Disnat GPS Report

Nike (NKE, U$50.65)

Desjardins Online Brokerage

Company Description

Nike is the largest and most dominant sporting goods company in the world.

Company activities are focused on eight product categories: running shoes, Nike Basketball and the Jordan brands, as well as clothing for soccer, indoor training, extreme sports, golf and multi-sports.

It also sells many other items under the Nike banner: training bags, baseball bats and gloves, and so on.

Nike also has full rights to two other subsidiary brands: Hurley clothing and Converse shoes and products.

For fiscal year 2016, sales in the United States were stable and accounted for 47% of total sales, compared to 46% in 2015 and 2014.

In terms of product categories, footwear [running U$5 billion], basketball (U$1.4 billion), Jordan (U$2.7 billion), etc.] accounted for about 66% of Nike's revenues, or 20% of the brand's total sales.

Disnat GPS Portfolio Strategist Comments

Founded in 1967, Nike will be 50 years old next year.

Since its inception, the company has dethroned former champion Adidas and resisted attacks from many other competitors who have appeared over the years, including Reebok, Converse, L.A. Gear, Lululemon and Under Armour.

Obviously, this competition is not about to disappear, but it is clear that Nike enjoys an enviable position among consumers, thanks to products that continue to satisfy both professional as well as amateur athletes.

In addition, Nike continues to be at the forefront of research and development, and continues to innovate in performance research as well as design.

At Disnat GPS, we are aware that the shoe and clothing sector can be very volatile, because styles change quickly, and often in an unpredictable manner. Nevertheless, like most of the athletes it sponsors, Nike is a world-class champion, which is exactly what one wants to be when the competition is fierce!

Other Disnat GPS reports available in the GPS section of the Disnat website:
Apple and Disney.

Financial Health

Fiscal Year	2014	2015	2016
Long term debt (in billions of dollars)	1.2	1.1	2.0
Debt/equity ratio	0.11	0.08	0.16

Nike's financial health is extremely strong.

Not only is its U$2 billion debt particularly low, translating into a debt-to-equity ratio of 0.16, but its cash position of about U$5 billion makes it a company with practically no net debt.

This situation shows the relatively defensive nature of the Nike brand, despite an often volatile sector.

On the other hand, its low debt level offers the company the flexibility to potentially increase this debt in order to increase its dividend, improve its share repurchase program or make some useful acquisitions without taking excessive financial risks with regard to funding.

Evolving in a sector that can sometimes be very volatile, each new shoe or sportswear model represents a fresh bet. Nike's financial health is a very important part of our notable interest in this business.

Growth

Compound Yield	1 year	3 years	5 years	10 years
Earnings	5%	8%	9%	8%
Earnings per share	16%	16%	14%	12%

Nike's revenue and earnings per share growth are particularly stable.

A sustained growth of over 8% in revenues and 12% in earnings per share for a decade is quite an impressive performance for a multinational of this size.

Revenue is also expected to become even more geographically diversified over the next few years.

In this regard, the development in emerging countries of a "middle class" which is fond of major US brands offers some optimism about future growth prospects.

Furthermore, sports-related equipment, such as smart watches and other technologies, are also areas that could contribute to Nike's future growth.

Increasing awareness of health problems associated with being sedentary and renewed enthusiasm for sports and physical activity bodes well for the growth of the sector and its main advocate; Nike.

Valuation

Key Ratios	Nike	Nike (5 yr avg)	S&P 500
Price/earnings	22.6	24.7	19.4
Forward price/earnings	22.0	N/A	18.7
Dividend yield	1.3%	1.2%	2.4%

Governance

Fiscal Year	2012	2013	2014	2015	2016
Earnings per share ($)	1.18	1.35	1.49	1.85	2.16
Dividend ($)	0.35	0.41	0.47	0.54	0.62
Number of shares (millions)	1,879	1,832	1,811	1,768	1,743

In terms of price-earnings ratios and future price/earnings, Nike's stock is currently trading at a discount compared to its average over the last five years.

Nike's evaluation, and more specifically, its slight under-evaluation compared to the average of the last five years, is one of the main reasons that support our interest in this company.

With this in mind, the stock therefore offers a rare and relatively attractive entry point.

However, it should be noted that, although it is at a discount to its own average, Nike stock continues to trade at a premium compared to S&P 500 multiples.

It is also important to note that this premium, compared to multiples of the S&P 500, has now existed for over 10 years.

Over the past five years, Nike's dividend has increased by an average of over 15% per year.

The increase in the dividend in each of the last nine years, since the 2008 financial crisis, allows us to conclude that the company is serious in its intention to return an increasing portion of its profits to investors.

In addition, the company regularly buys back its stock. Over the past five years, Nike has repurchased more than 7% of its outstanding shares.

With regard to internal development, we believe that the company will continue to invest in R & D as well as marketing, and will continue to make small targeted acquisitions.

At Disnat GPS, we usually prefer securities that are priced at the price/earnings level of the S&P 500. In Nike's case, we believe that the company's favorable position, as well as the brand's strength and renown, are sufficient reasons to pay a "quality premium"!

At Disnat GPS, a steady increase in dividend, continuation of a stock buy-back program and the fact that we do not foresee any major expenses allows us to believe that Nike will continue to manage its growth well while continuing to pay dividends to investors; a winning combination!

Explanatory Notes

Disnat GPS reports contain five separate sections, each followed by comments from the Disnat GPS Portfolio Strategist regarding the following:

1. Company Description

2. Financial Health

3. Growth

4. Valuation

5. Governance

At Disnat GPS, we believe that the topics, ratios and other financial figures presented here are particularly important.

However, for reasons of space, we can not publish all available data. We therefore invite you to read the additional financial information on the Disnat website.

Furthermore, this report is an analysis of the condition of a company today, with a medium to long term view. It is in no way an adequate tracking of daily activities of the stock market in general or of this particular company.

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