

# *Financial Analysis and Forecast of Nike, Inc.*

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**Abstract:** This article aims to analyze the overall performance of Nike Inc. over the past three years and make predictions about its future. Firstly, the paper will discuss the three most significant accounting policies in Nike's 2022 annual report. This will help determine the company's asset management and utilization, profitability, and long-term development trends. Furthermore, the article will evaluate the company's performance in the previous year by comparing various financial ratios with its competitors in the Nike industry. This assessment will enable an evaluation of the company's financial position, and operational achievements, and showcase Nike's position within the industry. Lastly, based on Nike's overall performance in 2022, the paper will provide forecasts for the next two years regarding Nike's market value and performance. As a leading brand in the world of sports goods, Nike has proven through practice to be one of the most successful companies to date. It has adopted a strategically significant product portfolio strategy, resulting in significant market advancements. The conclusion of this article will contribute to other sports goods brands learning from Nike's relevant marketing strategies, thereby driving the overall development of the industry.

**Keywords:** accounting analysis, performance evaluation, strategic forecast

## 1. Introduction

Nike Inc. is a global sports apparel and footwear company headquartered in Beaverton, Oregon. Established in 1964 as Blue Ribbon Sports, the company officially became Nike Inc. in 1971. Nike operates in the consumer discretionary sector and competes in the highly competitive athletic footwear and apparel industry. Nike has a decentralized structure with multiple business units and a strong focus on innovation and design. The company is known for its strong brand image and iconic "swoosh" logo, which has helped it become one of the most recognized and valuable brands in the world. Nike's mission is to bring inspiration and innovation to every athlete in the world, with the belief that everyone is an athlete.

Nike's strategy revolves around key pillars, including product innovation, expanding global reach, and enhancing digital capabilities. The company invests heavily in research and development to create cutting-edge products that cater to the evolving needs of athletes and consumers. Nike also focuses on expanding its presence in emerging markets and leveraging digital platforms to enhance customer engagement and drive online sales.

Two of the latest news, which deeply influence Nike's performance and objectives, are described first. A significant development for Nike in 2021 was its continued focus on digital innovation and e-commerce growth. The COVID-19 pandemic accelerated the shift toward online shopping, and

Nike capitalized on this trend. The company invested heavily in its digital platforms, enhancing the Nike app and improving its website's user experience, and implemented new features like augmented reality (AR) for virtual try-on experiences. These efforts paid off, as Nike reported substantial growth in its e-commerce business, indicating the company's ability to adapt to changing consumer behaviors and maintain a strong presence in the digital marketplace [1]. Another one is that, in 2022, Nike made headlines with the introduction of its "Move to Zero" sustainability initiative. As part of its commitment to addressing climate change, the company pledged to achieve net-zero carbon emissions across its supply chain and operations by 2050. Nike aims to achieve this goal through various measures, including transitioning to 100% renewable energy, investing in innovative sustainable materials, and minimizing waste. This highlighted Nike's proactive approach to environmental stewardship and its efforts to integrate sustainability into its business practices [2].

In terms of financial performance, Nike has consistently delivered strong results. In its most recent fiscal year, ending May 31, 2022, Nike reported revenues of 46.7 billion, representing a 5% increase compared to the previous year. The company's net income reached 6.05 billion, reflecting a 6% growth from the prior year. Despite experiencing a modest growth rate in 2022 compared to the previous year, reflecting Nike's steady upward development, the growth of Nike in 2021 was explosive. The company witnessed a remarkable surge in revenue and net income, with growth rates of 19% and 126% respectively. Nike's robust performance can be attributed to its strong brand equity, successful product launches, and effective marketing campaigns.

Looking ahead, Nike's outlook remains positive. The company continues to invest in digital capabilities to enhance its direct-to-consumer business and capitalize on the growing e-commerce trend. Nike also aims to expand its presence in key markets, such as China, where it has experienced significant growth. Furthermore, the ongoing focus on sustainability and social responsibility is expected to drive consumer loyalty and attract environmentally conscious customers.

## 2. Accounting Analysis

The accounting policies are analyzed based on the Annual Report in 2022, and aims to provide investors and other stakeholders with reliable and accurate financial information that reflects the company's financial health and performance. Three areas, revenue recognition, demand creation expense and fair value measurements, required management to exercise higher degree of judgement or significant estimates. By adhering to these policies, Nike can maintain the trust and confidence of its shareholders, customers, and other stakeholders, which is crucial for the continued growth and success of the business.

### 2.1. Revenue Recognition

In 2022, Nike generated around £46.71 billion sales, much higher than its competitors in the industry. However, Nike's revenue recognition is based on the transfer of control to the customer and is determined by terms of sale. Nike records the revenue from selling Nike brand items, including footwear, clothing, and equipment, as well as Converse products as a single task of performance. Furthermore, the quantity of transactions recorded in the financial report is essential since it significantly impacts common metrics utilized by stakeholders, including operating profit (OP), pre-tax profit (PBT) and net earnings (NI). If revenue is not reliably recognized and accurately assessed, the valuation of Pearson by analysts will be questionable, leading to incorrect investment decisions. Hence, decisive evaluation must be employed when measuring and acknowledging revenue.

The enterprise fulfills this duty by giving control to the customer, whether through direct-to-consumer or wholesale channels according to the sales terms. Customers receive control when they can utilize and get all the product's benefits. Control transfer varies for wholesale versus retail/digital

commerce customers, and payment conditions depend on the country of sale and agreement with the customer. The income made from trademark licensing arrangements and taxes are also illustrated explicitly that how to record, as well as handling and shipping charges linked with outbound transportation after customer control transfer are identified.

Besides, there is a particular part in revenue recognition which is sales-related reserves. This part refers to that the commitment made by Nike to its customers is not fixed and can vary depending on various factors such as sales returns, discounts, and other claims from customers. The expected amount it will receive was predicted, when revenue had been recognized, and records an estimated reduction against revenues by increasing accrued liabilities. The funding assigned for potential sales returns takes into consideration both authorized and discretionary returns. Forecasts for discretionary authorized sales returns, discounts, and claims are based on various factors. This section reflects Nike's rigor in calculating revenue amounts. The preparation of reserves in advance will provide shareholders and management with a clear understanding and preparation for potential losses, weakening the misleading effect of inflated numbers on revenue.

Nike has meticulously segmented its revenue recognition and taken into account various situations and factors, which demonstrates Nike's exemplary role as an industry benchmark.

## 2.2. Demand Creation Expense

Demand Creation Expense is a very unique part of Nike's accounting policy, which mainly represents the cost of advertising and promotions, further divided into various specific costs. For advertising costs, this section details where each cost was incurred at a particular point in time; whereas for promotional expenses, most of it comes from endorsement contract payments. Payments for endorsements are typically expensed equally over the contract's life, but some contracts may have different accounting rules; prepaid amounts are also included in certain area based on the applicable period. In addition, several certain contracts are recorded in the demand creation expense, including payments for specific achievements of endorsers, variable payments based on endorsers' sustained specific performance levels over a certain period of time, and royalties paid to endorsers based on partial sales of certain predefined products. Lastly, in order to promote company products, Nike compensates some customers for advertising expenses, which is called a cooperative advertising program, and outlines specific measurement methods.

In the past three years, Nike's average annual advertising and promotion expenses have been around \$3,518 million. On May 31, 2022, this number exceeded \$3,800 million. The prepaid expenses as of May 31, 2022, and 2021, totaling \$773 million and \$630 million, respectively, are recorded in the corresponding accounting items based on different payment periods. During 2022, the total operating expenses of Nike are \$14,804 million, which means demand creation expense made a significant contribution to this section. Consequently, inaccurate estimation and poor management judgment regarding these expenses could result in serious ramifications for Nike.

Nike has a meticulous classification and detailed description of demand creation expense, taking into account each specific cost; at the same time, the company's diverse contracts and various possible scenarios reflect its comprehensiveness in this regard. This shows that even as an industry leader with an excellent reputation and influence, the company still attaches great importance to promoting and advertising its products and corporate image. It can be seen that Nike's sustained development over the years is inseparable from the efforts and investment it has spent on the strategy. Many meticulously detailed contract terms reflect the company's rigorous and responsible attitude, which also makes athletes, investors, shareholders, and the public who want to sign contracts with Nike, cooperate with it in investment or purchase its products more trustworthy of this brand.

### 2.3. Fair Value Measurements

The company currently evaluates various financial assets and liabilities. The fair value denotes the cost that the corporation would receive or pay when vending an asset or transferring a liability in a structured transaction with a market contributor. They prioritize fair value measurements into a three-level system based on the input classification, and the level of significant input determines the asset and liability categorization. The fair values from pricing vendors are provided through market quotes or open inputs. Observable market inputs such as currency rates, forward pricing curves, interest rates, volatilities, and correlations determine the fair value of derivative contracts while keeping nonperformance hazards in mind. To ensure precise recording of fair value, the company cross-references its fair values with another independent pricing vendor.

Using a three-level hierarchy to assess the fair value of financial assets and liabilities, Nike takes into account different types of inputs and market activity levels. At the same time, the company also takes into consideration of hedging factors and applies them to measure the fair value of financial contracts. In addition, comparing with prices provided by other suppliers ensures the accuracy of fair value measurement. These methods indicate that Nike attaches great importance to fairness and has a sound process and monitoring mechanism for measuring fair value. Therefore, the company's fair value measurement process is quite sophisticated and reliable. By reviewing the data sources used by pricing suppliers, any potential biases and decision uncertainties in the evaluation process can be effectively eliminated. In the current complex and changing financial environment, this is highly commendable and can increase investor confidence in Nike.

## 3. Performance Evaluation

Despite the significant impact of COVID-19 on Nike and its industry, Nike's 2022 annual report demonstrates a remarkable recovery in its financial condition, reflecting its strong adaptability and problem-solving ability in dealing with unforeseen circumstances. To compare financial performance, three peers, including Adidas AG, Under Armour and VF Corp, are identified by reasonable measurements [3-5].

### 3.1. Liquidity

The quick ratio, also known as the acid-test ratio, measures a company's ability to pay off its current liabilities using its most liquid assets. Although this ratio of Nike is much above the industry average, it still suggests that Nike may face challenges in meeting its obligations quickly since only a fraction of its current assets are highly liquid. As such, the company may need to sell off some of its inventory, which may depress prices, or rely on bank lines of credit to fund operations in the short term.

The current ratio, on the other hand, evaluates a company's ability to cover its current liabilities with its current assets. This ratio is also above the industry average, indicating that Nike is well-positioned to meet its short-term obligations promptly. Nike's current assets include not only highly liquid assets but also those that would take longer to convert into cash. Therefore, this suggests that Nike is well positioned to meet any short-term cash requirements and satisfy its creditors if they demand payment of outstanding debts in the near future.

Table 1: Liquidity ratios of Nike and its competitors.

| Company name | Current ratio (to 1) | Quick ratio to 1) |
|--------------|----------------------|-------------------|
| Nike         | 2.73                 | 1.6               |
| Adidas AG    | 1.27                 | 0.41              |
| Under Armour | 2.18                 | 1.08              |
| VF Corp      | 1.38                 | 0.83              |

Overall, Nike's liquidity position appears favorable based on both the quick ratio and the current ratio, as Table 1 has shown. The ratios indicate that Nike has sufficient liquid assets to cover its short-term obligations, suggesting a lower risk of financial distress. However, it should continue to monitor its liquidity ratios to ensure that it maintains adequate reserves of highly liquid assets to meet its short-term obligations.

### 3.2. Leverage

Leverage is a measure of the degree to which a company uses debt financing to fund its operations and activities. While debt financing can provide opportunities for growth and expansion, it also introduces financial risk, such as higher interest expense and potential insolvency.

The debt-to-equity ratio of 77% is much lower than Adidas AG and VF Corp, however, which indicates that Nike has taken on a significant amount of debt to fund its business operations. Although this ratio may seem high, it can be interpreted in different contexts, depending on the industry and the size of the company. While debt can provide a company with financial flexibility and tax advantages, a high debt-to-equity ratio also indicates increased financial risk.

The debt-to-assets ratio of 31%, on the other hand, tells us that the company has a more conservative approach to leverage. This proportion is at the same level as Adidas AG and Under Armour, much lower than VF Corp, indicating that it is less reliant on debt compared to some of its peers. Additionally, Nike likely has ample assets relative to its liabilities, creating a cushion against risk.

Table 2: Leverage ratios of Nike and its competitors.

| Company name | Debt to Equity (%) | Debt to Assets (%) |
|--------------|--------------------|--------------------|
| Nike         | 0.77               | 0.31               |
| Adidas AG    | 1.06               | 0.32               |
| Under Armour | 0.76               | 0.31               |
| VF Corp      | 1.59               | 0.51               |

In conclusion, Nike's leverage appears to be relatively high when assessed using the debt-to-equity ratio; however, the company's debt-to-assets ratio is lower than the industry average (see Table 2). This indicates that Nike has been able to manage leverage risk effectively by having enough assets to cover its debt obligations.

### 3.3. Efficiency

These ratios in Table 3 are used to assess a company's efficiency in managing its receivables, inventory, assets, and cash flow which shows a mixed efficiency trend of Nike.

The receivables turnover of Nike stands out comparing with its peers while the other three figures are all at the second place among four brands. The receivables turnover is higher than the industry average, indicating that Nike efficiently manages its credit risk and receives payment from customers

promptly. The inventory turnover, which measures the frequency at which Nike sells and replaces its inventory over a period, is 3.3, falling slightly below the industry average [6]. This suggests that Nike may have slow-moving or obsolete inventory, leading to lower sales and profitability. The asset turnover of Nike is relatively high in comparison with its peers, which may indicate that Nike invests more in marketing and advertising efforts to drive brand awareness and loyalty - investments that are not readily reflected on the balance sheet. Lastly, the Cash Conversion Cycle (CCC) suggests that it requires considerable time to pay its creditors while also collecting payments from customers slowly. A high CCC can increase the cost of capital and impact the company's liquidity.

Table 3: Efficiency ratios of Nike and its competitors.

| Company name | Receivables Turnover (times) | Inventory Turnover (times) | Asset Turnover (times) | Cash Conversion Cycle (days) |
|--------------|------------------------------|----------------------------|------------------------|------------------------------|
| Nike         | 10.23                        | 3.30                       | 1.20                   | 101.35                       |
| Adidas AG    | 9.57                         | 2.38                       | 1.06                   | 111.65                       |
| Under Armour | 8.08                         | 3.23                       | 1.27                   | 90.36                        |
| VF Corp      | 8.56                         | 4.34                       | 0.87                   | 91.9                         |

Nike has demonstrated strengths in managing its receivables but needs to improve its inventory management approach, asset utilization, and cash conversion cycle. The recommendation would be for Nike to optimize its inventory management system, possibly by reducing slow-moving inventory and focusing more on popular merchandise items. Additionally, improving the cash conversion cycle through better supplier agreements and timely collection of payments will enhance liquidity and mitigate capital costs.

### 3.4. Profitability

Based on the figures provided in Table 4, Nike appears to be quite profitable, with gross profit margin of 45.98%, operating profit margin of 14.29% and net profit margin of 12.94%. This signifies that Nike is generating profits in amounts above average relative to its peers, especially the operating and net profit margin, and it has efficiently controlled costs associated with its inventory and day-to-day operations.

Table 4: Profitability ratios of Nike and its competitors.

| Company name | Gross Profit Margin (%) | Operating Profit Margin (%) | Net Profit Margin (%) |
|--------------|-------------------------|-----------------------------|-----------------------|
| Nike         | 45.98                   | 14.29                       | 12.94                 |
| Adidas AG    | 47.28                   | 3.24                        | 2.72                  |
| Under Armour | 44.88                   | 6.55                        | 4.81                  |
| VF Corp      | 54.51                   | 13.78                       | 11.71                 |

The high gross profit margin of Nike indicates that it has been able to exercise control over production-related expenses, reflecting strong pricing power and brand loyalty. A high operating profit margin indicates effective management of operational expenses such as selling, general and administrative expenses. Meanwhile, the net profit margin illustrates Nike's ability to manage overall expenses and achieve profitability, even after accounting for interest payments and taxes.

To conclude, Nike is a well-run organization that is capable of generating profits across multiple areas of its business. However, investors should note that margins can at times be volatile, and they can be affected by various factors such as competition, changes in consumer preferences, or even

volatility of inputs costs. Therefore, while these ratios suggest positive profitability, it is important for investors to conduct additional analysis and monitor future financial statements carefully.

### 3.5. Investment

In Table 5, Nike's return on equity (ROE) of 43.11% is significantly higher than the industry average of 12.99% [6]. This indicates that the company is generating substantial returns for its shareholders. Investors tend to prefer companies with high ROEs, as it reflects the efficient use of equity capital to generate profits. Nike's return on assets (ROA) of 15.49% also exceeds all its peers. This metric gauges how well the company is utilizing its assets to generate profit. In this regard, Nike's ability to leverage its assets to generate profit is noteworthy. Nike's return on invested capital (ROIC) of 22.61% is considerably higher than any other selected industry competitors. This ratio is useful for evaluating the efficiency with which a company is using its invested capital to generate earnings. It is evident that Nike is achieving superior performance concerning this indicator of profitability.

Thus, Nike's exceptional performance highlights its successful business model. The company is continuously enhancing its product portfolio, expanding globally, and investing in marketing campaigns.

Table 5: Investment ratios of Nike and its competitors.

| Company name | Return on Asset (%) | Return on Equity (%) | Return on Invested Capital (%) |
|--------------|---------------------|----------------------|--------------------------------|
| Nike         | 15.49               | 43.11                | 22.61                          |
| Adidas AG    | 2.88                | 9.78                 | 5.65                           |
| Under Armour | 8.31                | 20.75                | 11.50                          |
| VF Corp      | 10.24               | 42.11                | 14.38                          |

Nike has benefited greatly from growing e-commerce trends. These initiatives have resulted in steady revenue and profit growth over the years. All in all, Nike's continued emphasis on innovation, sustainability, and customer-centricity augurs well for future performance. While past performance cannot be guaranteed to persist, its evident resilience and adaptability make Nike a reliable contender within the retail industry.

## 4. Strategic Forecasts

The company has continued to grow and prosper despite the challenges posed by the COVID-19 pandemic. As we head into 2023, Nike's outlook remains strong, with several key initiatives in the works that could drive growth and boost the company's bottom line.

In 2022, Nike is expected to continue building on the success it has achieved in recent years. Despite supply chain disruptions due to the pandemic, Nike has been able to maintain strong sales numbers thanks to its direct-to-consumer business model and focus on e-commerce [7]. One area where Nike is expected to place a significant emphasis in 2022 is sustainability. In recent years, the company has made significant strides toward reducing its carbon footprint and increasing the use of sustainable materials in its products. Nike is expected to continue this trend in the coming year, with a goal of becoming a zero-waste brand by 2025 [2]. Nike's objective is to build deeper relationships with customers through a focus on innovation, sustainability, and personalization [8]. In terms of innovation, Nike aims to invest in technologies such as 3D printing, augmented reality, and machine learning to deliver unparalleled customer experiences. Sustainability is also a key tenet for Nike, and the company aims to reduce its environmental impact while improving social conditions for workers.

Finally, Nike aims to personalize its offerings to cater to individual interests and preferences, utilizing data-driven insights to create unique experiences for each customer.

Looking ahead to 2023 and 2024, Nike is expected to continue growing at an impressive rate. By 2023, the company is projected to reach a valuation of \$350 billion, driven in part by its success in international markets [9]. In particular, Nike's expansion into China has been a major driver of growth in recent years, and this trend is expected to continue into the future [10]. Another factor that could contribute to Nike's continued growth is the rise of athleisure wear. With more people working from home and adopting casual dress codes, there has been increased demand for comfortable and stylish clothing that can be worn both at home and out in public. Nike is well positioned to capitalize on this trend, given its strong reputation for producing high-quality, functional sportswear. Nike's outlook remains incredibly positive heading into the coming years. While there will undoubtedly be challenges and obstacles to overcome, the company's strong brand recognition, innovative product design, and commitment to sustainability give it a major advantage in the competitive sportswear market. One area where Nike could continue to make gains is in the e-commerce space. With more consumers turning to online shopping due to the pandemic, companies that are able to offer a seamless and user-friendly shopping experience are likely to see an increase.

## 5. Conclusion

In the last several years, Nike has experienced both successes and challenges. Despite the COVID-19 pandemic, the sportswear giant managed to increase its revenues, driven by strong digital sales and a recovery in China's market. Nike's double-digit growth in its direct-to-consumer business via e-commerce channels, including Nike.com and its mobile app, is particularly noteworthy, as it reflects the company's ability to pivot quickly and efficiently to meet customer needs during unprecedented times. However, Nike also faced some criticisms and backlash in the same period. Its relationship with Olympic athlete, Mary Cain, garnered attention after she revealed that Nike coaches forced her to lose weight, leading to physical and mental health issues. The brand was forced to acknowledge its failure to protect athletes after several prominent female runners shared similar stories.

Looking into the future, Nike's long-term prospects appear bright. As more people embrace a healthier lifestyle, demand for athleisure wear and sports gear should increase. The rise of e-commerce channels has helped the company navigate through the pandemic, and this trend is expected to continue post-pandemic. Nike's commitment to innovation and design will continue to foster brand loyalty among customers. Sustainability initiatives are already a priority for Nike and they could emerge as a key differentiator in the near future as consumers become more environmentally conscious. Beyond that, the company may also need to address social concerns more effectively to maintain its reputation and relevance. Overall, Nike's performance in recent years demonstrates its resilience, agility, and potential to adapt to changing circumstances. With strong leadership, a clear focus on innovation and growth, and a commitment to sustainable practices, Nike is poised for continued growth in the future.

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