A Financial Analysis and Valuation on Nike, Inc.

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Abstract. As there are a great number of companies in the market, evaluation of a specific company is vital of importance nowadays. Therefore, this report will give a comprehensive financial analysis of Nike from four aspects: liquidity performance, solvency performance, profitability performance and investment performance. Initially, this analysis will give a brief introduction about Nike's strategy, operations and some basic information. After that, liquidity performance indicates that Nike did a great job especially in the use of inventory and the discount capacity. Meanwhile, Nike also low financial risks and strong profitability compared with other four companies in the same industry in the solvency performance. Furthermore, Nike has an excellent cost control ability but still some improperly allocated of resources in some areas in the profitability performance. Not only this, Nike has the highest investment value among the four competitors in the same industry in the investment performance. As a whole, it could be seen from the financial analysis that Nike has quite strong competitiveness in this industry.

Keywords: Liquidity, Solvency, Profitability, Investment.

1. Introduction

Nike is a well-known sports brand from America. Among these plenty of sports brand, an intensely competitive market result in the tremendous pressure. However, to deal with this issue, Nike have created different strategy in different segmented market. As for Nike, there are four main market which are North America, Europe, Asian-pacific and Latin Amecia. As for the North America market, Nike's biggest market, it has shown a trend of increasing in market sales especially in the recent years due to the economic situation in developed countries has been better than that through COVID-19 in 2020. Not only this, as some newly-rising enterprises grow up recently, the demand has been weaker than before which indicated that Nike still faced with a severely threat in their market position in North America. The second biggest market is Europe. As an area consisted of a crowd of countries, it provides more currency options for Nike so that it could have more profitable space. Meanwhile, even though there a great number of brands in Europe, the brand influence makes it still take up a certain market share and broaden the overseas market for the company [1]. In the Asian-Pacific market, with the lower labor price in this market, plenty of factories have distributed here and producing product for the surrounding market. Although the economic development there is less than developed countries, the recent statistic has shown that it has a gradual expansion of the market on account of the biggest developing country's gradually development and growth [2]. In the smallest Latin America market, owing to its low GDP per capita, sales of product are much lower than other markets. However, through using some special pricing strategy like differential pricing, which means using different price in different markets, the sales demonstrate a rapid growth in this market. Furthermore, the statistic in the annual report has also indicate that the revenue performance shows a slightly increasing tendency by looking through the recent years. Nevertheless, with the continued economic impact after COVID-19, the total revenue still less than previous quarters for about one percent. These may be caused by the decrease of assets, liability and equity of Nike. Nowadays, all industries are meeting with bad times, especially for those sellers. As more newly-rising enterprises springing up, customers have a great many of choices in the aspect of purchase channel and brand. These could impact the offline store of Nike's sales and finally result in decreasing in total revenue. This report will focus on Nike's financial aspect and give a comprehensive analysis for this company. All information and data will be based on the annual report [3-5].

2. Liquidity Performance

Table 1. Liquidity ratios of Nike and its competitors

Company Name	Current ratio	Quick ratio	Cash ratio
Nike	272.3%	180.9%	80.4%
Adidas	117.1%	53.6%	5.3%
Puma	151.6%	75.1%	11.0%
Under Armour	218.1%	130.4%	52.5%

The liquidity performance is an aspect of evaluating a company whether it will have a risk of indebtedness or not, and it will be interpreted by these three indexes: current ratio, quick ratio and cash ratio, as shown in Table 1. Initially, current ratio is an index which measures whether if the current assets could completely cover the current liability in the company. From the above data, it is obviously that Nike's ratio is much higher than the other three companies. This indicates that Nike will not face with the financial problems and could affordable for the current liability easily. Nevertheless, Adidas's ratio is slightly higher than 1 which means it is likely that the company will face with financial problems in the future as current assets is almost the same as the current liability. Meanwhile, quick ratio is an index which based on the current ratio which ruling out influence of inventory in the company. It also apparent that Nike has the highest ratio among these four companies. This shows that Nike could still realize the current assets quickly without inventory and this also contributes to that Nike will not face financial problems in a short time. However, Adidas and Puma's ratios are less than 1 which demonstrate that if the inventory cannot be sold timely, they are likely to face with financial problems as they could not pay for the current liability. Furthermore, the cash ratio indicates that whether the company's current assets could cover the current liability without inventory and trade receivables. It shows that Nike has the highest ratio which means even though the company cannot sale the inventory or collect the receivables in time, it still has the capability to pay for the largest for the current liability with other current assets among these companies. Nevertheless, the data shows all the ratios are smaller than 1, that is because their primary business is selling so that most of their current assets are consist of inventory and receivables about products.

Not only these, from the annual report, it also demonstrates that inventory and receivables of 2023 are slightly less than compared with 2022, cash and cash equivalents of 2023 are higher than that in 2022. Though it could impact the current assets of Nike, the statistic has shown that both total current assets and total current liability are decreasing through one year. Meanwhile, current liability declines more in percentage than current assets which means Nike still works well except the influence of economic situation. Compared with other three competitors, Nike does much better especially in terms of resource using which makes it has a strong ability in realization of assets. Moreover, receivables and inventory almost take up more than a half of Nike's current assets due to Nike is a company whose main business is sales. This could also interpret Table 1 which indicates a decreasing tendency from current ratio to quick ratio and then cash ratio. However, it still shows that the decrease in the Nike is less than the other companies which demonstrates that Nike has strong competitiveness in the liquidity performance.

3. Solvency Performance

Table 2. Solvency ratios of Nike and its competitors

Company Name	Total Debt ratio	Long-term Debt ratio	Times-interest-earned ratio
Nike	62.7%	23.8%	4350.0%
Adidas	73.3%	15.2%	720.7%
Puma	62.9%	22.2%	297.9%
Under Armour	58.9%	30.9%	289.7%

The solvency performance is one of the aspects to evaluate whether the company has the capability to pay for its debts and it will be interpreted by the following three indexes: total debt ratio, long-term debt ratio, times-interest-earned ratio, as shown in Table 2. First of all, the total debt ratio shows the total debts as a percentage of total assets. It is obviously that four company has a little pressure to repay the debt as their ratios are less than 1. Meanwhile, this also indicate that all of them has a stable and sound financial structure which means their also less likely to meet with financial risks. Nevertheless, the data has also show that Under Armour did a great job especially in the control of company’s administration of funds due to it has the lowest total debt ratio. This ratio could also impact by the total assets of the company and some other investment activities so that the other two indexes also play an important role in the evaluation. The second ratio that need to be took into consideration is long-term debt ratio which is vital of importance especially for the creditors. This index is used mostly in the bankruptcy liquidation in order to measure an asset guarantee that can be used to pay off long-term liabilities. It is clear from data that Under Armour has the highest ratio which indicates that its creditor may have low security. Furthermore, Nike also has a high ratio but the liquidity shows that there is a remote probability of bankrupt, so that creditors have little impact in this ratio. Then, considered about time-interest-earned ratio, which measures how many times that profit before interest and tax could cover the interest expense. From the data above, it indicates that Nike has the highest ratio which means it has a strong capability to pay for its interest expense with its profit before interest and tax. Meanwhile, the four companies’ ratios are all above 1 which also means that none of them will meet with the debt as paying interest expense.

Not only this, these three indexes have demonstrated that Nike has a stable and complete financial structure which makes it has the ability to allocate the resources more reasonably. Furthermore, Nike also has a high profitability which makes it could have no trouble paying interest expense. However, from the annual report of Nike, it demonstrates that Nike repay some of its debts in 2023 which result in a decrease of liability and also a decrease in the interest expense so that the times-interest-earned ratio of Nike is much higher than the other three companies. Meanwhile, from the liquidity performance, it is likely that Nike will meet with bankrupt. This indicates that creditors’ assets are well protected even though the long-term ratio is quite high. Therefore, among the four companies Nike has a relatively high long-time debt ratio, there still a remote probability that creditors will face with risks. What’s more, as a large-scale sales company, Nike’s saleroom is quite huge and the allocation of every department in the company is clear. These might contribute to Nike’s excellent manifestation in the solvency performance.

4. Profitability Performance

Table 3. Profitability ratios of Nike and its competitors

Company Name	Net Profit Margin	Operating Margin	Assets Turnover
Nike	8.0%	9.5%	31.8%
Adidas	0.4%	2.2%	49.8%
Puma	2.6%	5.4%	32.1%
Under Armour	12.2%	2.5%	31.4%

The profitability performance is the most important aspect in evaluating a certain company. This performance is mainly focus on the profit which have deducted expense from trading activities and it will be interpreted by the following three indexes: net profit margin, operating margin and assets turnover, as shown in Table 3. Initially, net profit margin measures the net profit as a percentage of net sales. It is obviously from the data above that Under Armour has the highest ratio among these four companies which indicates that each unit of sales can bring the highest profit for the company. Meanwhile, it also shows that Under Armour has a high profit level. Furthermore, Nike has a relatively high ratio which means it still can obtain higher profit than the industry average level. However, Adidas shows the lowest ratio which might due to other relative expenses increase as the sales increase and then result in still low profit level as saleroom rises. Then the operating margin measures the profitability and operating efficiency of a company. The data above demonstrates that Nike has the highest ratio which means it has a high profit level and could operate more efficiently at the lowest cost. This could provide more profitable space for Nike. Nevertheless, Adidas still shows the lowest in the operating margin which indicates that it has a low profit level. Not only this, it indicates that Adidas has some problems in controlling the cost and some one-time expenses such as research and development expenses are higher than other companies. The last but also the essential index is assets turnover which shows the ratio of total turnover to total assets. Unlike the other two indexes, Adidas has the highest assets turnover ratio which demonstrates that the resources in the company are well-distributed and well-allocated. However, the data also shows that all the ratios are smaller than 0.5 while the assets turnover in the world usually is between 0.8 and 1.0, even in China usually is between 0.5 and 1.2. These reflect that their use of assets is inefficient which might due to overproduction, tight capital chain or resources are improperly allocated.

On the whole, compared with other three competitors, Nike did an excellent job in controlling the cost as producing products and also has relatively high production efficiency. Furthermore, compare the net profit margin with operating margin, all the companies show an increasing trend except Under Armour which means it has some difficulty in monitoring cost and some one-time expenses such as research and development expenses. Nevertheless, even though Nike has a slightly increase from net profit margin to operating margin, the smallest increasing demonstrates that it still needs to improve the management in monitoring cost [6]. Meanwhile, in the aspect of assets turnover, even the highest ratio of Adidas is much smaller than the average level in both Chinese and international market. These statistics reflect that even though these companies with large scale production still have some issues of insufficient utilization of resources or some limitations like tight capital chain. These indexes might also indicate some key point of Nike’s preponderance in the aspect of profitability performance compared to other companies.

5. Investment Performance

Table 4. Investment ratios of Nike and its competitors

Company Name	ROE (Return on Equity)	ROA (Return on Assets)	Market-to-book Ratio
Nike	7.4%	2.7%	0.118
Adidas	0.9%	0.2%	0.065
Puma	20.2%	7.6%	0.037
Under Armour	8.5%	3.5%	0.019

The investment performance is last but also the essential part especially for the investors. This performance measures the relationship between the results achieved in an investment activity and the investment occupied which could be interpreted by the following three indexes: return on equity, return on assets, market-to-book ratio, as shown in Table 4. Initially, the return on equity shows the profitability of the company’s net assets. From the data above, it is obviously that Puma has the highest ratio among the four companies which indicates that the assets that investors invested have been used in a proper way to create as much profit as they could. This also give ordinary shareholders more probability to obtain more dividends. However, it is likely that Nike has a relatively low ratio which means it has some problems in managing the net assets and result in low profitability. Not only this, the amounts of dividends that investors received will also be influenced [7]. Then, the return on assets shows the profitability of the company’s total assets. Table 4 demonstrates that Puma still has the highest ratio in the return on assets which means that it not only did great job in allocating net assets but also the total assets. Nevertheless, this index has not taken financial gearing into consideration so that the company might still has relatively low profit growth rate in the future. Comparatively speaking, even though Nike still has a quite low percentage in return on assets, this might also due to the ignorance of financial gearing. Last but also the important index is market-to-book ratio which measures market value as an evaluation of the book value of a company. The data indicates that Nike has the highest ratio which demonstrates that it has the highest investment value among these four companies. However, it also shows that both of them has a ratio lower than 1 which means that the evaluation on the company’s book value in the market below their market value.

Meanwhile, these might also contribute to the stock investment value of the company is low and the investors are unlikely to invest on these companies.

As a whole, even though Nike has a weak capacity in profitability and also the dividends paid to the ordinary shareholders, it still has the highest investment value in the same industry. Nevertheless, this influenced by the scale of the company and also the brand recognition among the same industry [8]. Meanwhile, compared with other three companies, it seems that Nike has more subsidiary brand in order to broad its market popularities. Furthermore, Nike also has some jointly-designed with some fashion brands and attract more young generations customers [9, 10]. However, as the major competitors to Nike, the data also demonstrate that Adidas has extreme-inferior low percentage in return on equity and return on assets. This might be impacted by unreasonably distribute on the resource and the amount invested. All of these factors could finally contribute to the high market-to-book value and high investment value of Nike. Nevertheless, this ratio indicates a good market expectation which might give the investors a sense of good market prospect of Nike, and finally result in overvalue of the company.

6. Conclusion

From the liquidity performance, solvency performance, profitability performance and investment performance, it seems that Nike has been interpreted in these four different aspects. Initially, due to Nike’s stable financial structure, it could easily manage its capital and resources reasonably. Meanwhile, this also give reasons why Nike could have high cashability and repay their debt in time which contribute to that Nike could pay more attention to the research and development department. Furthermore, in the case of low financial risks, Nike have protected their creditors properly and also has remote probability meeting with bankrupt. Nevertheless, even though Nike did a great job in controlling cost during the production among the four companies in the same industry, it still need to improve its efficiency in the usage of assets especially the use of the investments. Not only this, although the data of the recent year have demonstrated that Nike has a relatively low profitability in this industry, it still has the highest investment value among the four companies. This might be interpreted by the advertisement and the brand recognition of Nike. However, as Nike is going to expand the Asian-Pacific market, not only the sales revenue but also the customer group will be stronger. Meanwhile, as the promotion of some joint-designed with some fashion brands, the popularity of Nike is growing around the world. As a whole, Nike shows a relatively excellent performance in the financial analysis in the same industry among these four companies.

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