

First Cut Stock Study Report

Company Name:	Nike, Inc.	Ticker:	NKE
Date of Study:	4/20/2009	Price:	\$ 52.36
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Discuss why you consider this to be a high quality, growth company that should be investigated further. Please include comments on historical sales and EPS growth, pre-tax profit margin, return on equity, and debt.

Nike has achieved consistent growth in both sales and earnings over the past 10 years. The sales compound annual growth rate (CAGR) over the last 10 years of annual data = 9.1%, 5 years sales CAGR= 10.6%, 3 year sales CAGR = 11.6%. The earnings CAGR over the past 10 years = 17.5%, 5 years of earnings data CAGR = 19.6%, 3 years of earnings data CAGR = 14.7%. Pre-tax profit margins have increased from around 10% in the late 1990's to an average of 13.3% for the last 5 years.

Briefly describe how the company makes money:

Nike's primary revenue stream is derived from specialty athletic footwear sales in the US (34%) and Internationally (52%). Four years ago these numbers were US (39%) and International (49%). Nike has shifted their primary growth strategy to international markets. They also sell sports apparel and accessories and performance athletic equipment. Nike also has other recognizable brands such as Cole Haan, Converse, Hurley and Nike Golf.

Projected growth rate for sales: 7%

Why did you select this rate? Discuss from where future growth will come.

Nike's plan is to obtain most of their growth from the international market. The US base will be helped by the resurgence of the Converse brand as well. However, the global economic slowdown will impact near term sales and earnings growth rates. The year over year quarterly revenue figures show current flat revenue growth indicating a need to be conservative on projections for five years into the future. In Nike's annual report in June of 2008, the CEO of Nike, Mike Parker, stated that Nike's goal is to grow revenues to \$23 billion by 2011 which represents 7.3% growth from 2008 through 2011. I selected 7% for the sales growth rate because I conservatively estimated that 9% growth annually should be achievable based on their past performance but I also estimated that there wouldn't be

any appreciable top line growth for the fiscal year that ends in May 2009. This matches well with Nike's stated goals.

Projected growth rate for earnings per share: 9%

Why did you select this rate?

Nike has consistently reported stronger earnings growth rates than sales growth rates by anywhere from 3-9 percentage points and given the consistency of the company I'm expecting at least some of that differential to continue. Quarterly year over year earnings also grew at 11.2% from February 2008 to February 2009. Thomson IBES consensus estimates for 5 year growth are at 15%. I chose 9% because I felt that the company could maintain that 2-3 percentage point differential over their core sales growth rate of 6-7%. Nike has recently announced a company wide work force reduction and restructuring that should help to maintain efficiencies contributing to net earnings. Other impacts to the earnings could include the additional \$5 billion share repurchase program that continues through 2010.

Projected High P/E: 18.0

Why did you select this value?

The current PE is 11.26 and I feel the company is undervalued. The 5 year historic average high PE is 20.03. The 5 year average PE is 17.18. High PE values for Nike over the past 5 years have been relatively consistent in the high teens to low 20's.

Projected Low P/E: 9

Why did you select this value?

I feel that this stock is near the bottom of it's valuation with the current PE of 11.26. On the downside however, it is not inconceivable that the stock may drop to a PE of 9.

Projected Low Price: \$41.85

Why did you select this value?

I did a simple calculation using the low PE of 9 multiplied by the sum of the last 4 quarters of earnings (\$4.65) to obtain 41.85 as the projected low price.

At the current price, the stock is a (check one):

Buy or Hold or Sell

At the current price, the upside-downside ratio is: 4.13 to 1

Projected compounded rate of return: 14.0% using the forecast high PE to calculate the projected high price. Using the average PE to calculate the projected high price this is reduced to 8.1%.

Your final recommendation (check one):



Buy or **Hold** or **Sell**

Explain:

Given all of the conservative estimates that I've made in this study, I feel that a return of 8-9% is achievable in the next 5 years. I also like the current yield of 1.91% at today's price. As a disclaimer, I own this stock in my current portfolio and intend on holding. With new investment dollars, I would include this stock in a comparison with other likely candidates to maximize my potential return.

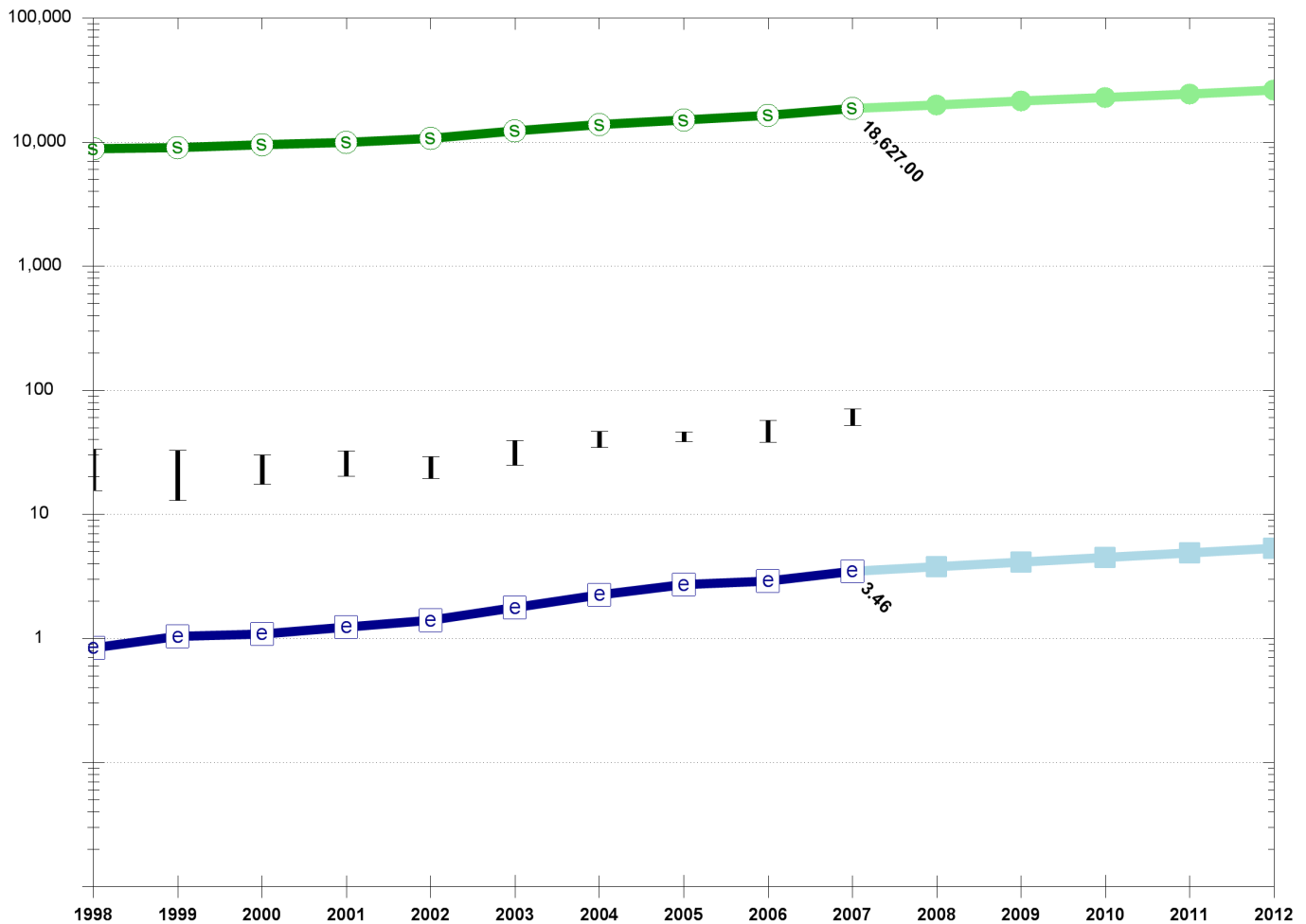
Company	Nike Inc		Date	4/20/2009	
Prepared by	Artzberger		Data taken from	S&P Stock Dat	
Where traded	NYSE	Industry	Rubber and Plastics Footwear Man		
Capitalization ---	Outstanding Amounts	Reference			
Preferred (\$M)	0.3	% Insiders	% Institution		
Common (M Shares)	484.4	0.0	0.0		
Debt (\$M)	800.9	% to Tot Cap	8.9	% Pot Dil	0.8

Stock Selection Guide

Symbol: NKE

1 VISUAL ANALYSIS of Sales, Earnings, and Price

FY2007 Quarter Ending (02/09)	Sales (\$M)	Earnings Per Share
Latest Quarter	0.0	0.00
Year Ago Quarter	0.0	0.00
Percentage Change	0.00%	0.00%



(1) Historical Sales Growth	9.1%	(3) Historical Earnings Per Share Growth	17.5%
(2) Estimated Future Sales Growth	7.00%	(4) Estimated Future Earnings Per Share Growth	8.99%

2 EVALUATING Management

Nike Inc

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Last 5 Year Avg.
Pre-tax Profit on Sales (Net Before Taxes/Sales)	8.84%	10.19%	9.71%	10.28%	10.50%	11.83%	13.54%	14.67%	13.30%	13.11%	13.29%
% Earned on Equity (E/S / Book Value)	14.14%	17.71%	16.53%	17.05%	18.30%	19.31%	20.72%	21.95%	20.64%	21.71%	20.87%

3 PRICE-EARNINGS HISTORY as an indicator of the future

This shows how stock prices have fluctuated with earnings and dividends. It is building block for translating earnings into future stock prices.

PRESENT PRICE 52.4

HIGH THIS YEAR 70.28

LOW THIS YEAR 38.24

	A	B	C	D	E	F	G	H
Year	Price		Earnings	Price Earnings Ratio		Dividend	% Payout	% High Yield
	High	Low	Per Share	High A / C	Low B / C	Per Share	F / C * 100	F / B * 100
1 2003	39.28	24.80	1.76	22.38	14.13	0.340	19.37	1.37
2 2004	46.22	34.31	2.24	20.63	15.31	0.450	20.09	1.31
3 2005	45.77	38.27	2.70	16.98	14.20	0.560	20.78	1.46
4 2006	57.12	37.76	2.89	19.76	13.07	0.680	23.53	1.80
5 2007	70.60	51.50	3.46	20.40	14.88	0.830	23.99	1.61
6 TOTAL		186.6		100.2	71.6		107.8	
7 AVERAGE		37.3		20.0	14.3		21.6	
8 AVERAGE PRICE EARNINGS RATIO 17.2					9 CURRENT PRICE EARNINGS RATIO 11.3			

4 EVALUATING RISK and REWARD over the next 5 years

Assuming one recession and one business boom every 5 years, calculations are made of how high and how low the stock might sell. The upside-downside ratio is the key to evaluating risk and reward.

A HIGH PRICE - NEXT 5 YEARS

Avg. High P/E 18.00 X Estimate High Earnings/Share 5.32 = Forecasted High Price \$ 95.76

B LOW PRICE - NEXT 5 YEARS

(a) Avg. Low P/E 9.00 X Estimate Low Earnings/Share 4.65 = Forecasted Low Price \$ 41.85

(b) Avg. Low Price of Last 5 Years 37.33

(c) Recent Severe Market Low 37.76

(d) Price Dividend Will Support $\frac{\text{Present Dividend}}{\text{High Yield}} = \frac{1.000}{0.03} = 38.24$

Selected Forecasted Low Price 41.85

C ZONING using 25%-50%-25%

Forecasted High Price 95.76 Minus Forecasted Low Price 41.85 = 53.91 Range. 25% of Range 13.48

Buy Zone 41.85 to 55.33

Hold Zone 55.33 to 82.28

Sell Zone 82.28 to 95.76

Present Market Price of 52.36 is in the **Buy** Zone

D UP-SIDE DOWN-SIDE RATIO (POTENTIAL GAIN VS. RISK OR LOSS)

$\frac{\text{High Price} - \text{Present Price}}{\text{Present Price}} = \frac{95.76 - 52.36}{52.36} = 0.81$
 $\frac{\text{Present Price} - \text{Low Price}}{\text{Present Price} - \text{Low Price}} = \frac{52.36 - 41.85}{52.36 - 41.85} = 1.00$
 Ratio = 0.81 / 1.00 = 0.81 To 1

E PRICE TARGET (Note: This shows the potential market price appreciation over the next five years in simple interest terms.)

$\frac{\text{High Price} - \text{Present Market Price}}{\text{Present Market Price}} = \frac{95.76 - 52.36}{52.36} = 0.81$
 $0.81 \times 100 = 81\%$ X 100 = 182.89 - 100 = 82.89 % Appreciation

5 5-YEAR POTENTIAL

This combines price appreciation with dividend yield to get an estimate of total return. It provides a standard for comparing income and growth stocks.

A $\frac{\text{Present Full Year's Dividend \$}}{\text{Present Price of Stock}} = \frac{1.000}{52.36} = 0.02 = 1.91\%$ Present Yield

B AVERAGE YIELD - USING FORECAST HIGH P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast High PE}} = \frac{21.55\%}{18.00} = 1.20\%$

AVERAGE YIELD - USING FORECAST AVERAGE P/E

$\frac{\text{Avg. \% Payout}}{\text{Forecast Average PE}} = \frac{21.55\%}{13.50} = 1.60\%$

C COMPOUND ANNUAL RETURN - USING FORECAST HIGH P/E

Annualized Appreciation 12.83 %
 Average Yield 1.20 %
 Annualized Rate of Return 14.03 %

COMPOUND ANNUAL RETURN - USING FORECAST AVG P/E

Annualized Appreciation 6.52 %
 Average Yield 1.60 %
 Annualized Rate of Return 8.12 %