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**Financial performance analysis: a case study of Nike**

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by

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## Abstract

Sports industry is closely related to people's life. The paper studies financial performance analysis among the sports industry in a case study of Nike and puts forward improvement suggestions to increase cash flow, increase stock dividends, reduce debts. NKE stock price and annualized dividend in 2015 to 2019 are graphed in the introduction and dividend prediction is conducted by using dividend discount model with the historical average growth rate. The primary analysis is based on the fiscal years 2015 to 2019, which ended each year on May 31, including applying horizontal analysis, trend analysis on Nike. The deeper analysis conducts ratio analysis comparing with Nike's biggest market competitor Adidas.

The income statement of Nike in recent 5 years are selected and analyzed, of which the horizontal analysis is based on the last two years, while the trend analysis is based on the data of the last five years. The ratio analysis concentrates on ROE.

**Key words:** Nike, stock price and dividend, financial analysis, ROE

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## **Introduction**

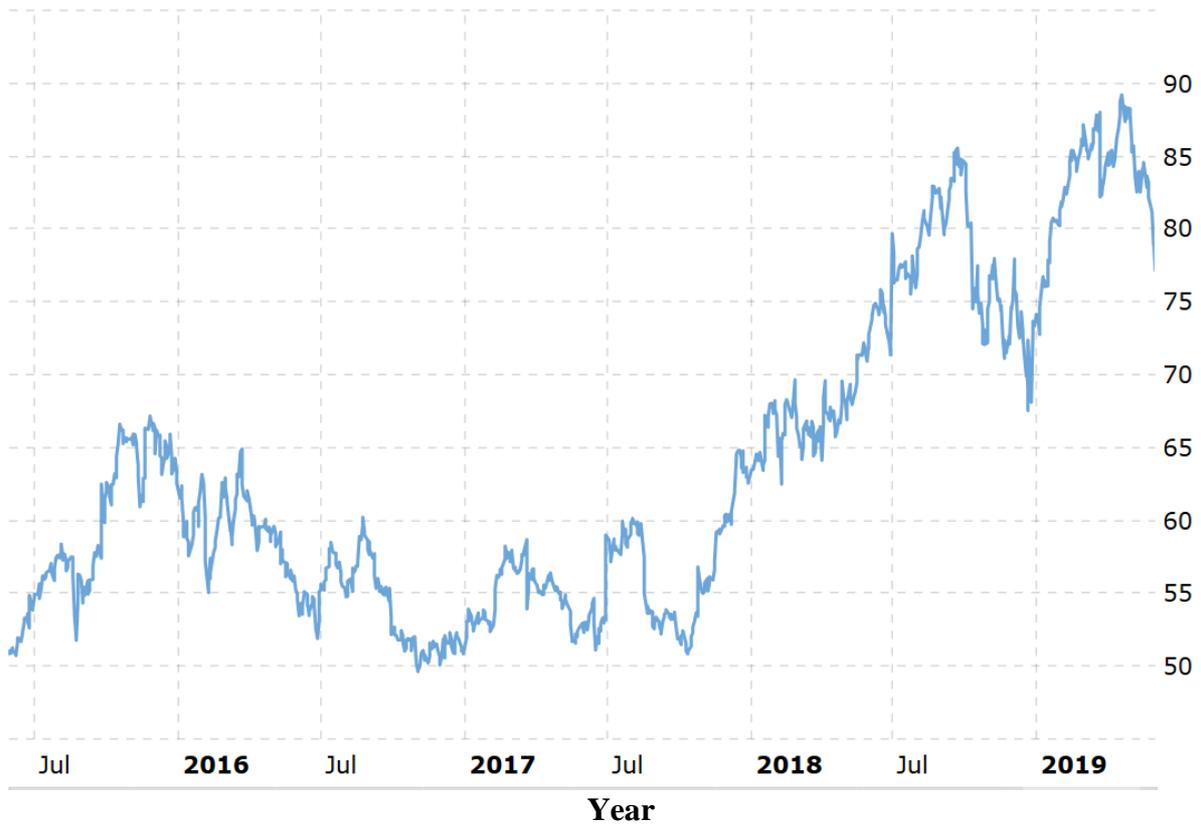
### **Background of Nike**

Nike is one of the most outstanding sports industries today. Nike is an American sports company specializing in the design and sale of sneakers, sports wearing, and sports-related products which are sold under its own brand, including Nike, Air Jordan, converse, etc. Fortune magazine ranks 340th on the list of the world’s top 500 in 2019. Operating income is \$36397 million. Nike's market rivals include adidas, New Balance, Puma, Under Armour and so on.

### **Stock Price Change**

We can see from the figure that from July 2015 to July 2017, the stock price of Nike hardly changed, and from the end of 2015 to July 2017, it expressed that the stock price almost showed a downward trend, which is worth noting and bring attention. Nike's stock price didn't rise until October 2017, the stock price keeps increase and then fell again until September 2018. It is worth mentioning that the overall trend of stock prices in 2019 is good and bring a good return.

**Figure 1.** The graph reports time series of semi-annual stock price, 2015-2019.



According to CNN's report, NKE is one of the worst performing Dow stock in 2016. After the company reported its revenue below than Wall Street's forecasts, its price continues to fall more than 3% in early trading. During 2016 and 2017, Nike's biggest problem is a continued falling sales in its local market. The data shows that sales in North America fell 3% from a year earlier, while sales in China rose 9% from a year earlier. But North America accounts for 40 percent of Nike's total sales. As a result, sales growth in China was not enough to offset the decline in the us (Monica, 2017).

## Dividend discount model

As a matter of fact, Nike company pays dividend quarterly. For every year, the first three dividend paid keeps the same as the last time of the last year and the dividend grows in the fourth time paid.

**Figure 2.** The table shows the historical quarterly dividend paid in 2017 and 2018

11/30/2018	\$0.22	Quarter	1.2%	+10%
8/31/2018	\$0.20	Quarter	1%	N/A
6/1/2018	\$0.20	Quarter	1.1%	N/A
3/2/2018	\$0.20	Quarter	1.2%	N/A
12/1/2017	\$0.20	Quarter	1.3%	+11.1%
8/31/2017	\$0.18	Quarter	1.4%	N/A
6/1/2017	\$0.18	Quarter	1.4%	N/A
3/2/2017	\$0.18	Quarter	1.2%	N/A

In this dividend discount model, annualized dividend will be used. The graph below is the statistics that will be used in dividend prediction conducted by using dividend discount model with the historical average growth rate.

**Figure 3.** The table shows annualized dividend history for Nike Inc. (NKE) from 2015 to 2019



Annualized Dividend in 2015, 2016, 2017, 2018, 2019 is \$0.64, \$0.72, \$0.80, \$0.88, \$0.98, respectively.

**Figure 4.** The table shows dividend history and calculating result

Historical Growth Rate				Grown at	
Year:	Dividend(\$)	Pct. Change	Year:	Dividend	11.21%
2020			2020	1.09	
2019	0.98	11.36%	2019	0.98	
2018	0.88	10.00%	2018	0.88	
2017	0.80	11.11%	2017	0.79	
2016	0.72	12.50%	2016	0.71	
2015	0.64		2015	0.64	
Geometric average:		11.21%			

By estimating historical average growth rates using geometric averages, the predicted annualized dividend in 2020 is \$1.09. Comparing the result of the calculation with the real dividend payout, the two values are almost identical, indicating that this is an effective method of estimation and prediction.

## **Literature Review**

### **Horizontal Analysis**

Horizontal analysis is used to compare the amount of change of financial statement items over a particular period (Gibson, 2010).

Horizontal analysis helps understand the impact of operating results on the company's financial position during the period under review. However, a common problem is that the summary of information in the financial statements may change over time due to continuous changes in the accounts (Fridson & Alvarez, 2011).

### **Trend Analysis**

Trend analysis is like horizontal analysis but also evaluates an organization's financial state over more than two period of time (Fridson & Alvarez, 2011).

### **Return on Equity**

ROE, as a measure of company performance, the company with higher ROE has significant higher return than other competitors(Dermol, 2012).

### **Customer Comparison**

Nike and adidas are two of the most outstanding and popular sports industries all over the world. One thing they have in common is that they are both liked by people who play sports. (Marketing Strategy for Adidas vs. Nike. , 2015)

Nike and adidas are the world's largest sellers of sports cloth and sneakers (Aaker & Joachimsthaler, 2000). Nike has the largest market share in sports industry while Adidas is the second largest after Nike, both are the competitors of each other. Nike is the market pioneer and market leader in the sports industry, with sales of more than \$22.2 billion in 2018, while adidas

shoes revenue was \$12.8 billion (Liam O'Connell, 2019). The two companies target different audiences around the world; Adidas's target customers are sports professionals, aged between 12 and 34. Adidas concentrates sports like tennis and soccer first, then considers other sports. Nike, meanwhile, targets customers between the ages of 18 and 35. Nike is more popular than Adidas because it has a lot of celebrity sponsorships, mainly targeting basketball players. The United States is the initial main market of both these two companies, but in the last decade, their target market has expanded to international markets. Besides, Adidas targets soccer and tennis players, who have a big market in Europe.

## **Research Design: Financial Performance Analysis**

In this study, financial performance analysis will be used. The analysis is based on three types of analysis methods which are horizontal analysis, trend analysis and ratio analysis. All data analysis is based on the items on the financial statement. A financial statement is a written record of a company's business activities and financial performance. Financial statements are usually audited by government agencies, accounting firms, etc., to ensure accuracy and are used for tax, financing, or investment purposes. Income statement is selected and analyzed in this case study.

All secondary data comes from the Internet.

The primary analysis includes applying horizontal analysis and trend analysis. Horizontal analysis is used to compare the amount of change of financial statement items over a particular period. Horizontal analysis concentrates on the changes rate and generates bar charts with changes rate curve on different items of income statement. Trend analysis is like horizontal analysis but also evaluates an organization's financial state over more than two period of time. More historical statistics will be used to find the trend. Trend analysis is helpful for forecasting.

The deeper analysis conducts ratio analysis comparing with Nike's biggest market competitor Adidas. Ratio usually becomes key indicators of financial performance of a company and ratio analysis will help to understand the performance of a particular company in its industry over time. By drawing the ROE change curve to measure the return of stock investors.

The impact of news in 2019 on Nike's stock price is record at the end of findings.

## Findings: Financial Performance of Nike

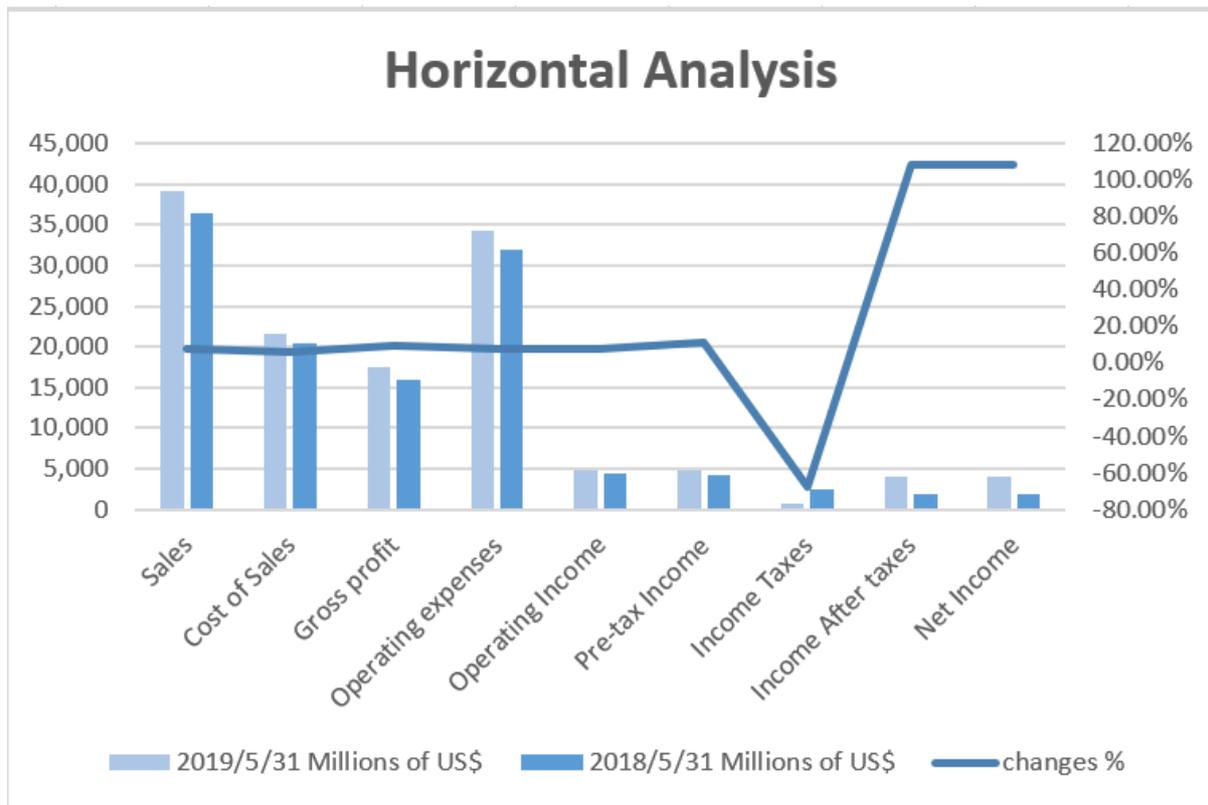
### Horizontal Analysis

The horizontal analysis is useful to see the impact of operational results on a company's financial condition over the review period.

**Figure 5.** The table below conducts horizontal analysis

Items	2019/5/31	2018/5/31	changes
	Millions of US\$	Millions of US\$	%
Sales	39,117	36,397	7.47%
Cost of Sales	21,643	20,441	5.88%
Gross profit	17,474	15,956	9.51%
Operating expenses	34,345	31,952	7.49%
Operating Income	4,772	4,445	7.36%
Pre-tax Income	4,801	4,325	11.01%
Income Taxes	772	2,392	-67.73%
Income After taxes	4,029	1,933	108.43%
Net Income	4,029	1,933	108.43%
EPS	\$2.48	\$1.17	111.97%

**Figure 6.** Horizontal Analysis results presets in graph

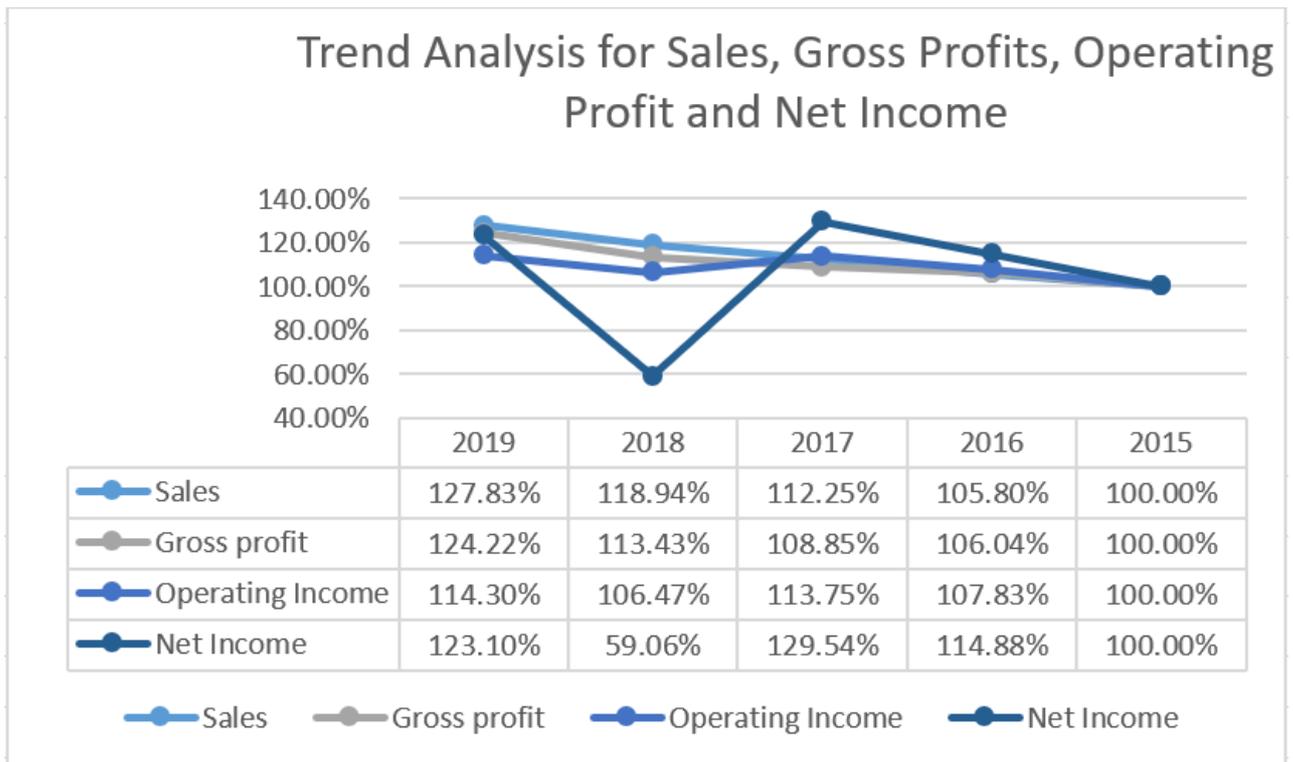


Horizontal analysis has been done for income statement in fiscal year 2018 and 2019 above. According to the data and charts, from 2018 to 2019, Nike's sales increased, EBIT increased, and income tax greatly decreased, so as to achieve a relatively large increase in net income. Moreover, EPS increased from \$1.17 in 2018 to \$2.48 in 2019, that is an increase of 111.97%, indicating that Nike's financial performance improved greatly from 2018 to 2019. This change corresponds to the rise in stock prices in the introduction part.

### Trend Analysis

Trend analysis is similar to horizontal analysis, but evaluates an organization's financial information more over two period of time, statistics in recent five years from 2015 to 2019 are selected and compared to show the trend.

**Figure 7. Trend Analysis**



This trend of income statement illustrates the analysis on the different period of net sales, gross profit, operating profit and net income assuming performance in 2015 as base. Comparing with sales, gross profit and operating income, net income has a significant change in 2018 and 2019. The other three items grew by about 4% a year. The 4% level is not a big increase, which only means that Nike's sales and market share are not going downwards. From 2017 to 2018, the stock price of Nike increased greatly, but net income decreased. It can be known from horizontal analysis that the income tax in 2018 was relatively high.

**Key Ratio Analysis**

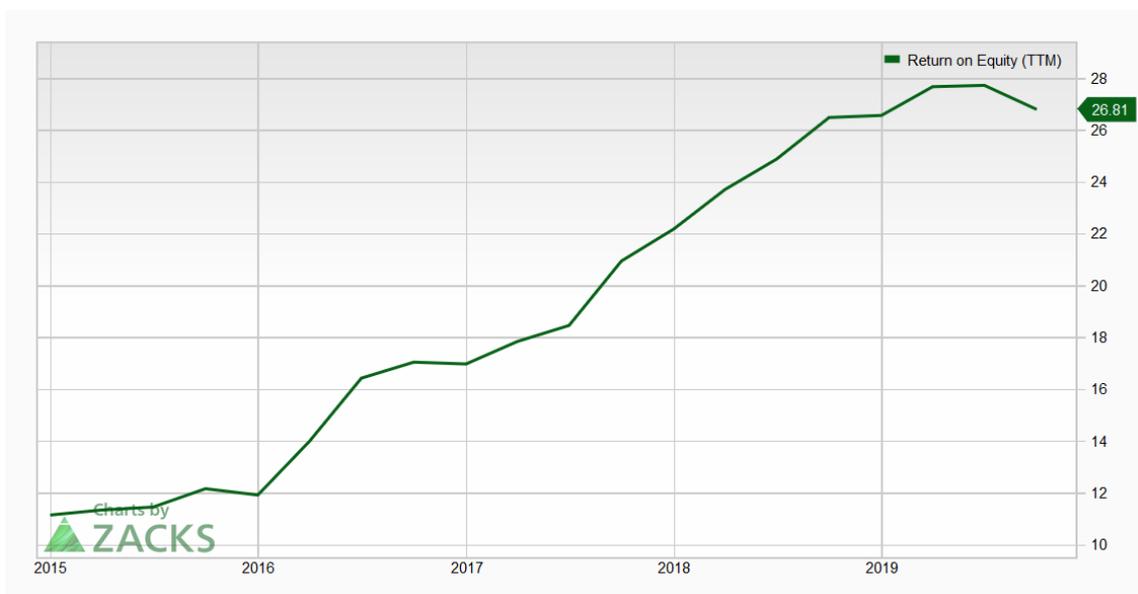
Return on shareholders' equity, or ROE, is a measure of the return on stock investors. It also evaluates the performance of corporate management, as reflected in profitability, asset management and financial control.

Annual Data	2015-05-31	2016-05-31	2017-05-31	2018-05-31	2019-05-31
ROE	25.76	30.67	34.17	19.7	44.57

**Figure 8. This figure indicates the continuous changing ROE of Nike in recent five years**



**Figure 9. This figure indicates the continuous changing ROE of Adidas in recent five years**



$$\text{Return on Equity} = \text{Net Income} / \text{Equity}$$

Net income is the profit generated by the company during the fiscal year, while shareholders' equity represents the total investment of investors in the company. In the balance sheet, shareholders' equity is the shareholder's ownership of the value of the company's assets after the deduction of all liabilities, or directly equivalent to the net assets (NAV). Generally speaking, the higher the ROE, the better corporate it is. ROE above 15% is ideal, while above 20% is excellent.

Companies that have a continuing competitive advantage, and whose competitors are difficult to compete with, usually have a common specialty, which is a high ROE. A successful stock investment depends on the ability of a company's business to consistently generate growing

revenue, because the company profits will increase with time, the company's stock price will also increase due to reflect the intrinsic value of the company and continue to rise, in one word, ROE is a good indicator to choose a stock.

Nike's ROE increased steadily from 2015 to 2017 and was at a high level in the industry. From this point of view, NKE is a good stock. However, in fact, the stock price fluctuated and did not increase from 2015 to 2017. In 2019, Nike's ROE was as high as 44.57, which is consistent with its volatile and growing stock price. The analysis concludes that in 2019 and 2020, Nike will be a good stock, will bring high return.

### **Nike Stock Drop**

In Feb, 2019, there is a much-anticipated college basketball competed between Duke and North Carolina University. The game was being broadcast on the Internet the nationally televised game at the time, but surprisingly it had a huge impact on Nike. (GIBSON, 2019) Less than a minute into the game, Zion Williamson, a duke freshman and rising star in the sports world, was forced off the court with a sprained knee after his Nike sneakers broke and even President Barack Obama pointed out from his seat, "his sneakers are broken."

Later on, Nike states that the quality and performance of their products are the most important. Although the long-term influence for Nike need to be seen, but in the short term, many investors reacted by shorting Nike stock. The stock price drops 1.7 percent on Thursday and closed with dropping down 1.1% at \$83.95, losing roughly \$1.1 billion from the sporting clothing company's market capitalization since Wednesday's close.

**Figure 10.** The stock price of NIKE in the 5 days around February 20, 2019

Date	Open	High	Low	Close*	Adj Close**
Feb 22, 2019	84.20	85.02	84.03	84.76	83.87
Feb 21, 2019	83.57	84.15	83.35	83.95	83.07
Feb 20, 2019	84.63	84.95	84.35	84.84	83.95
Feb 19, 2019	84.58	85.05	84.46	84.57	83.68
Feb 15, 2019	85.49	85.78	85.10	85.38	84.49

The above is the stock price of NIKE in the 5 days around February 20, 2019. The data shows that the open price is higher than the Adj close price of the day before except Feb 21, 2019.

Therefore, the impact of negative news on stock price can't be underestimated.

## Conclusion

### Summary

Though the case study of Nike, this paper firstly introduces the stock price change of Nike from 2015 to 2019. Besides, the historical growth rate was used to predict the annualized dividend in 2020 with giving the stable growth dividend. After that, this paper conducted Nike's financial performance analysis, conducted a horizontal Analysis for two years and a trend Analysis for five years based on the information from the income statement, and discussed the analysis results with the changes in stock price. At last, key ratio analysis which is ROE comparison was carried out, and it was concluded that Nike maintained a high ROE in the industry which stated that Nike was a company with strong competitiveness in the sports industry. The financial performance from 2018 to 2019 was very outstanding. According to the historical stock price line diagram, steady growing annual dividend, and relatively high ROE, investing on NKE will lead to a pretty good total return.

## **Limitation**

The stock price statistics and income statement used in this study are all from the Internet. Both horizontal and trend analysis are based on historical data. Therefore, investment forecasting can only be adopted without unexpected circumstances. There are many factors that affect the stock price, such as Nike has negative news in 2020, the replacement of the CEO, the emerging of new market strategies, the change of interest rates, etc. The conclusions and forecasting obtained by this study are only for reference, and they can't fully meet Nike's 2020 financial performance.

## **Further Research**

This study focuses on the analysis of whether Nike's financial performance has the same performance as the change in its stock price from 2015 to 2019. In fact, it may be possible to find more data to do correlational research. Secondary data is sufficient online, so further research can be done.

The dividend in 2020 can be used to compare with the predicted dividend getting from calculation by dividend model to test if Nike's next year dividend yield is steady.

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