those of an owner. From an accounting perspective, only the lease payments are recognized as rental expenses in the income statement.

**Table 1.** Adjusted for Operating Leases Selected Financial Data (US\$ in millions)

	31 May, 2023	31 May, 2022	31 May, 2021	31 May, 2020	31 May, 2019	31 May, 2018
Revenues	51,217	46,710	44,538	37,403	39,117	36,397
Adjusted total assets	37,531	40,321	37,740	31,342	26,951	25,985

Table 1 reveals the Adjustments to Financial Statements for Operating Leases [7]. In terms of income, it is evident that adjusted income has exhibited a gradual increase over the past few years, rising from 36,397 five years ago to 51,217 last year, representing a growth rate of 9.6%. With regards to adjusted total assets, after several years of adjustments related to operating leases, there has been a progressive increase in adjusted total assets until 2022. However, in 2023 there will be a slight decline of 6.9% compared to the previous year.

## 3. Performance Evaluation

Based on some research and analysis results, different companies have different marketing methods [8]. For example, Nike has a larger mobile marketing budget and dominates the digital market, resulting in higher profits and brand value compared to Adidas and Puma. And this also makes their financial situation has a difference, Nike needs to do is to determine the threat of competitors to their own according to the change of financial situation.

### 3.1. Liquidity Performance

**Table 2.** Liquidity ratios of Nike and its competitors

Company Name	Current ratio	Quick ratio	Cash Ratio
Nike	2.72	1.81	0.80
Adidas	1.17	0.54	0.05
Puma	1.52	0.75	0.11
Under Armour	2.18	1.30	0.52

Based on Table 2, Asset liquidity is crucial for an enterprise's financial operations as it enables quick conversion of assets into cash, ensuring stability and meeting short-term obligations.

According to Table 2, Nike surpasses its three competitors in terms of current ratio, quick ratio, and cash ratio while maintaining a strong liquidity position. Furthermore, when examining the cash ratios of these companies, it can observe significant differences between them. Cash ratios reflect the proportion of cash and cash equivalents held by an organization relative to its total assets. In this regard, Under Armour lags behind significantly with a mere 0.54 cash ratio compared to Nike's superior performance. The disparity between Under Armour and Nike becomes even more apparent when considering their quick ratios as well as their respective liquidity positions. With an alarming

quick ratio of only 0.51 for Under Armour compared to Nike's strong performance across all metrics mentioned earlier, it is evident that Under Armour faces substantial challenges regarding liquidity management.

It is important to maintain adequate liquidity levels for any business to ensure smooth operations and timely payments to suppliers or creditors if needed. Therefore, considering Under Armour's low ratios compared to Nike's strong financial position among competitors, it can be inferred that Under Armour poses the greatest liquidity risk in this competitive landscape.

### 3.2. Solvency Performance

**Table 3.** Solvency ratios of Nike and its competitors

Company Name	Total Debt Ratio	Long-Term Debt Ratio	Times-interest-earned
Nike	62.7%	23.8%	43.50
Adidas	73.3%	15.2%	7.21
Puma	62.9%	22.2%	2.98
Under Armour	58.9%	30.9%	2.90

Based on Table 3, Solvency ratio measures a company's ability to meet short-term financial obligations, reflecting its stability and risk, based on factors like cash flow, assets, and liabilities.

In terms of solvency, competitors with comparable metrics to Nike in the three relevant data points - total debt ratio, long-term debt ratio, and times-interest-earned - show disparities. PUMA surpasses its rivals with a total debt ratio of 62.7%, while Nike trails by only 0.2%. This indicates that PUMA has higher indebtedness but still maintains a strong financial position. Moving on to the long-term debt ratio, Under Armour stands out at an impressive 30.9%, significantly outperforming Nike's modest 7.1%. This suggests that Under Armour relies more on long-term borrowing for financing compared to Nike. On the other hand, PUMA lags behind by only 1.8% in this aspect, indicating a similar reliance on long-term debts as Nike.

When it comes to times-interest-earned (TIE), which measures a company's ability to cover interest expenses with its earnings before interest and taxes (EBIT), it is evident that Nike boasts a numerical advantage of 43.5 over its three competitors – PUMA, Under Armour, and another unnamed competitor – surpassing them sixfold or even fifteen fold depending on their respective TIE ratios. Nike has a strong ability to comfortably meet its interest obligations, indicating efficient management of income and the ability to generate sufficient earnings multiple times over.

### 3.3. Profitability Performance

**Table 4.** Profitability ratios of Nike and its competitors

Company Name	Profit Margin	Operating Margin	Asset Turnover
Nike	8.0%	9.5%	0.32
Adidas	0.4%	2.2%	0.50
Puma	2.6%	5.4%	0.32
Under Armour	12.2%	2.5%	0.31

Based on Table 4, the profitability ratio is a crucial measure that reflects businesses' ability to generate profits through day-to-day operations, serving as the foundation for their survival and growth in today's competitive market. It holds immense significance among stakeholders, including investors, creditors, and enterprise managers who increasingly prioritize an organization's capability to generate sustainable profits.

After conducting a comprehensive analysis of the relevant profitability data, it becomes evident that Nike does not dominate in all three aspects: Profit Margin, Operating Margin, and Asset Turnover. In terms of profit margin, Under Armour undeniably surpasses Nike with an impressive 12.2%, yet Nike still maintains a significant lead over its two other competitors. When it comes to operating margin, Nike outperforms the remaining three competitors with an exceptional 9.5%. Regarding asset

turnover, Adidas emerges as the frontrunner with a remarkable figure of 0.5 while the values for the other three companies hover around 0.3.

### 3.4. Investment

**Table 5.** Investment ratios of Nike and its competitors

Company Name	ROE	ROA	Market-to-book ratio
Nike	7.4%	2.7%	11.37
Adidas	0.9%	0.2%	5.65
Puma	20.2%	7.6%	6.07
Under Armour	8.5%	3.5%	1.57

Based on Table 5, the investment ratio is a crucial measure that reflects an enterprise's financial performance, encompassing economic returns from investments and serving as an indicator for profitability and operational effectiveness. By analyzing this ratio, stakeholders can gain insights into how efficiently resources are utilized to generate profits. A higher investment ratio indicates successful capital allocation towards productive ventures, resulting in substantial returns on investment, while a lower ratio may suggest inefficiencies or poor decision-making in resource allocation.

In terms of investment ratios, Nike surpasses its competitors with exceptional market-to-book ratios. From the perspective of return on equity (ROE), PUMA company exhibits an impressive ratio of 20.2%, which significantly outshines the other three companies, making it nearly three times that of Nike's ROE data. Regarding return on assets, Nike's value stands at 2.7%, while both PUMA and Under Armour exceed Nike in this aspect, indicating potential for improvement. When it comes to market-to-book ratios, Nike showcases a remarkable lead over its competitors by operating at double or even seven times their pace with an astounding ratio of 11.37.

## 4. Strategic Forecast

### 4.1. Strategy

According to the report, Nike has the following predictions and plans in its future strategy [9].

**Spread spectrum program:** Nike opened an activity called "spread spectrum program", inviting innovators to explore the future. This shows that Nike will continue to be committed to innovation and exploring new areas, and continue to move forward on the road of experience strategy.

**Development planning:** Nike and Adidas released their development plans for the next five years on the same day. Although no specific details were provided, it can be predicted that Nike will continue to work hard to drive innovation, expand market share, and further enhance the brand influence.

**Digital business growth:** Despite the impact of the epidemic, Nike's digital business in Greater China still achieved low single-digit growth in the fourth quarter of the last fiscal year. This shows that Nike's investment and development in the digital field has achieved positive results.

**Innovative retail concept layout:** Nike is actively exploring innovative retail concepts, and in some cities in China have opened experience stores and digital stores. In addition, Nike also launched a "Connected member solution" in strategic partner stores to provide a better consumer experience. These initiatives demonstrate Nike's focus on innovation and enhanced membership services in the retail space.

In summary, Nike's future strategic forecast includes continuing to innovate and explore, driving digital growth, expanding market share, and focusing on innovative retail concepts and enhancing membership services. These initiatives help Nike to remain competitive and sustainable development in the highly competitive sporting goods market.

## 4.2. Risk Assessment

Combined with the analysis of some research report, it can find that Nike still has certain risks and challenges to deal with in its competitive environment [10]. Firstly, the global sale of counterfeit Nike products under the Nike label at reduced prices has the potential to adversely impact both the company's financial performance and reputation, as it may engender a perception among customers regarding a deterioration in product quality.

Furthermore, Nike encounters competition from both established and emerging brands within the athletic industry, resulting in escalated marketing expenditures. To maintain a competitive edge, Nike must prioritize the development of groundbreaking products tailored to athletes' needs. Finally, the existing trade tensions. Nike depends on different markets across the world evidenced by the recent increase in its stocks rallied by an increase in sales in China. With China and the US as its biggest markets, a large chunk of Nike's sales will be threatened if the trade tensions between the two giants escalate.

## 5. Conclusion

Summarizing the content of the full text, it can draw the following conclusions. It is evident that Nike has gradually recovered from the impact of the 2019 epidemic through its gradual easing in recent years. In 2023, Nike's financial income has witnessed a substantial surge, indicating a remarkable improvement compared to previous years. The increase in demand creation expenses reflects Nike's significant investment in product marketing and brand publicity, establishing a robust foundation for sales growth. Moreover, alterations in operating leases have also contributed to the enhanced financial outlook of Nike. Currently, Nike's market strategy direction is sound and the company effectively manages risk factors within its control while maintaining higher capital and debt repayment abilities than competitors within the same industry. However, further adjustments and enhancements are still required for profitability and investment-related data to meet top industry standards. Nevertheless, it is evident that although Nike cannot guarantee being at the forefront of all indicators within their industry, they remain one of the leading sports brand products with steady recovery through strategic adjustments following the epidemic.

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