



NIKE, INC

NKE – IS THE NIKESTER BROKEN?

November 23, 2016

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HEDGEYE RETAIL IDEA LIST

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BEST LONG IDEAS

		TRADE	TREND	TAIL
RH	Restoration Hardware	✓	✓	✓
NKE	Nike, Inc.	✓	✓	✓

OTHER ACTIVE LONGS

WMT	Wal-Mart	✓	✓	✓
DKS	Dick's Sporting Goods	✓	✓	-
RL	Ralph Lauren	-	-	✓

LONG VETTING BENCH

TSCO	Tractor Supply
ABF-GB	ABF/Primark
KATE	Kate Spade
AMZN	Amazon.com
ULTA	Ulta Salon
WWW	Wolverine Worldwide

BEST SHORT IDEAS

		TRADE	TREND	TAIL
HBI	HanesBrands	X	X	X
TGT	Target	-	X	X
KSS	Kohl's	-	X	X
LULU	Lululemon	-	-	X
FL	Foot Locker	X	X	X

OTHER ACTIVE SHORTS

TIF	Tiffany	X	X	X
HIBB	Hibbett Sports	-	X	X
BBBY	Bed, Bath & Beyond	X	X	X
WSM	Williams-Sonoma	X	X	X
CRI	Carters Inc.	-	X	X

SHORT VETTING BENCH

GPS	Gap, Inc
JWN	Nordstrom
JCP	JC Penney
FINL	Finish Line
SHOO	Steve Madden
M	Macy's
PRTY	Party City
ELY	Callaway Golf
COLM	Columbia
GNC	GNC Inc
VSI	Vitamin Shoppe
FRAN	Francesca's
AMZN	Amazon.com

Bench = timing is not right, or research is in progress.

\$2.50 COMES BEFORE \$5.00

Sentiment

*The Quarter
Guidance
Market Share
Brand Perception
Valuation*

Trade



Financial Reality
*Earnings Puts and
Takes through May '17*

Trend

The '\$5 in EPS' Call
It Does Not Matter Today

Tail

THE BATTLEGROUND TODAY RESTS IN THE TREND DURATION

If you get this right/wrong, you'll get the stock right/wrong.

TAIL CALL = \$5.00. BUT WHO CARES?

Changing a 40-year paradigm in the most complex and capital intensive consumer non-durable industry in less than 10% of the time it took to build it.

- Harvest 10-years of strategic investments.
- Mass customization
- Shift to US Manufacturing while reducing variable costs by 20-30%.
- Fastest growing consumer-direct business outside of Amazon.
- Gross margins should push past 50% on \$50+bn in revs.
- Does not need to lever SG&A to hit \$5.00.

TRADE = BOTCHED MESSAGING WRITTEN IN THE COSMOS

- Beat the quarter + keep the year.
- = implied Feb/May guide down.
- Adidas/ UA and futures pressure/disclosure.
- CFO too new and 'unsavvy' to manage through the most treacherous change in the model since 1999.
- People already looking at a 'hockey stick' in expectations for FY17 (May), with 24% EPS growth by 4Q vs 8% in msd in 1H.
- Now they'll have to have even MORE confidence while futures are likely to weaken.
- Bifurcation between futures growth and revenue is irrelevant – until it's not.

TREND CALL = FY17 NUMBERS ARE TOO LOW

- Revenue halo from DTC/e-comm consolidation.
- Top line should be easier to hit than ever.
- There's more than just the US. Just sayin...
- Re Innovation, people don't know what they don't know.
- GM% bottomed, improving on the margin. E-comm (should) help from here – but we've been early on that one thus far.
- SG&A is rolling meaningfully, in part due to spending around the Olympics.
- FX is misunderstood. It will negatively impact quality of earnings, but should have a minimal impact on the actual numbers. That mattered at 25x earnings. Not today.

TRADE MODEL DETAIL

	1Q17A	2Q17E	Trade
Segment Revenue			
North America	6.1%	4.0%	Mathematically, the regions are a push. Though clearly the US garners more attention. US and WEurope down \approx 200bps. Everything else accelerates.
Western Europe	7.4%	5.0%	
Central and Eastern Euro	9.7%	15.0%	
Greater China	15.1%	20.0%	
Japan	36.9%	30.0%	
Emerging Markets	-2.2%	10.0%	
Converse	3.4%	10.0%	
e-Commerce	47%	50%	DTC still en-fuego
DTC	19%	30%	
Revenue Growth	7.7%	8.3%	Rev mid-hsd -- about flat sequentially
Gross Margins	45.5%	44.6%	Down 100bps (-125bp guide) 98bp sequential improvement.
Gross Profit Growth	3.2%	5.9%	
Demand Creation	25.1%	5.0%	Big yy growth slowdown begins.
Operating Overhead	6.4%	4.0%	
EBIT Margin	14.2%	12.8%	EBIT grows low teens.
EBIT Growth	-11.1%	9.0%	
Non-Op Income	9	80.0%	Mark to market on translation hedges shows up here.
Shares Outstanding	-2.6%	-2.4%	
EPS	\$0.73	\$0.48	2Q punk EPS growth -- but 2x the rate of retail overall.
EPS Growth	8.8%	8.0%	

TREND MODEL DETAIL

	1Q17A	2Q17E	3Q17E	4Q17E	Trend
Segment Revenue					
North America	6.1%	4.0%	5.0%	15.0%	Remember that 4Q of FY16 missed eggregiously. Only grew 0.1%. Easy compare this year.
Western Europe	7.4%	5.0%	10.0%	8.0%	
Central and Eastern Euro	9.7%	15.0%	5.0%	15.0%	
Greater China	15.1%	20.0%	20.0%	20.0%	
Japan	36.9%	30.0%	25.0%	20.0%	
Emerging Markets	-2.2%	10.0%	10.0%	10.0%	
Converse	3.4%	10.0%	10.0%	-10.0%	
e-Commerce	47%	50%	50%	50%	Same w DTC.
DTC	19%	30%	30%	30%	
Revenue Growth	7.7%	8.3%	9.0%	12.3%	Rev acceleration, even w futures decelerating.
Gross Margins	45.5%	44.6%	46.2%	46.7%	GM chg turns positive (only line of the model that gives us pause).
Gross Profit Growth	3.2%	5.9%	9.6%	14.2%	
Demand Creation	25.1%	5.0%	0.0%	0.0%	Going up against stepped-up spending in 2H last year.
Operating Overhead	6.4%	4.0%	4.0%	4.0%	
EBIT Margin	14.2%	12.8%	16.1%	16.0%	Hockey stick should be a reality.
EBIT Growth	-11.1%	9.0%	23.5%	37.4%	
Non-Op Income	9	80.0%	9	9	Should be higher than this -- but if so it would take down EBIT accordingly.
Shares Outstanding	-2.6%	-2.4%	-1.9%	-1.5%	
EPS	\$0.73	\$0.48	\$0.64	\$0.68	Big acceleration in 2H.
EPS Growth	8.8%	8.0%	17.8%	38.6%	

TAIL MODEL DETAIL

2017E 2018E 2019E 2020E

Segment Revenue

North America	7.6%	12.0%	12.0%	10.0%
Western Europe	7.7%	12.0%	12.0%	12.0%
Central and Eastern Euro	11.0%	12.0%	12.0%	12.0%
Greater China	18.9%	15.0%	12.0%	10.0%
Japan	27.0%	5.0%	6.0%	7.0%
Emerging Markets	6.8%	25.0%	20.0%	20.0%
Converse	2.9%	5.0%	5.0%	5.0%

e-Commerce	50%	65%	50%	40%
DTC	27%	29%	27%	25%

Revenue Growth	9.4%	13.2%	12.4%	11.4%
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Gross Margins	45.8%	47.3%	48.8%	49.8%
Gross Profit Growth	8.2%	16.9%	16.0%	13.7%

Demand Creation	7.5%	12.0%	15.0%	15.0%
Operating Overhead	4.6%	12.0%	12.0%	12.0%

EBIT Margin	14.8%	16.4%	17.8%	18.3%
EBIT Growth	12.9%	25.4%	21.8%	15.0%

Non-Op Income	34	34	34	34
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Shares Outstanding	-2.1%	-2.0%	-2.2%	-2.2%
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EPS	\$2.54	\$3.26	\$4.08	\$4.81
EPS Growth	17.7%	28.5%	24.9%	18.0%

Capex	23.9%	13.2%	12.4%	11.4%
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Tail

These top line numbers look very aggressive, but excluding the consolidation of DTC, we're looking at top line growth closer to 5%.

We 'only' need 38% DTC growth to get to \$7bn from \$2.5bn today. #doable.

DTC consolidation

Needs to keep 60-75% of the mgn from DTC and lower var costs from mftgr chg.

DC likely going up in perpetuity. If not, that's when we get concerned about the

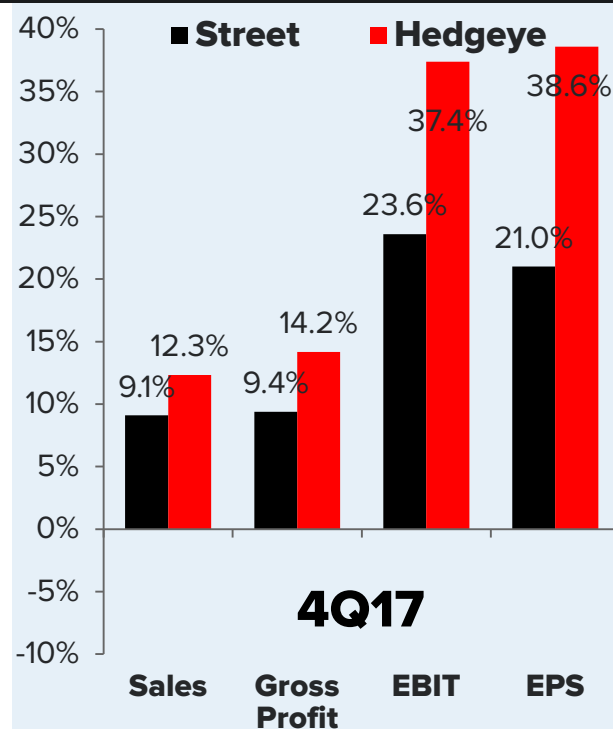
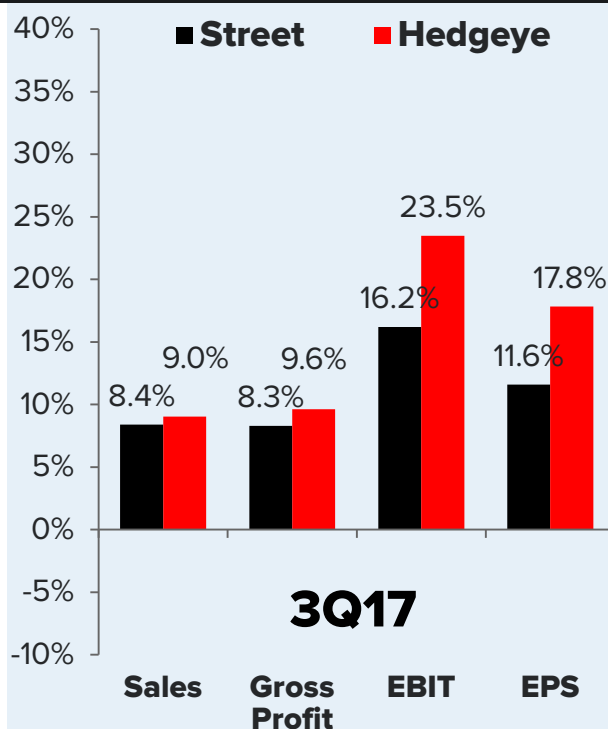
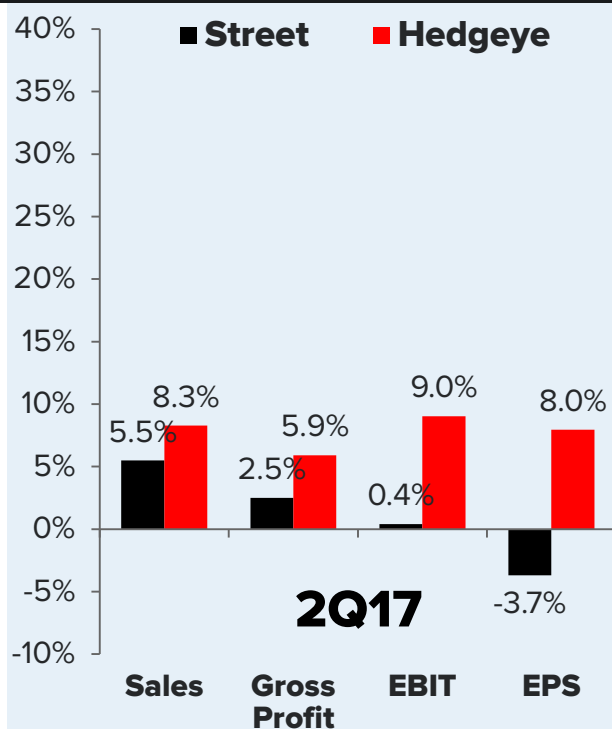
The stability we imply likely not right. One year could be 25%, another 5%.

If the dollar strengthens, this number goes higher.

Visibility to \$5.00 . It will matter when it matters.

Needs to remain elevated.

EPS ALGORITHM BIFURCATION



HEDGEYE VS STREET: ALGORITHM ESTIMATES BY QUARTER

We're well ahead, but the company's guidance won't support this.

NKE FINANCIAL SUMMARY

Nike, Inc. (NKE)

\$51.71

FY17 ends May 2017

	2Q17E	2017E	2018E	2019E	2020E
Hedgeye EPS (\$)	0.48	2.54	3.26	4.08	4.81
Consensus (\$)	0.43	2.37	2.69	3.16	3.42
Variance %	11.6%	7.1%	21.2%	29.0%	40.7%

Sales (\$MM)	35,404	40,084	45,074	50,227
EBIT Margin	14.8%	16.4%	17.8%	18.3%
EBITDA (\$MM)	5,865	7,334	8,912	10,270
FCF Per Share (\$)	1.87	2.49	3.26	3.94
Book Value Per Share (\$)	7.59	8.44	9.67	11.17
Net Debt to Total Capital	-29.4%	-24.9%	-25.3%	-27.6%

P/E	20.4 x	15.8 x	12.7 x	10.7 x
EV/EBITDA	14.8 x	11.6 x	9.4 x	7.9 x
Price/Book	6.8 x	6.1 x	5.3 x	4.6 x
Cash Yield	3.6%	4.8%	6.3%	7.6%

Targeted Valuation Range

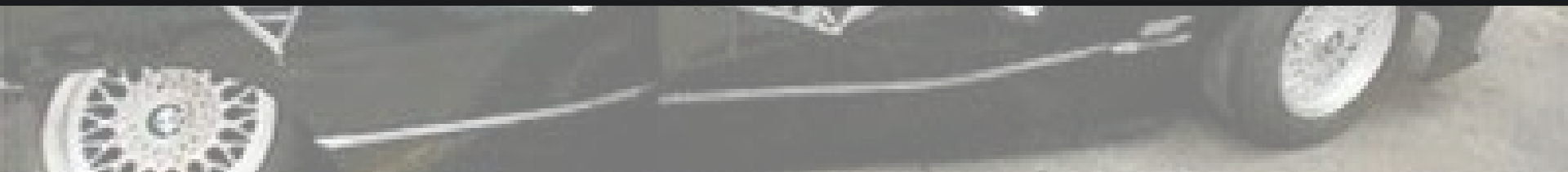
	EPS %	P/E	Price	EV/EBITDA
2017E	17.7%	18.0 x	46	13.0 x
2018E	28.5%	20.0 x	65	14.8 x
2019E	24.9%	22.0 x	90	16.5 x
2020E	18.0%	25.0 x	120	18.8 x

Investment Thesis Snapshot

1. Changing up a 40-year sourcing, manufacturing and distribution paradigm = \$5 in earnings. But today, that does not matter.
2. TRADE duration looks bad. Likely to be an implied guide down on the 2Q print in 4 weeks -- even though Nike does not need it.
3. The financial model is in tact for FY17 (May), and should come in ahead of consensus.
4. There will be a day -- likely soon -- to Buy Nike with impunity. Today is not the day.



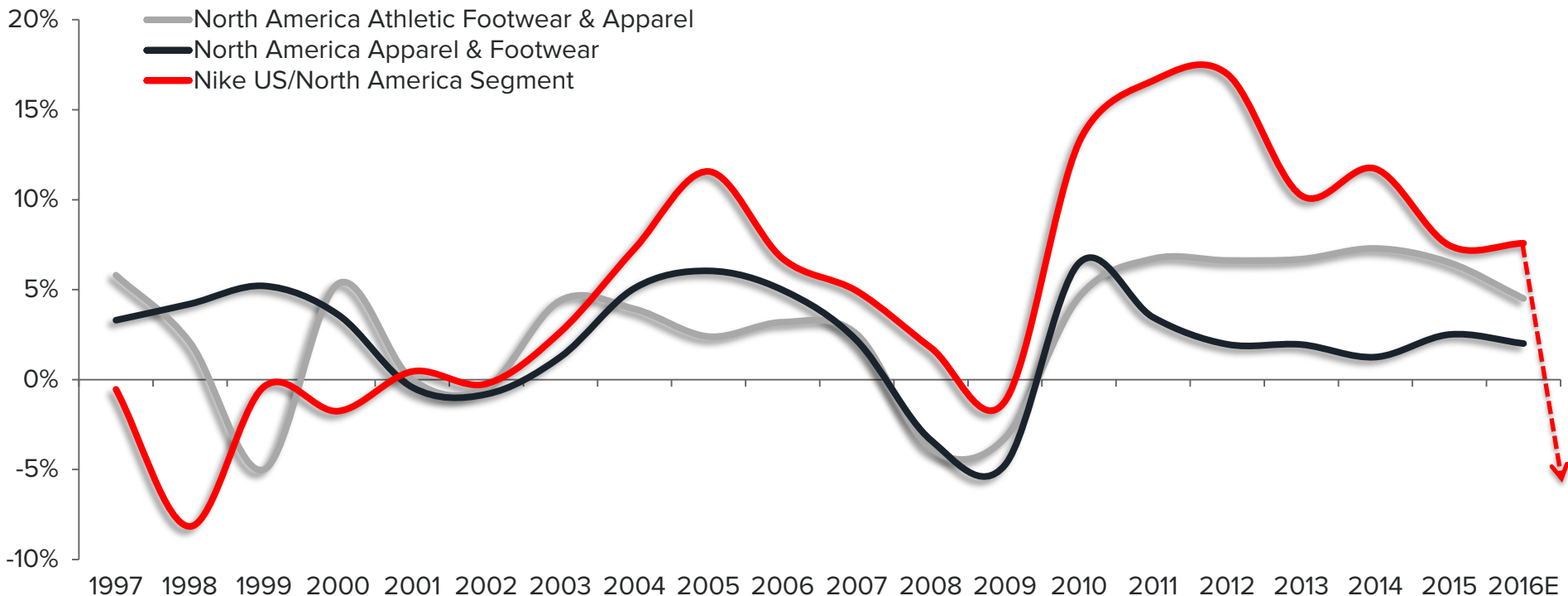
THIS IS WHAT SINKS THE STOCK



THIS IS WHAT TANKS THE STOCK

- Miss the quarter/guide down -- obvious
- -5 to -10% US Futures. Why Not?
- Tangible evidence of US share DECLINE – not share eroding share GAIN – there's a difference
- The 'Portfolio' Failing to Work (Int'l fails to pick up slack)
- Gross margin still not showing up for it's own party
- New CFO handles the call even worse than the 1Q call.
- NKE Throwing in the towel on Futures. Likely in '17. Don't be there that day.

TANK FACTOR 1: SHARE NEEDS TO OUTRIGHT DECLINE

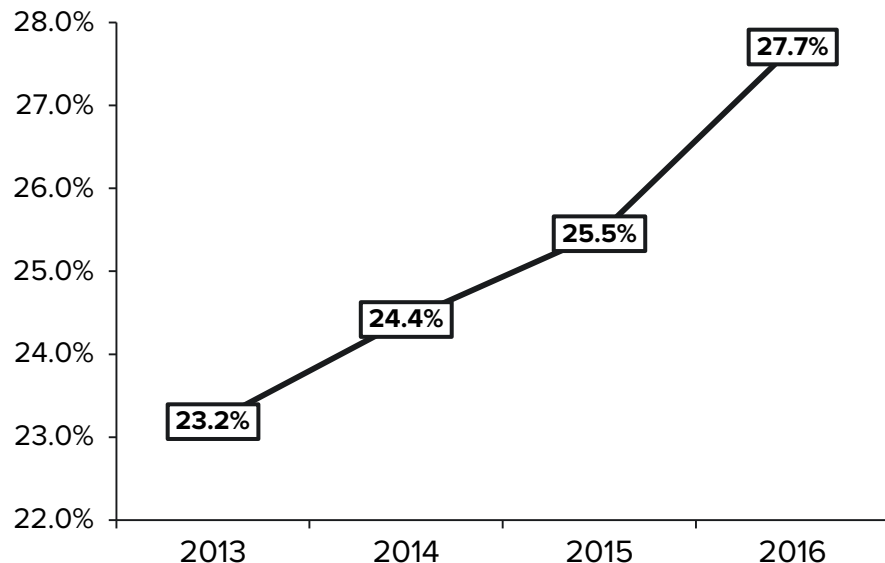


NORTH AMERICA: NIKE VS ATHLETIC VS APPAREL

Nike lost share when the last of the Millennials was born – and not since.
There's a difference between 'losing share' and 'gaining less share'.

THEORETICALLY, LT REV TARGET EASIER TO HIT THAN EVER

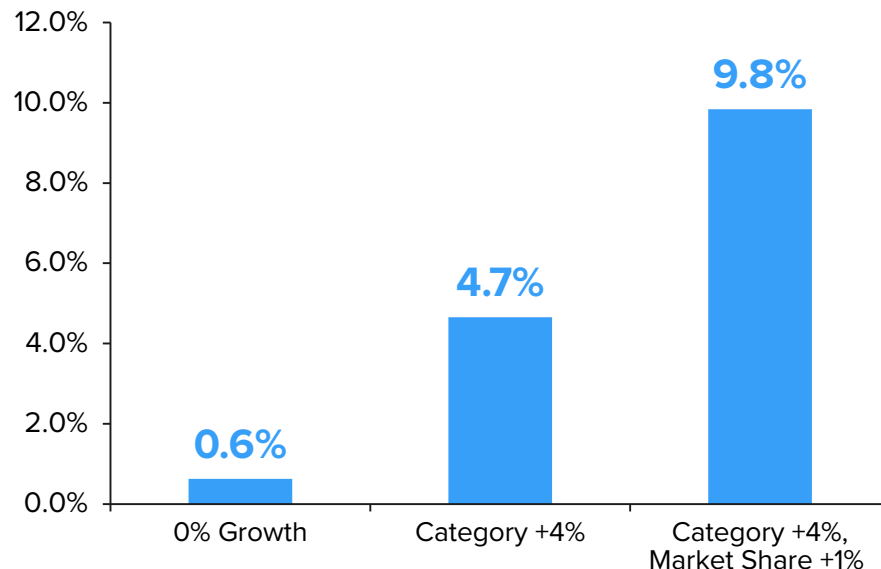
NKE NA DTC % OF TOTAL



NA DTC ACCELERATING OFF BIGGER BASE

NA DTC penetration up 500bps on P&L in 3yrs. Now 18% of end NKE retail dollars.

CHANNEL SHIFT \$ BUFFER



CHANNEL SHIFT BTW 0BPS-180BPS OF GROWTH

For every 1% change in sales mix at end retail, gives NKE 60bps of growth assuming no growth in category and flat market share.

NIKE FUMBLING FUTURES DISCLOSURE

2Q16 10-Q Jan 2016

1

“Moreover, a portion of our revenue is not derived from futures orders, including sales of at-once and closeout NIKE Brand footwear and apparel, sales of NIKE Brand equipment, sales from our DTC operations and sales from Converse, NIKE Golf and Hurley.”



3Q16 CC Mar 2016 - Q/A answer when asked about futures variance with revenue growth...

2

“One (point) is the lag between the futures order date for our DTC business, and the timing of sell-through to DTC end consumers, and that is a dynamic as we have a fast growing DTC business, particularly led by NIKE.com.”



3Q16 10-Q Apr 2016

3

“Consistent with prior periods, NIKE Brand reported futures include (1) orders from external wholesale customers and (2) internal orders from our DTC in-line stores and e-commerce operations which are reflected at prices that are comparable to prices charged to external wholesale customers.”



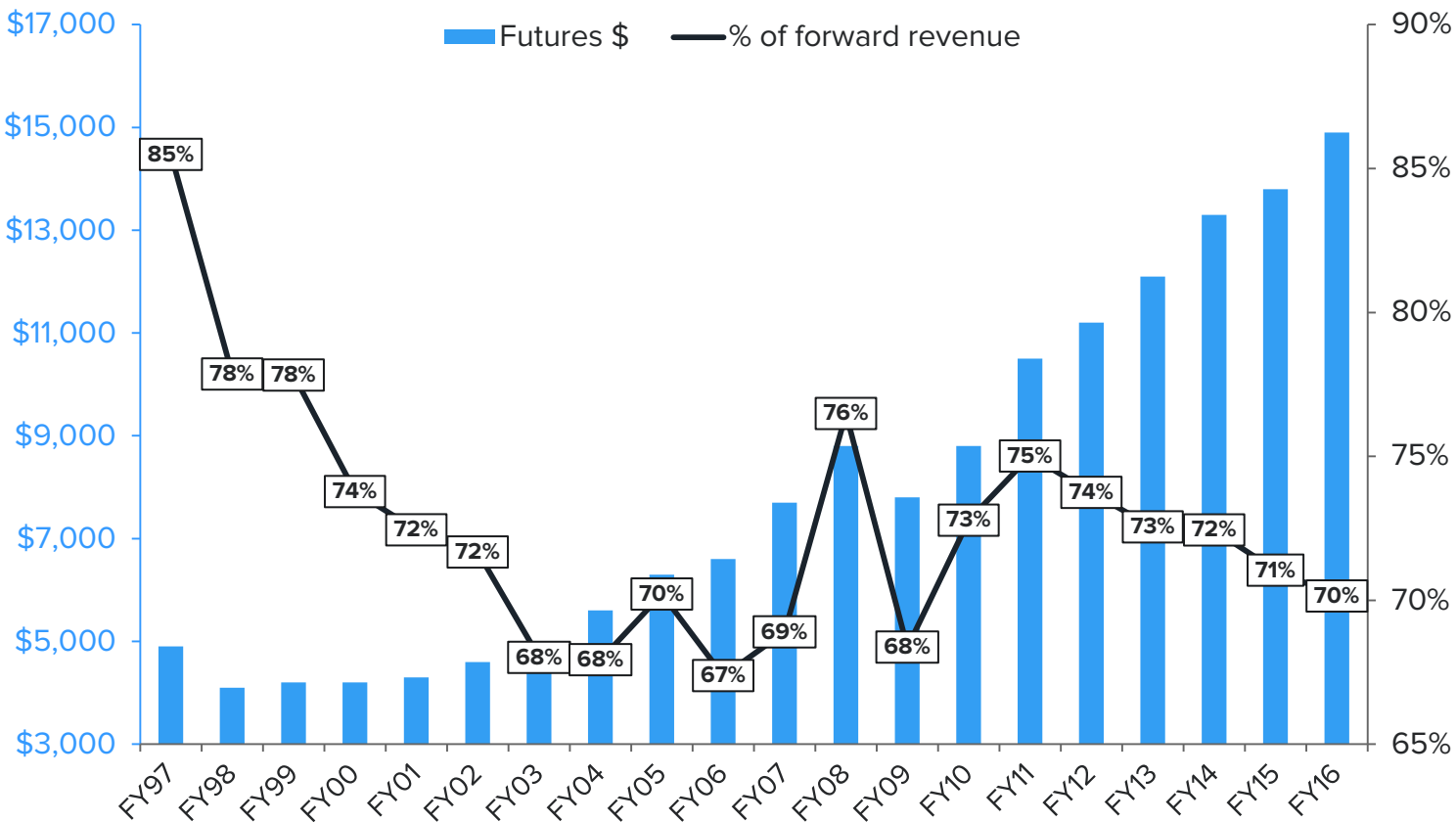
1Q17 CC Sep 2016

4

“Going forward... we will change the sequencing of our futures reporting. Futures will first be referenced in the context of the broader guidance that we provide on the earnings conference call, rather than as a standalone forward-looking metric in our Earnings Release.”

THE TRUTH ABOUT FUTURES

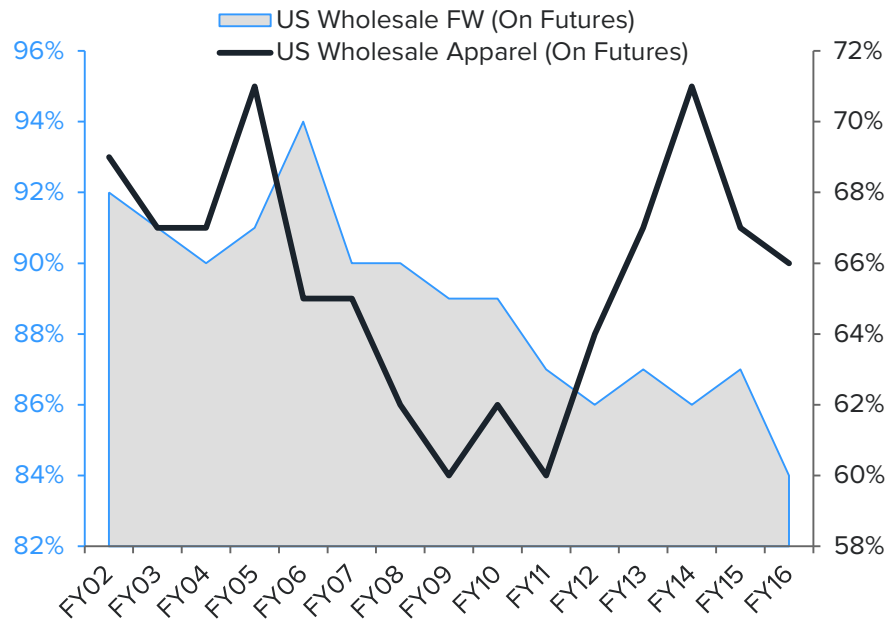
FUTURES NUMBERS LESS RELEVANT – EVEN AFTER PORTFOLIO PURGED



The 'Futures Does Not Matter As Much' argument only holds a little water globally.

But....

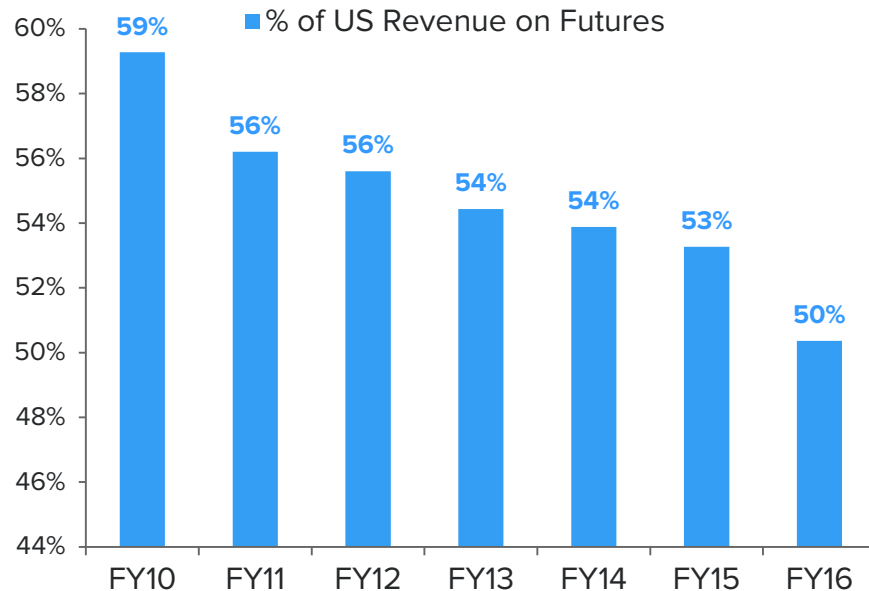
...BUT FUTURES ONLY 50% OF NA BUSINESS



FUTURES PROGRAM TRENDING DOWN

FW peaked out at 94%, to 84% today. That's just 39% of the business.

Total wholesale futures just 50% of NA business.



FORGET THE ACCOUNTING NOISE ON FUTURES

As a % of total NA revenue, futures orders placed by wholesale accounts has decreased by 900bps in 7 years.

REVENUE SENSITIVITY ALGORITHM

	Actual	Share -100bps		Share 0bps		Share +100bps	
	2016	2017		2017		2017	
Market Size (Global Ath APP+FW)	256,134	266,379	266,379	266,379	266,379	266,379	266,379
<i>Market Growth</i>	4.2%	4%	4%	4%	4%	4%	4%
Retail Equivalent (\$)	\$49,784	\$49,112	\$49,112	\$51,776	\$51,776	\$54,440	\$54,440
<i>YY % change</i>	4.6%	-1.4%	-1.4%	4.0%	4.0%	9.4%	9.4%
Market Share	19.4%	18.4%	18.4%	19.4%	19.4%	20.4%	20.4%
<i>YY bps change</i>	6 bps	-100 bps	-100 bps	0 bps	0 bps	100 bps	100 bps
DTC (\$)	\$7,857	\$9,036	\$9,821	\$9,036	\$9,821	\$9,036	\$9,821
<i>DTC Change</i>	18%	15%	25%	15%	25%	15%	25%
% Wholesale	75.7%	72.2%	70.1%	73.4%	71.4%	74.6%	72.7%
% DTC	24.3%	27.8%	29.9%	26.6%	28.6%	25.4%	27.3%
Reported (\$)	\$32,376	\$32,472	\$32,798	\$34,030	\$34,356	\$35,588	\$35,914
<i>Reported Revenue Growth</i>	5.8%	0.3%	1.3%	5.1%	6.1%	9.9%	10.9%
Wholesale Equivalent (\$)	\$29,114	\$28,721	\$28,721	\$30,278	\$30,278	\$31,836	\$31,836
<i>Wholesale Equivalent Growth</i>	4.6%	-1.4%	-1.4%	4.0%	4.0%	9.4%	9.4%

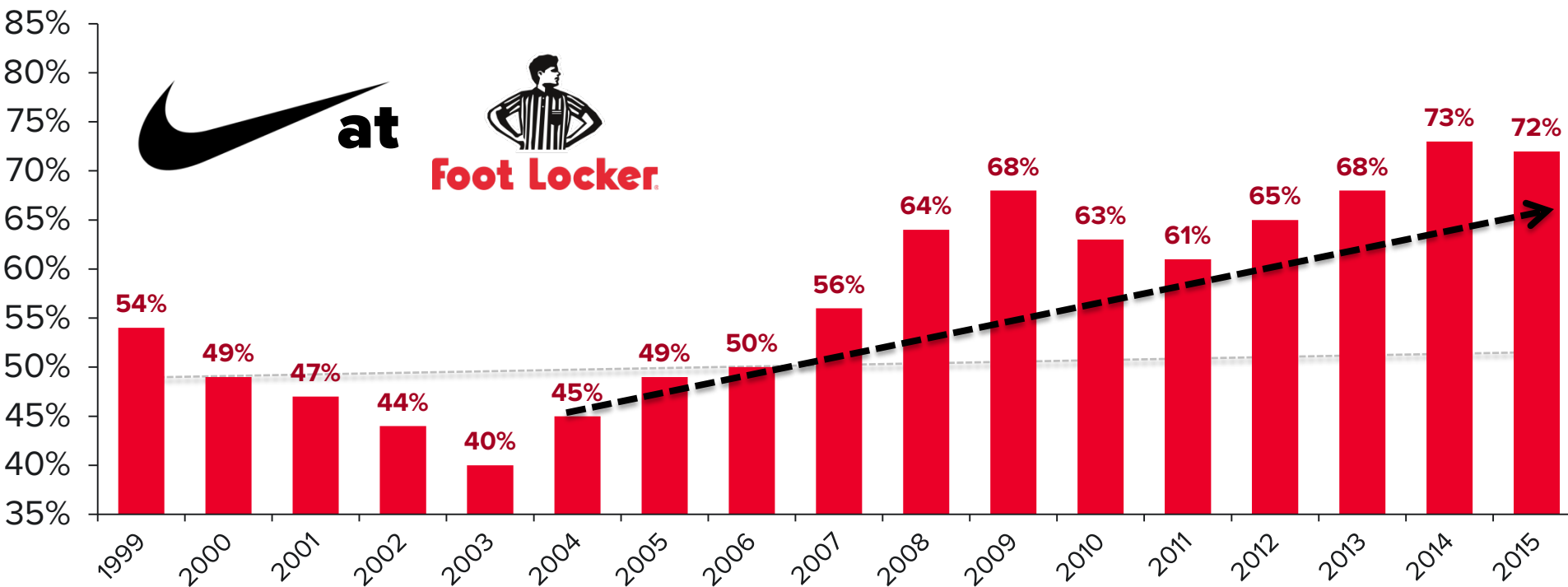
REPORTED REVS – NOT FUTURES – GO UP IN WORST CASE SCENARIO



A VERY HIGH STAKES CHESS MATCH



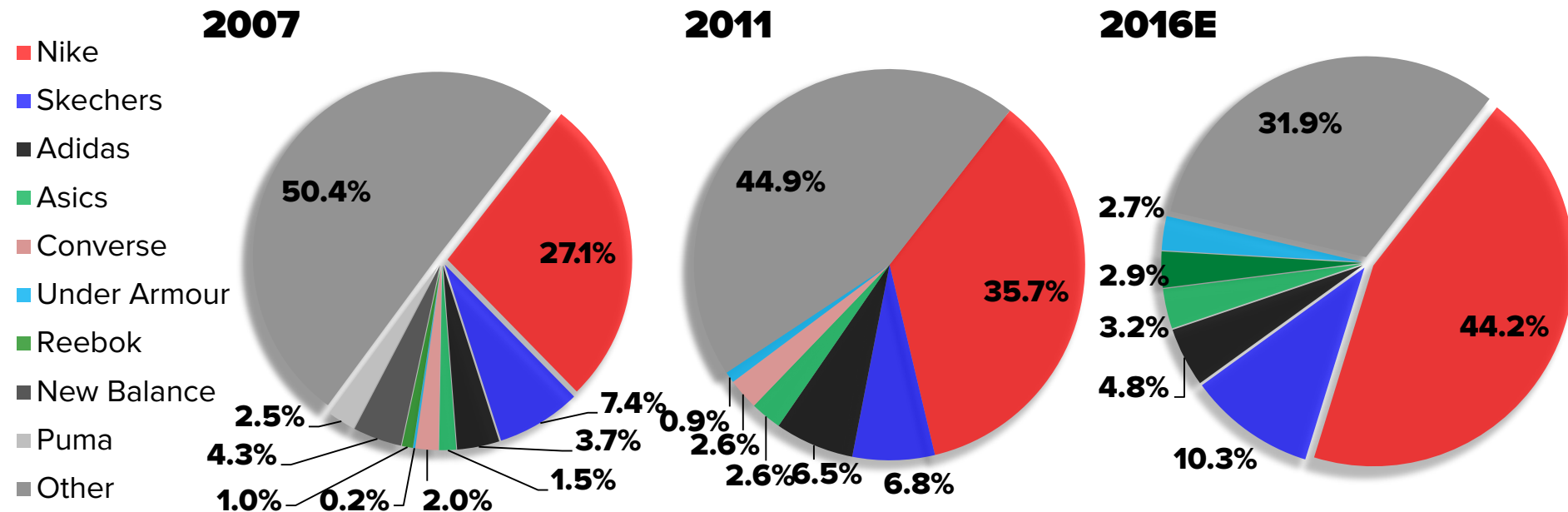
NIKE DROVE WHOLESALE TO FUEL DTC...



NIKE % OF PURCHASES FOR FOOT LOCKER INC.

Both parties won here. Nike accelerated cash flow growth to fund investment in e-comm business, and FL stock went up 5x.

...WHILE ADIBOK HEMORRHAGED SHARE...

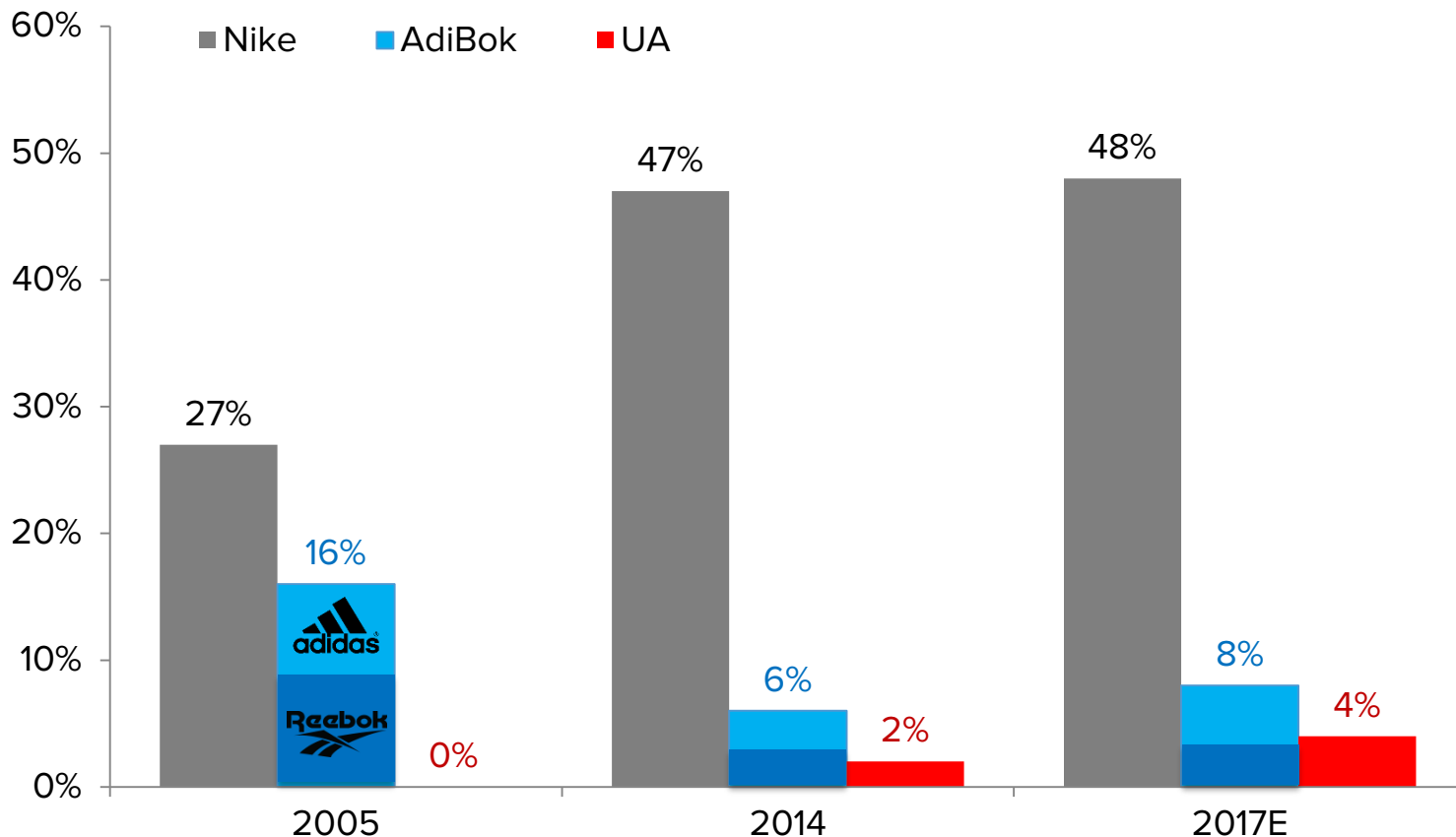


10 YEAR USA SPORTS FOOTWEAR MARKET SHARE

The footwear landscape has changed dramatically over the last decade.

REMEMBER THE BASE ADIBOK IS COMING FROM

US MARKET SHARE




At the merger, Nike and Adibok were about 10 pts from each other. At the peak around 2014, that spread expanded to 37 pts.

Now its holding steady as UA is gaining share.

ADIBOK + STUFF + CONVERSE + OUTLETS = WINNING

Nike saw ~2.5bn in Incremental EBIT
Over the Last Decade

\$500mm = 
CONVERSE®

\$575mm =

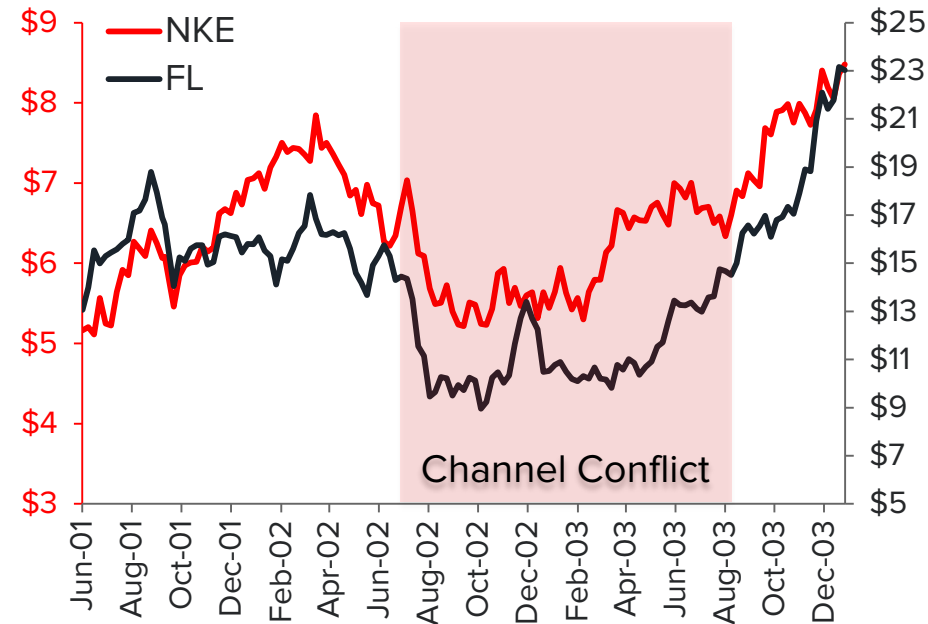


\$475mm =



\$420mm =

REVERSAL OF 10-YEAR POWER MOVE HAS CONSEQUENCES



NKE/FL IN '02/'03 CHANNEL CONFLICT

This happened once, and it will happen again.

FL: "Adidas is on a great run, they're having a lot of success"

FL: "Nike resetting the price/value relationship of many of its shoes"

HIBB: "Adidas has been the brand coming on strong in the category"

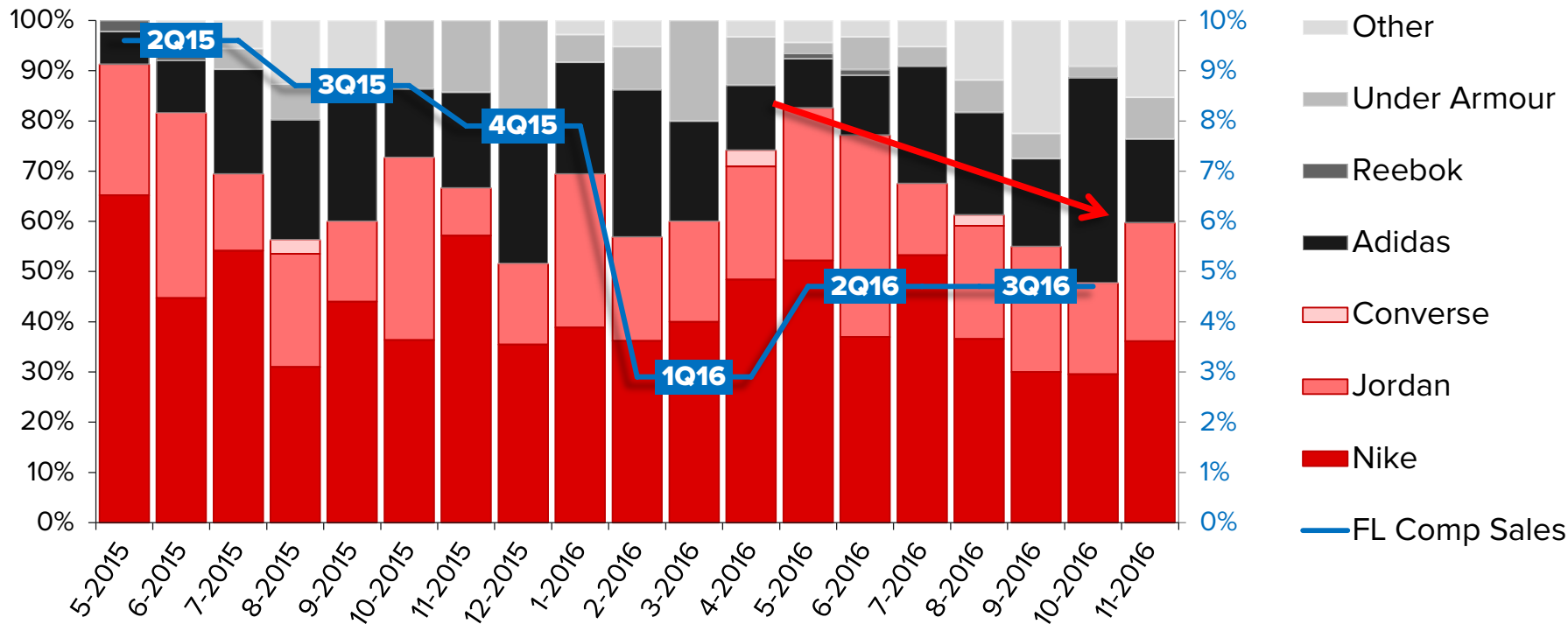
FINL: "Our Adidas business remains on fire across several platforms"

HIBB: "The margin complications of the lower price, that's a Nike issue."

RECENT NIKE/ADIDAS COMMENTARY

These statements are always made to appease the brands from which the retailers want better allocations.

ALL INNOVATION IS NOT CREATED EQUAL



FOOTLOCKER SHOE RELEASES BY BRAND

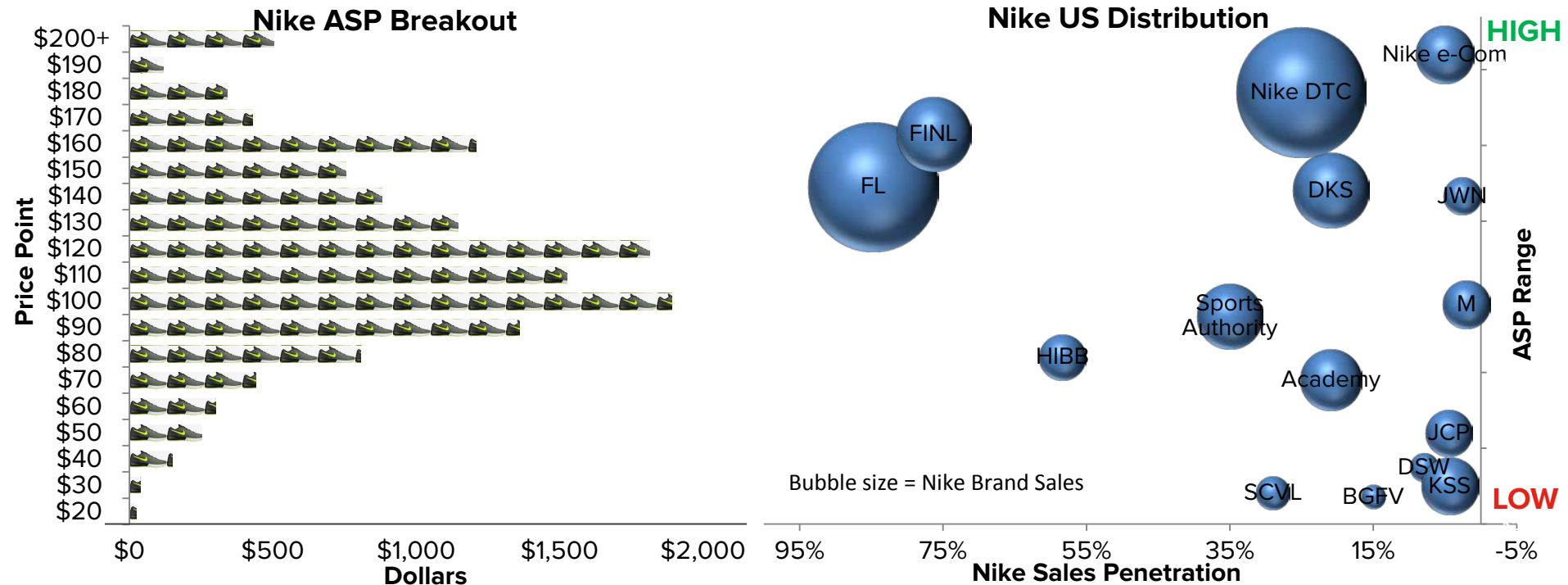
NKE % of monthly shoe releases at Footlocker down to 60% after peaking at 83% in May.

This does not mean 'lack of innovation, it means 'lack of innovation for FL.

THE BIG LONG TERM CALL IS ALSO THE BIG FRICTION

- The shift to a DTC model hurts perceived competitive positioning.
- It also hurts futures relative to realized growth.
- That should lead to futures being abandoned as a tracking metric.
- Most of this is necessary if Nike wants to change the 40-year paradigm of shoe manufacturing and distribution.

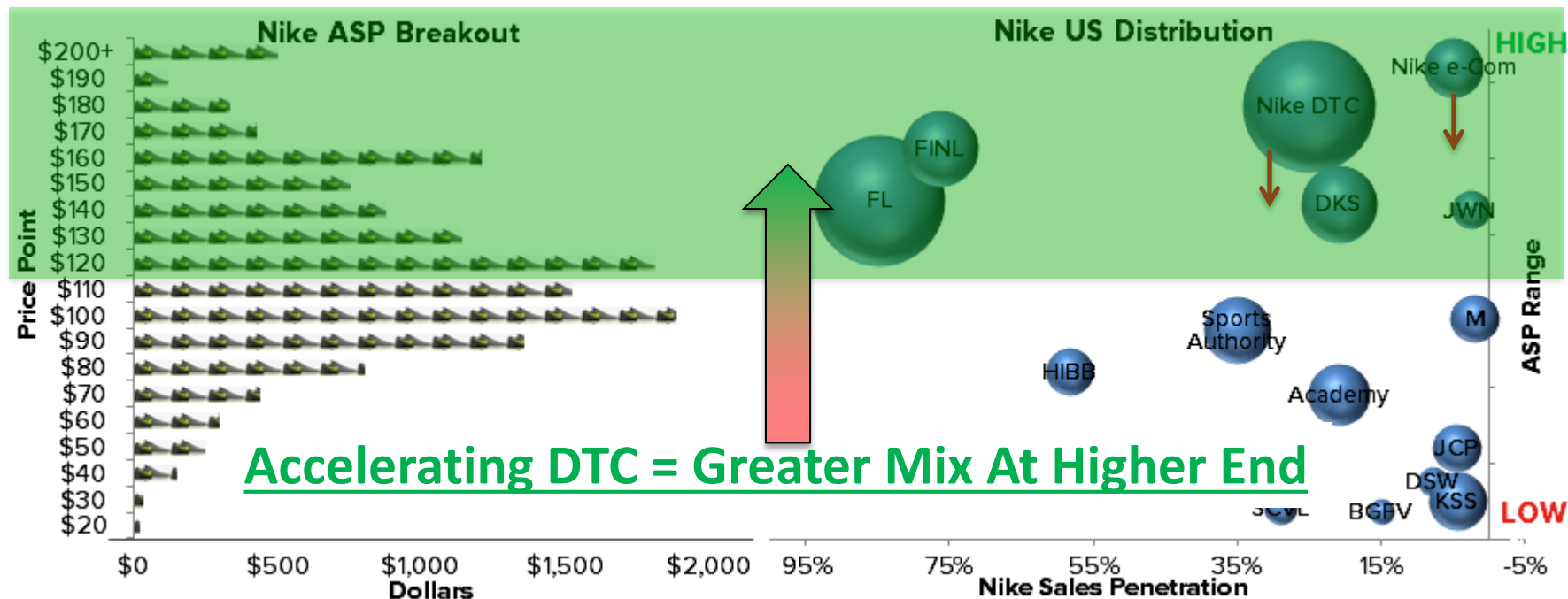
NIKE US UNIT DISTRIBUTION



NIKE IS LOCKED AND LOADED BETWEEN \$90-\$160/PAIR

Nike has a solid distribution of units by price point. The \$90-\$160 zone can definitely grow, but it's not the path of least resistance. If Nike sells more at a lower price (KSS) that's bad. Higher price point (\$200) accrues to Nike.

ASP IMPACT TO ACCRUE TO NIKE NOT WHOLESALE

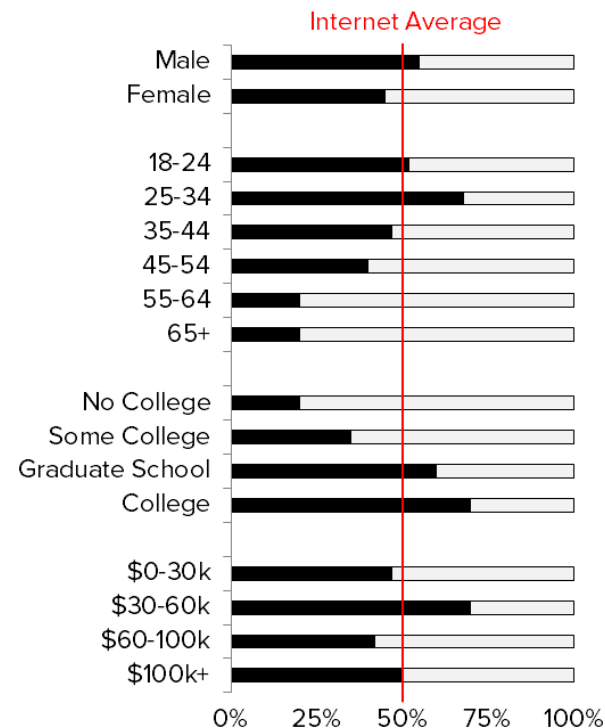
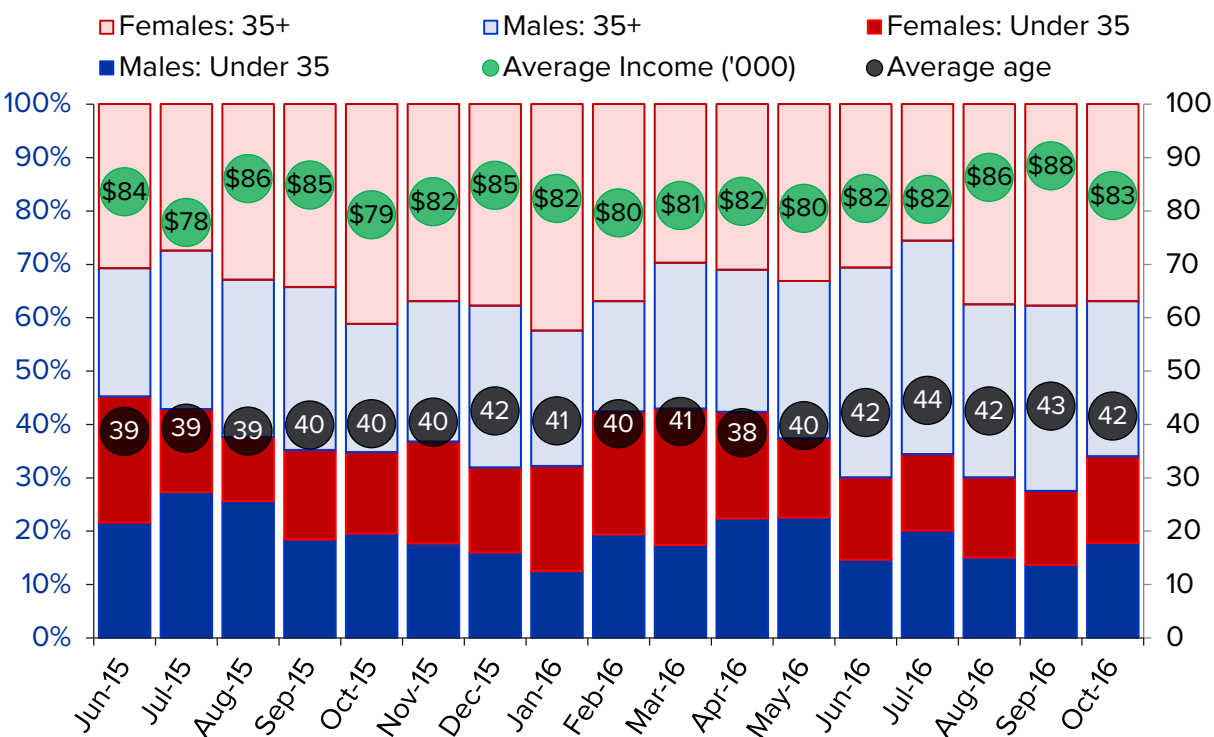


CHANNEL / ASP BIFURCATION



IS THE BRAND BROKEN?

NIKE ONLINE CONSUMER DEMO SPECIFICS

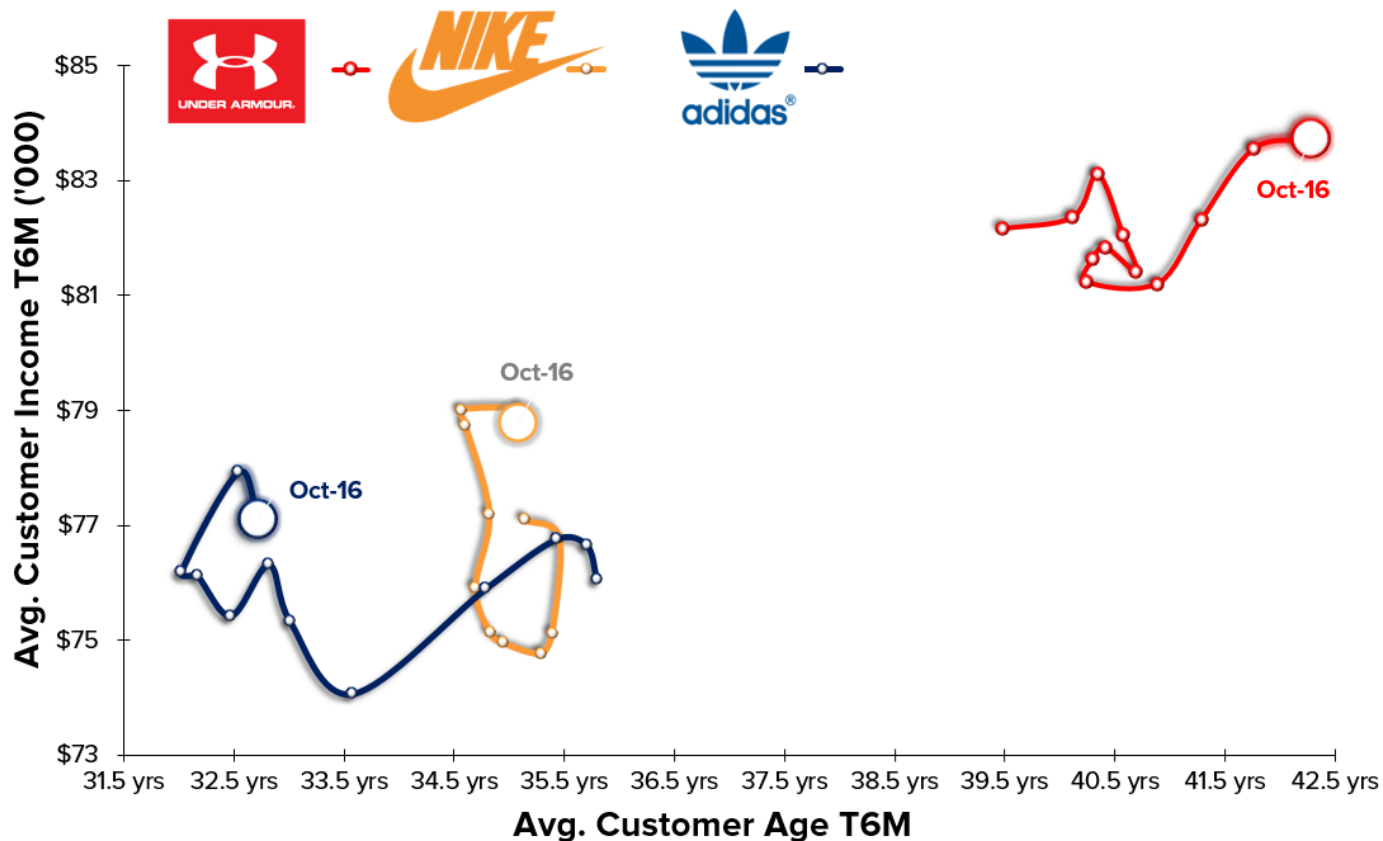


SNAPSHOT IN TIME IS A GOOD ONE

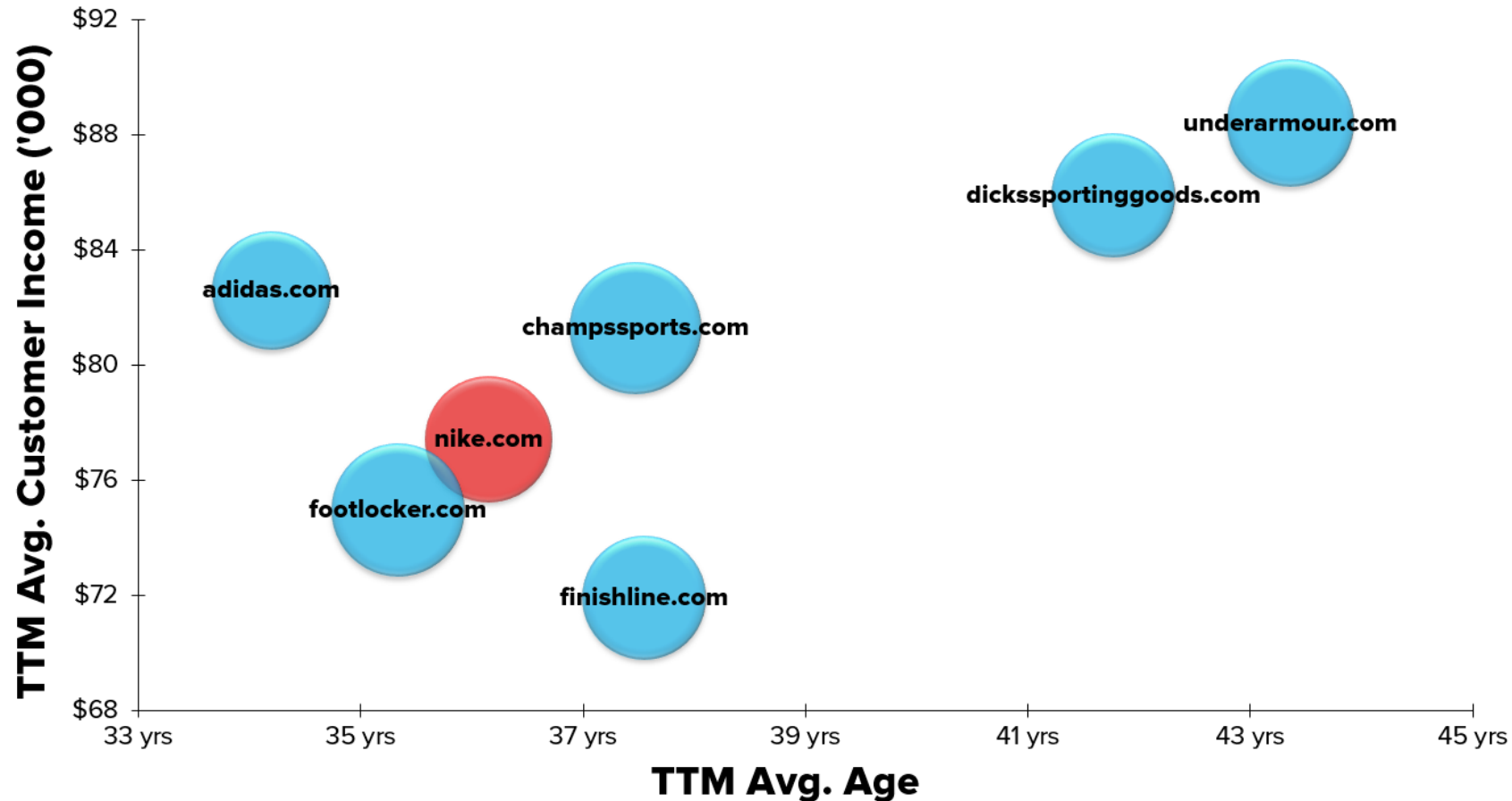
We'd like to see a greater proportion of Females in the mix, but 'urban dudes' are the authenticator here.

THE CHART NIKE WON'T WANT YOU TO SEE

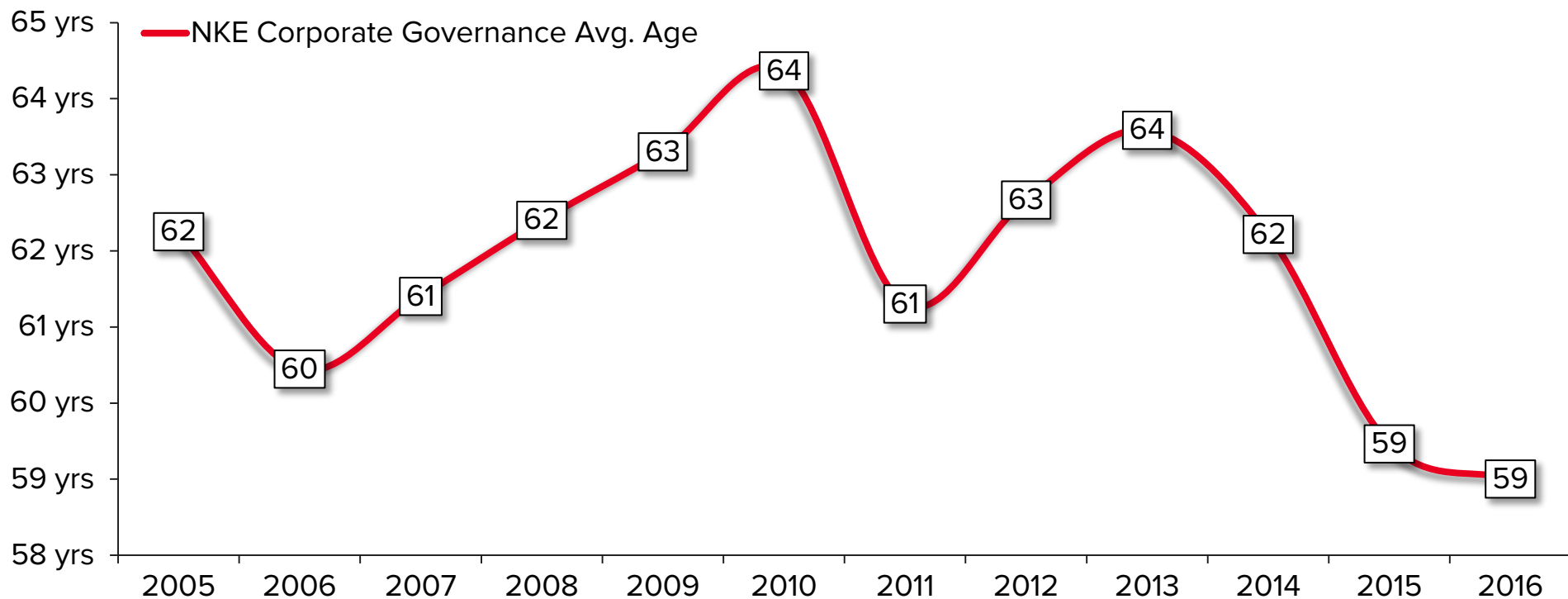
MONTHLY AVERAGE CUSTOMER AGE VS. INCOME



TTM AVG. CUSTOMER AGE VS. INCOME



AVG. AGE OF NKE EXEC TEAM DECLINING

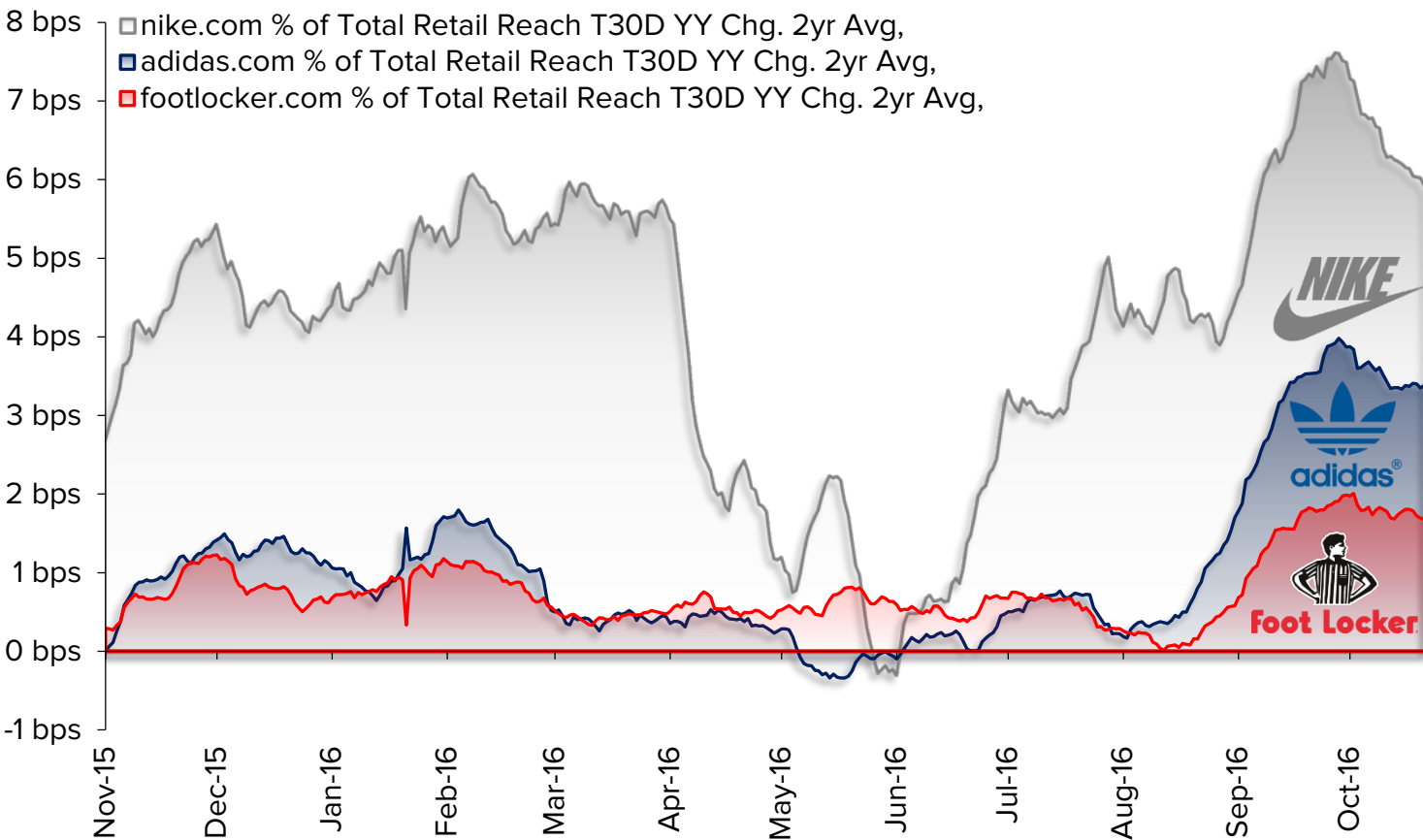


NKE EXECUTIVE TEAM AVERAGE AGE

This is actually the most bullish we've seen out of Nike in over a decade.

CONTENT WINNING, DISTRIBUTION LOSING

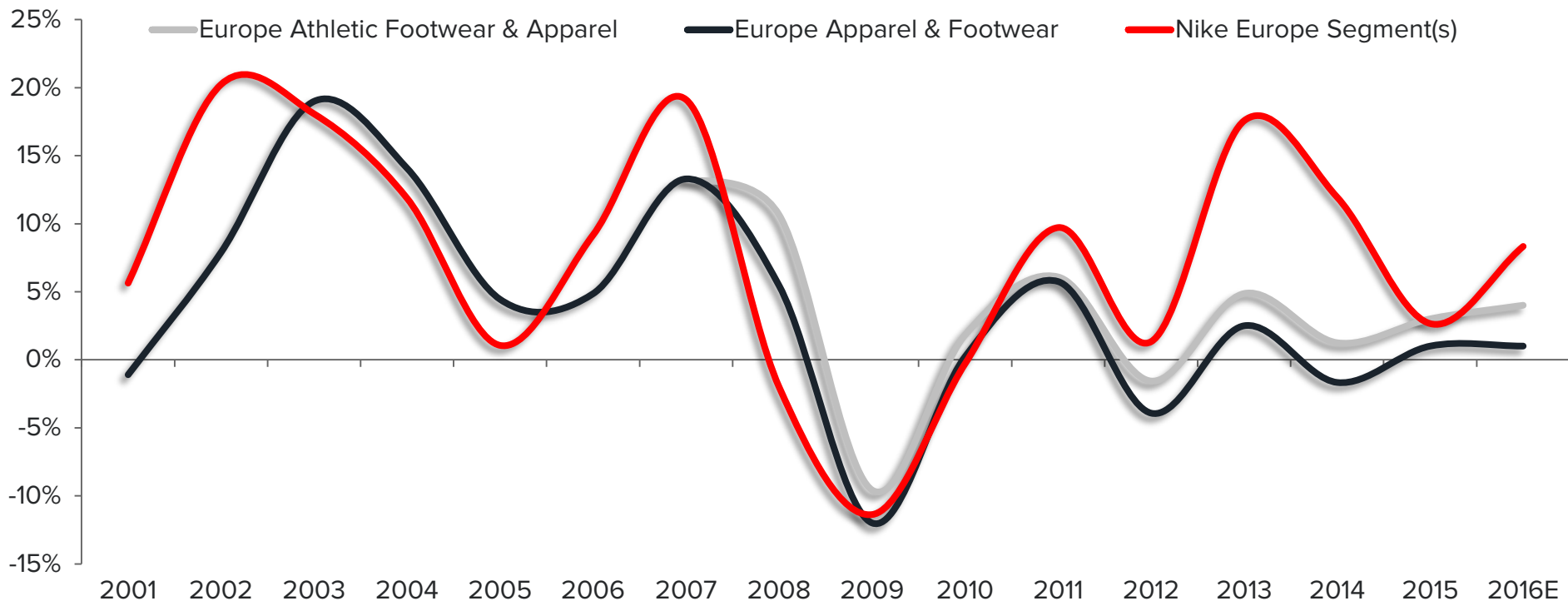
NIKE.COM VS ADIDAS.COM DAILY ONLINE REACH GROWTH



Adidas is ripping, but Nike ain't doing too bad either.

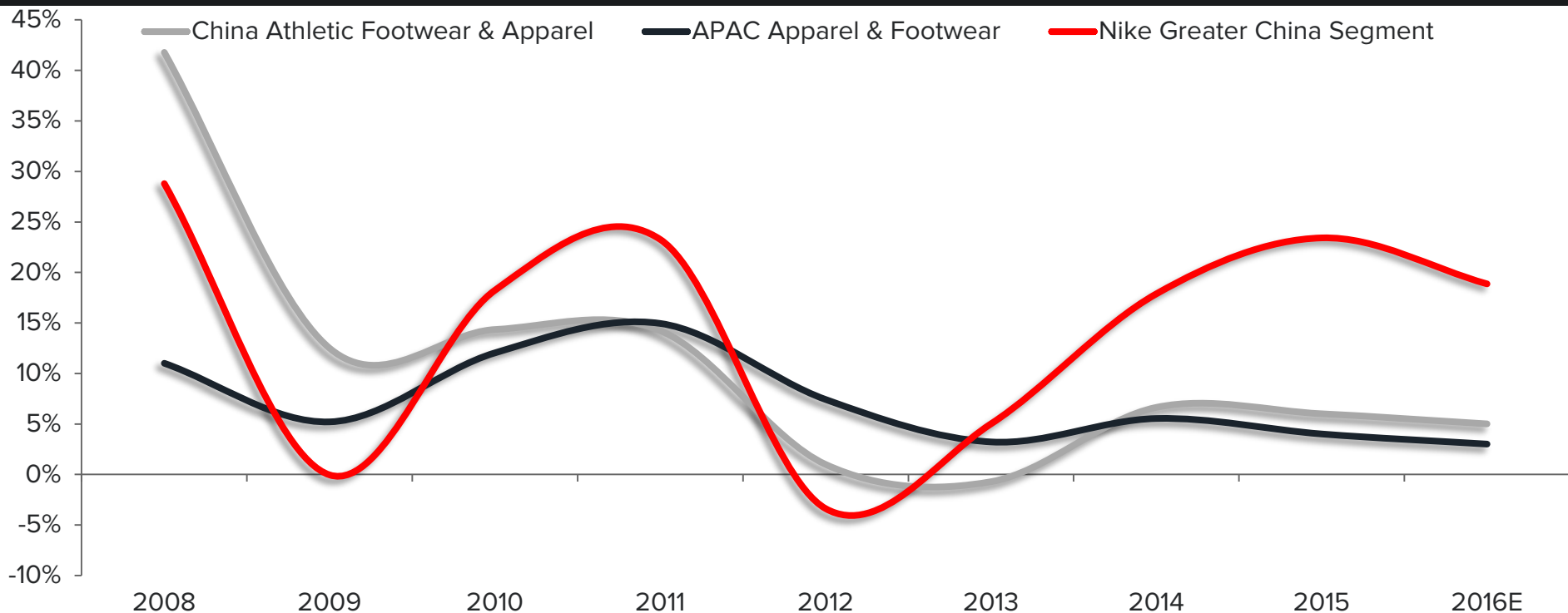
FL = bad

EUROPE: WINNING



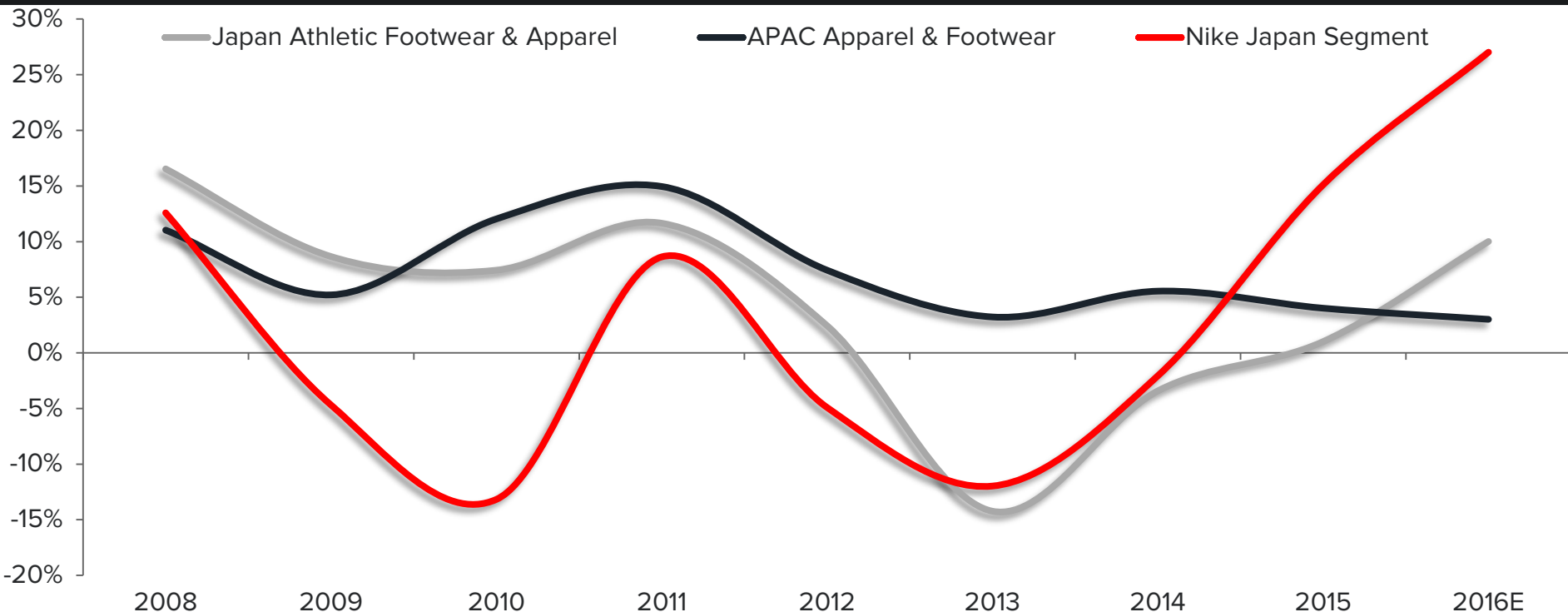
EUROPE: NIKE VS ATHLETIC VS APPAREL GROWTH

CHINA: WINNING



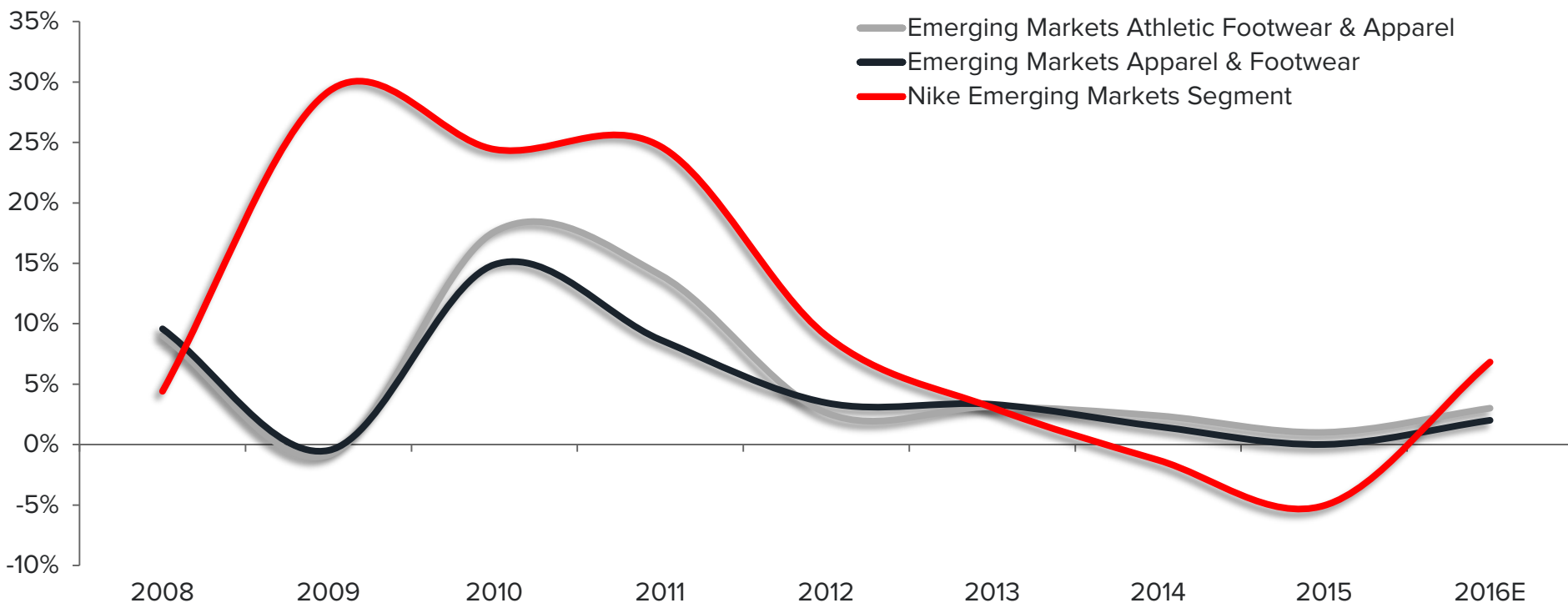
CHINA: NIKE VS ATHLETIC VS APPAREL GROWTH

APAC: (FINALLY) WINNING



JAPAN: NIKE VS ATHLETIC VS APPAREL GROWTH

EMERGING MARKETS: EMERGING?

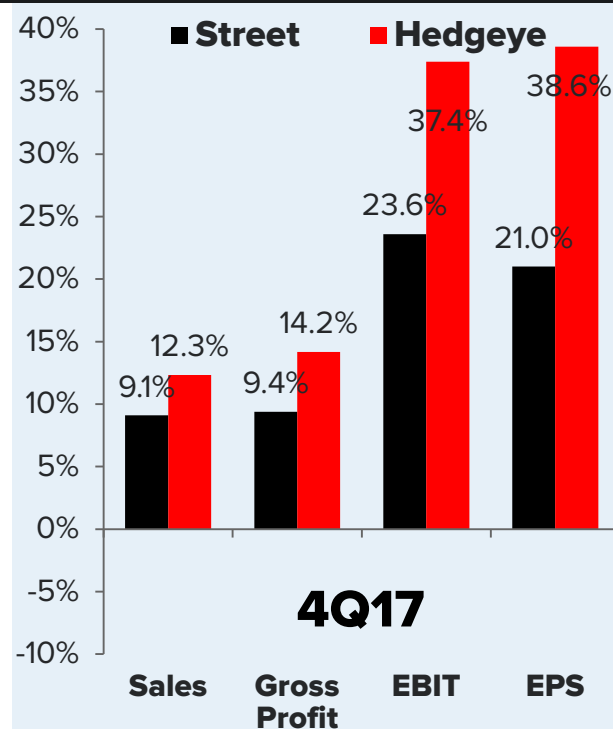
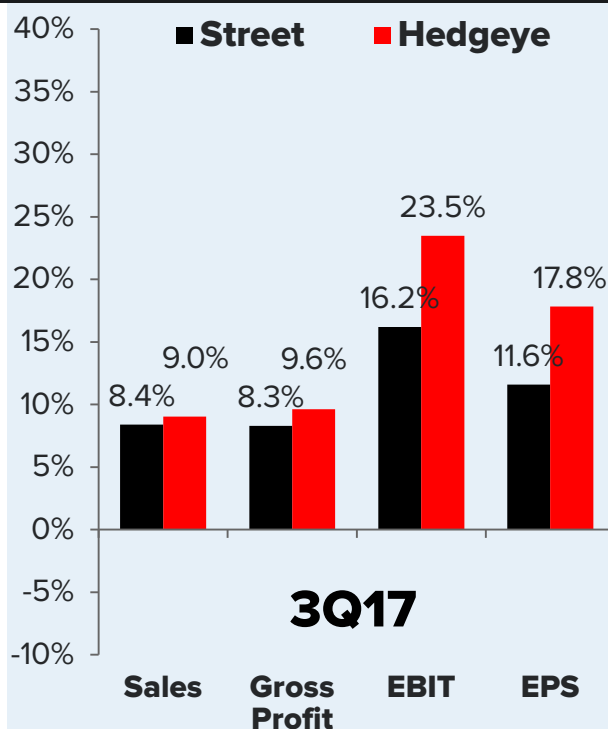
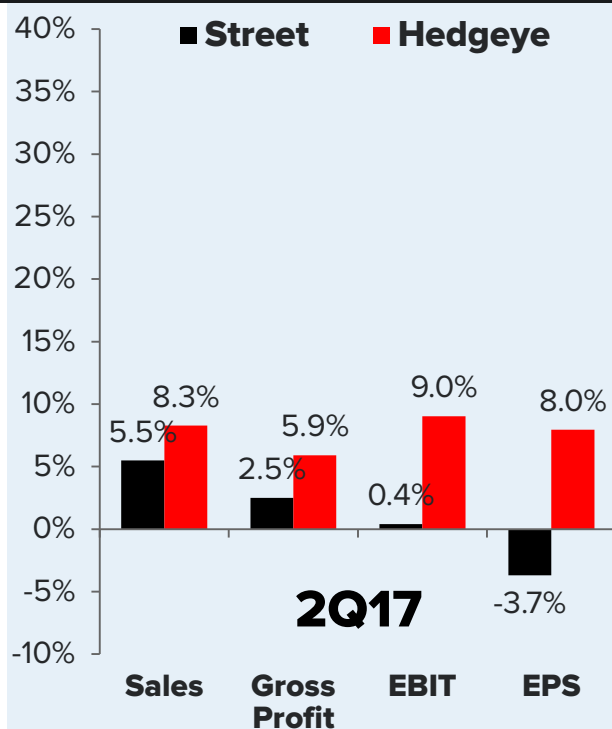


EMERGING MARKETS: NIKE VS ATHLETIC VS APPAREL GROWTH

JUST DO IT.

ISSUE #2. HIT NUMBERS OR NOT?

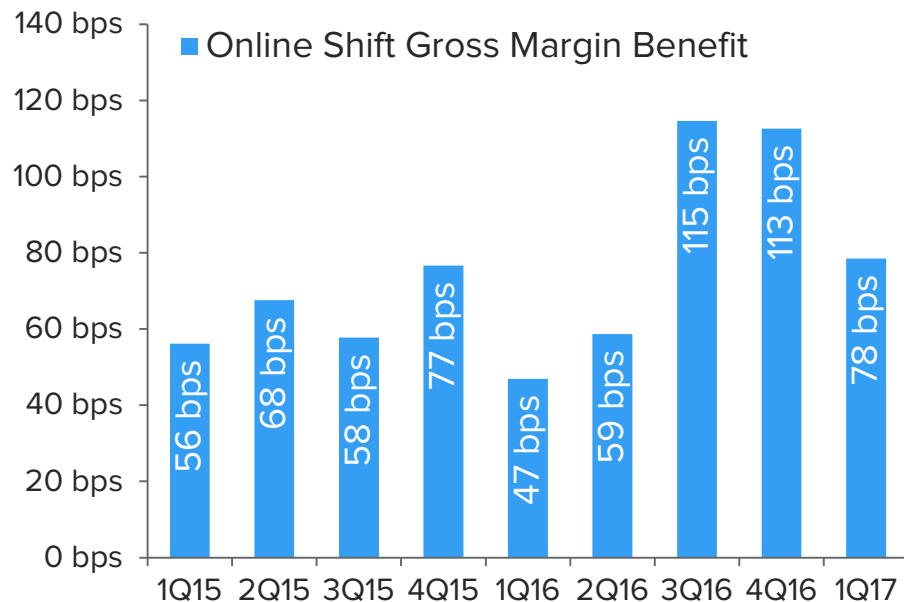
EPS ALGORITHM BIFURCATION



HEDGEYE VS STREET: ALGORITHM ESTIMATES BY QUARTER

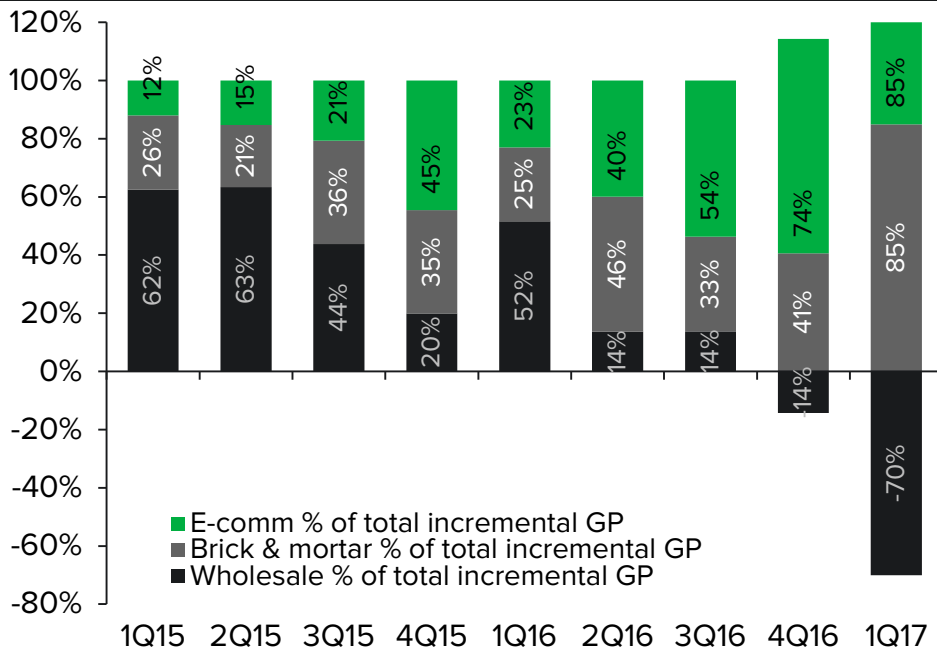
We're well ahead, but the company's guidance won't support this.

ECOMMERCE MARGIN WALK



BPS BENEFIT FROM ONLINE SHIFT

Assumes Ecommerce Gross Margin at 70%, B&M DTC at 50%



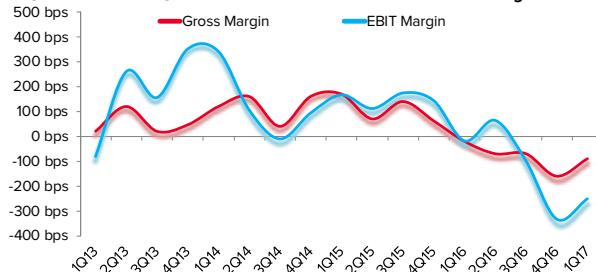
GP\$ GROWTH DRIVERS BY DISTRO CHANNEL

Wholesale channel cleanup, and FX transactional pressure offsetting ecommerce benefit.

MARGIN BY SEGMENT

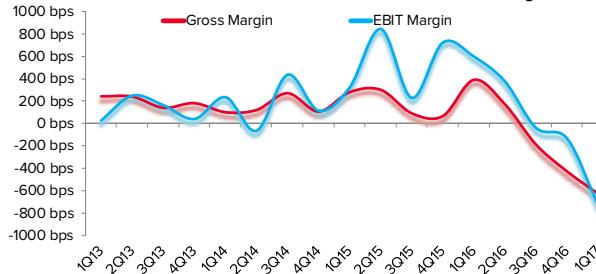
NORTH AMERICA

TTM EBIT Margin: 24.8%



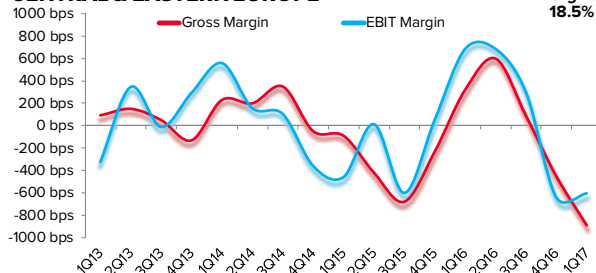
WESTERN EUROPE

TTM EBIT Margin: 22.3%



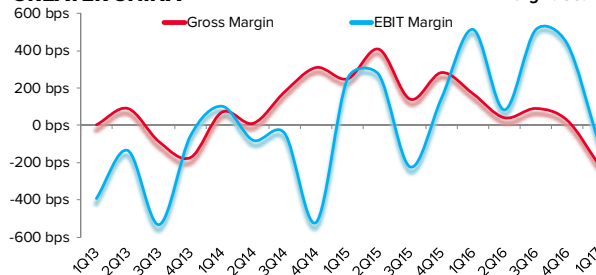
CENTRAL & EASTERN EUROPE

TTM EBIT Margin: 18.5%



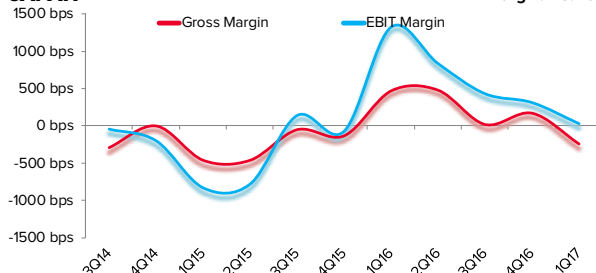
GREATER CHINA

TTM EBIT Margin: 36.1%



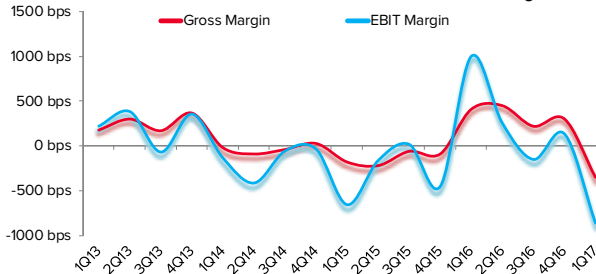
JAPAN

TTM EBIT Margin: 20.1%



EMERGING MARKETS

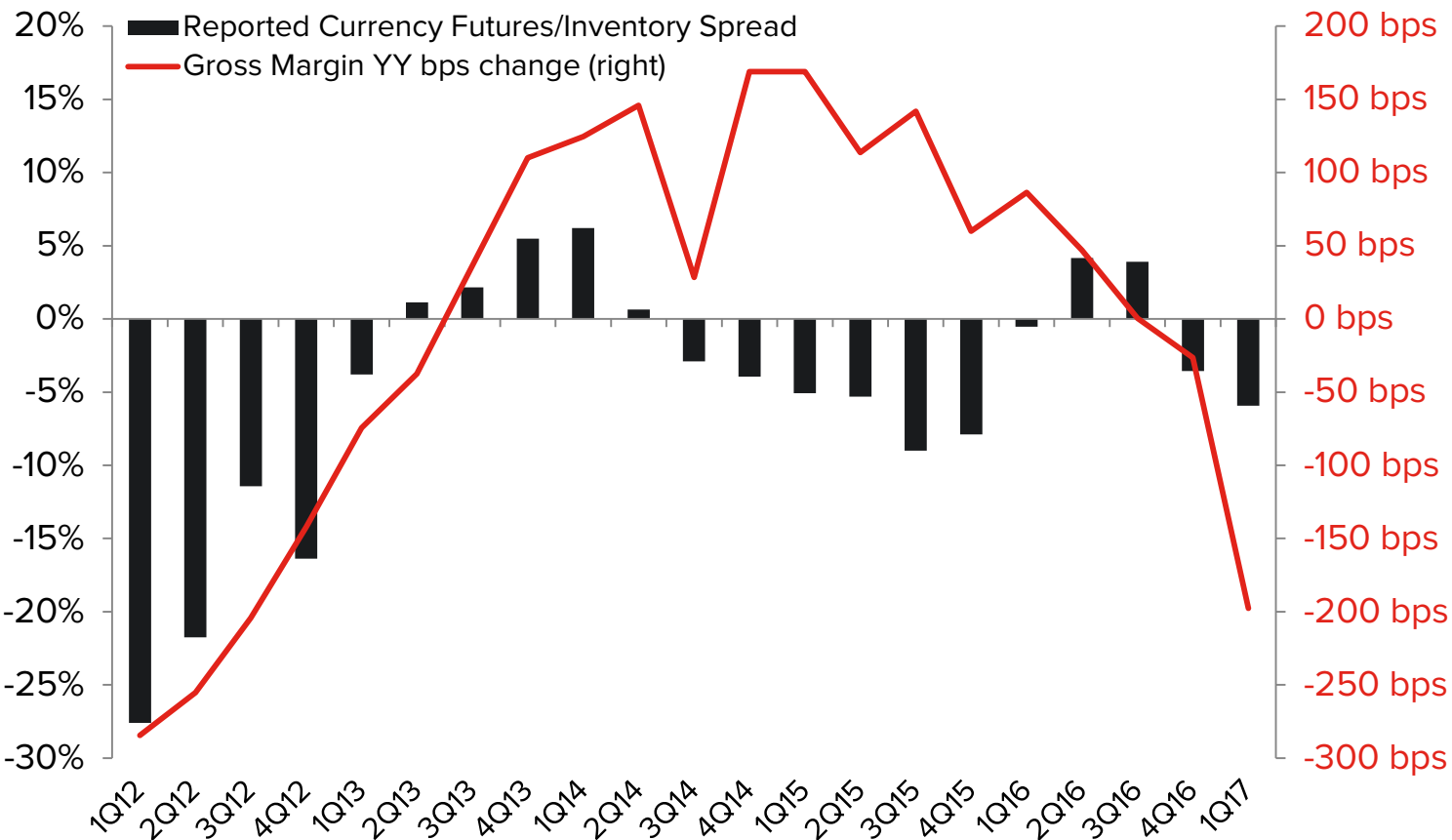
TTM EBIT Margin: 21.9%



Downtrend continues as FX hits reported financials.

FUTURES, INVENTORY, GROSS MARGIN TRIANGULATION

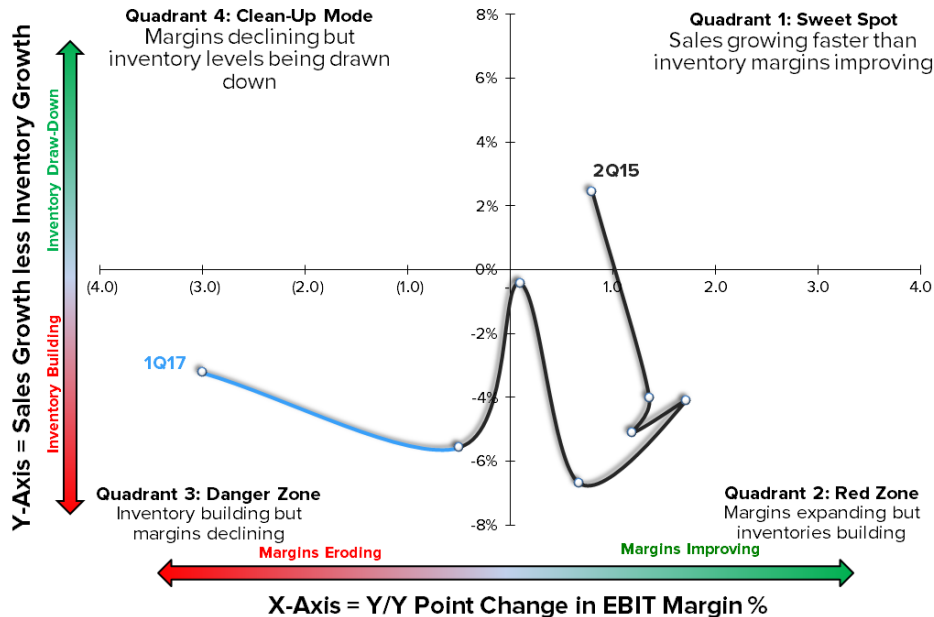
FUTURES VS. INVENTORY GROWTH VS. GM



Here's the most important chart to watch.

HIGH INVENTORIES + UNUSUAL DISCOUNTING

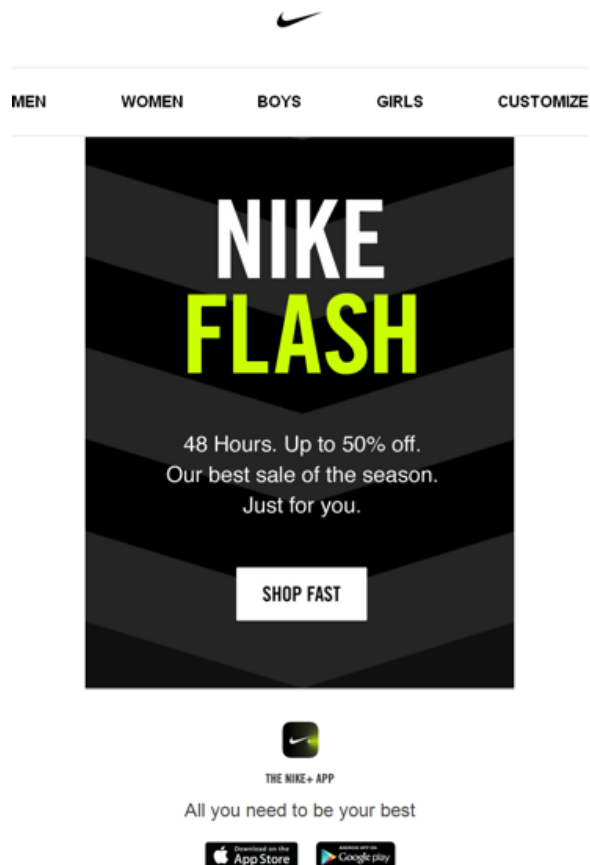
NKE SIGMA



UNUSUAL DISCOUNTING



THIS IS NOT HORRIBLE, BUT IT'S NOT NORMAL



The Nike website banner features the Nike swoosh logo at the top center. Below it is a navigation bar with links for MEN, WOMEN, BOYS, GIRLS, and CUSTOMIZE. The main banner has a black background with diagonal grey stripes. The text "NIKE FLASH" is prominently displayed in white and yellow. Below this, it says "48 Hours. Up to 50% off. Our best sale of the season. Just for you." and a "SHOP FAST" button. At the bottom, there is a small Nike+ app icon and the text "THE NIKE+ APP" and "All you need to be your best", followed by "Download on the App Store" and "GET IT ON Google play" buttons.

NIKE
FLASH

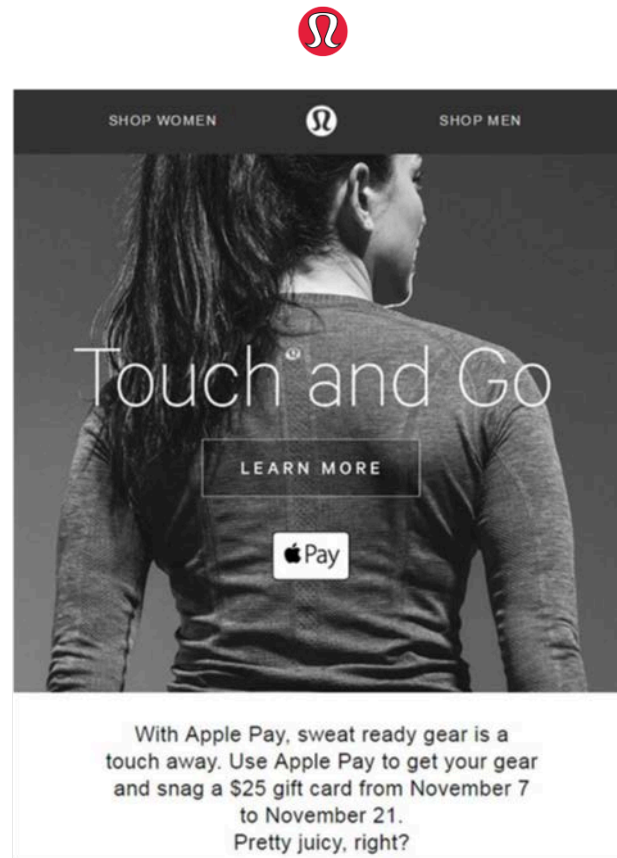
48 Hours. Up to 50% off.
Our best sale of the season.
Just for you.

SHOP FAST

THE NIKE+ APP

All you need to be your best

Download on the App Store GET IT ON Google play



The Lululemon website banner features the Lululemon logo at the top center. Below it is a navigation bar with links for SHOP WOMEN and SHOP MEN. The main banner has a dark background with a woman's back and shoulders visible. The text "Touch and Go" is prominently displayed in white. Below this, it says "LEARN MORE" and "Apple Pay". At the bottom, there is a promotional message: "With Apple Pay, sweat ready gear is a touch away. Use Apple Pay to get your gear and snag a \$25 gift card from November 7 to November 21. Pretty juicy, right?"

Touch and Go

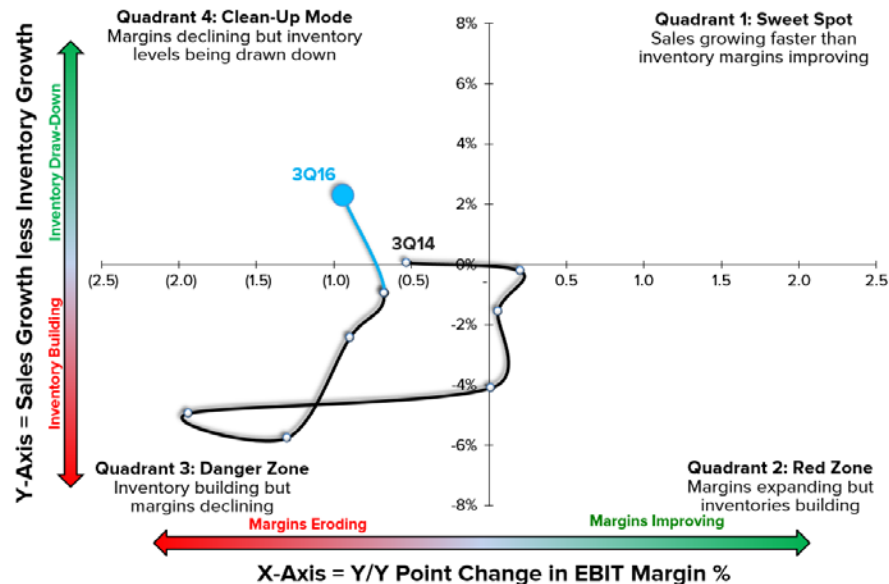
LEARN MORE

Apple Pay

With Apple Pay, sweat ready gear is a touch away. Use Apple Pay to get your gear and snag a \$25 gift card from November 7 to November 21. Pretty juicy, right?

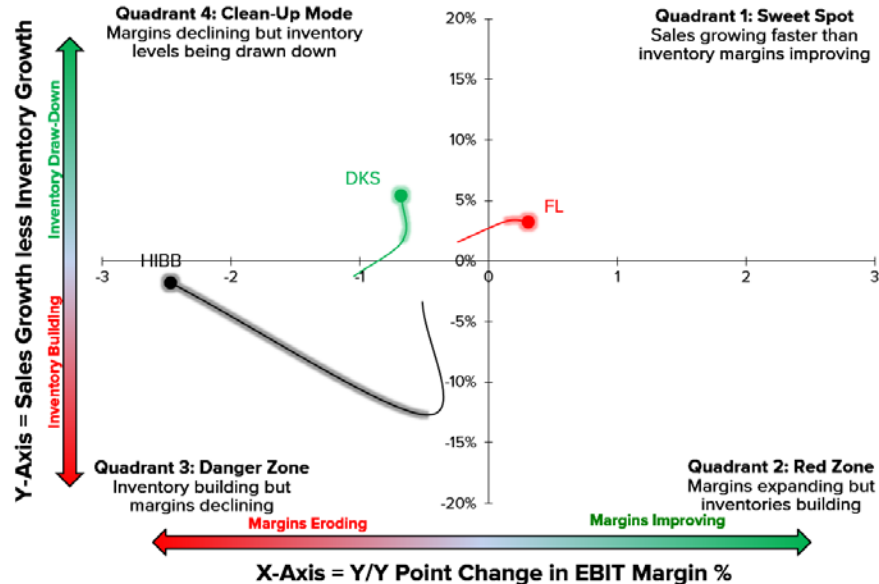
MIXED DATAPPOINTS

SPECIALTY ATHLETIC SIGMA



The channel is getting cleaner.

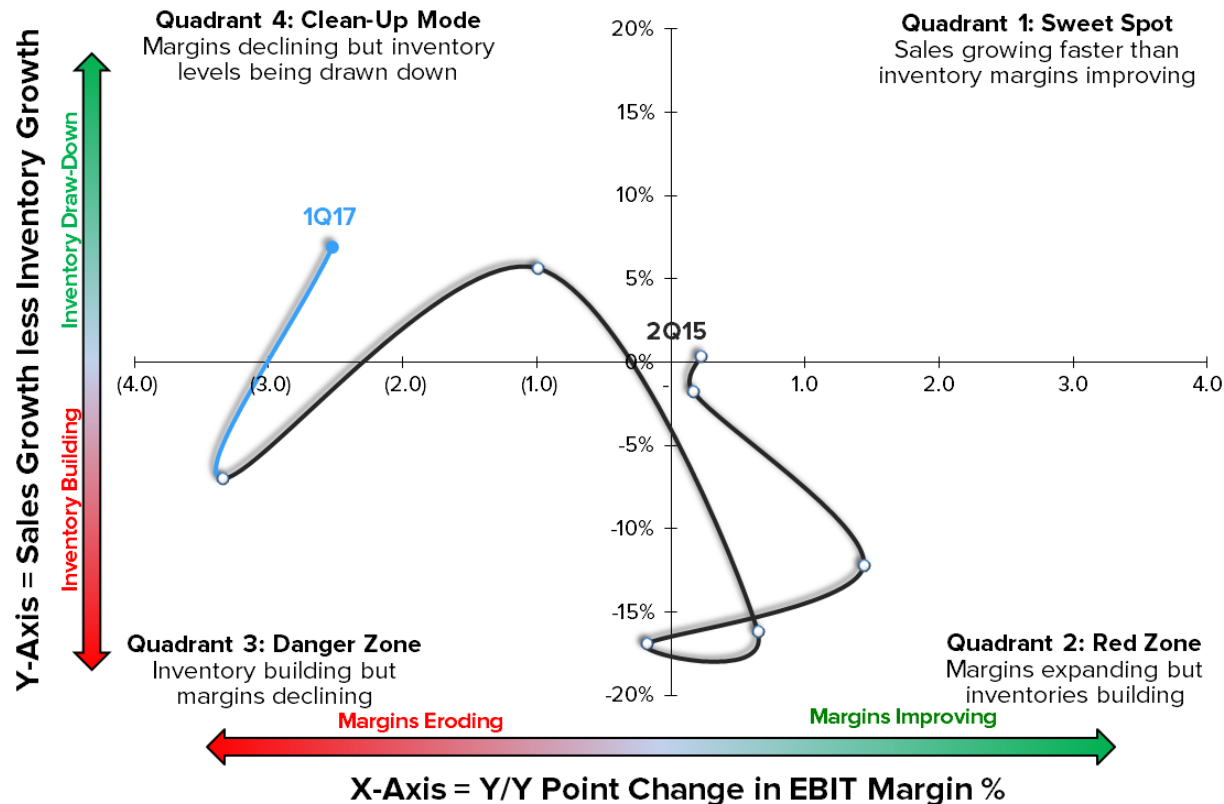
FL VS DKS VS HIBB 3Q16 SIGMA



Uniform among retailers.

NKE NORTH AMERICA -- FINALLY

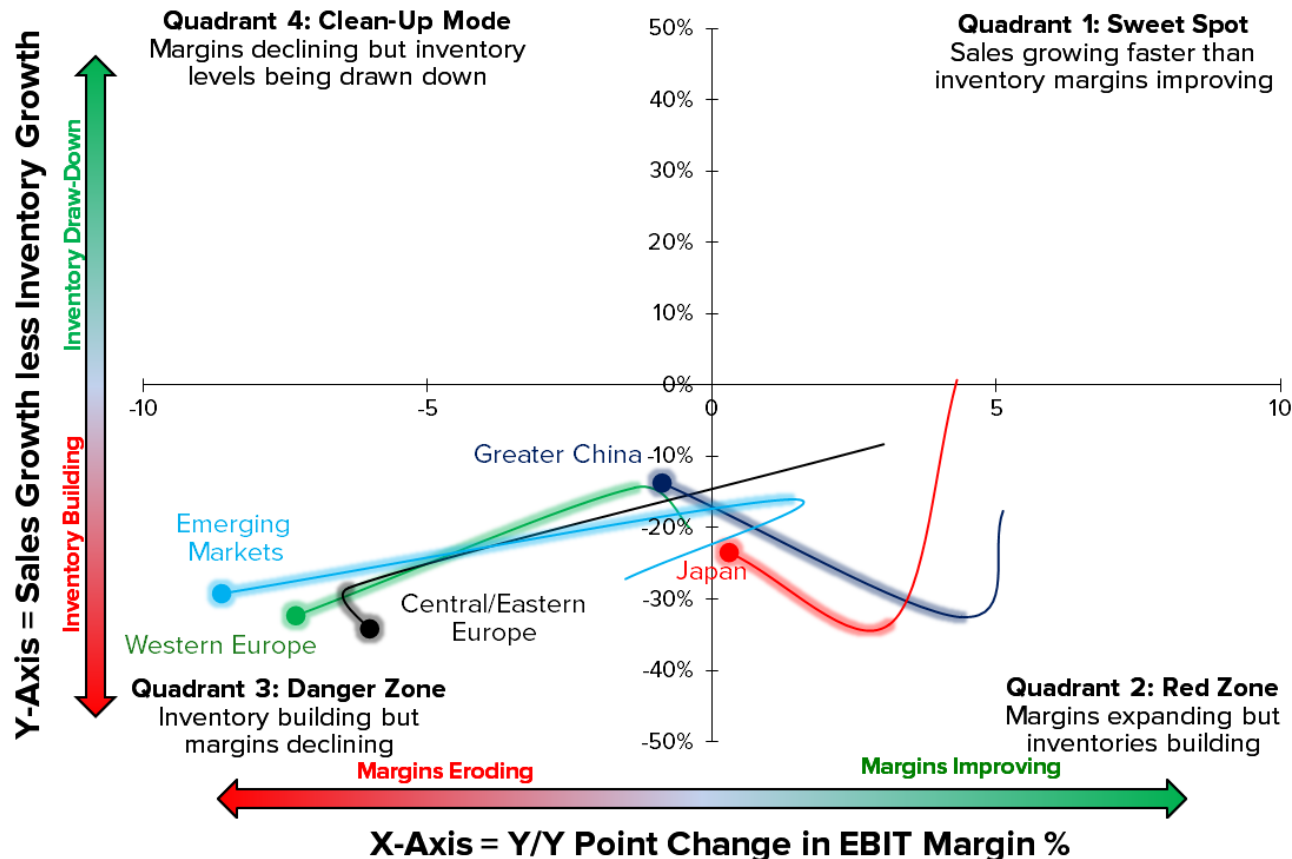
NKE NORTH AMERICA 1Q17 SIGMA



Inventories headed in the right direction here, but definitely came at the expense of margins.

INVENTORY 'ISSUES' ARE LARGELY FX/ACCOUNTING

NKE INTERNATIONAL 1Q17 SIGMA



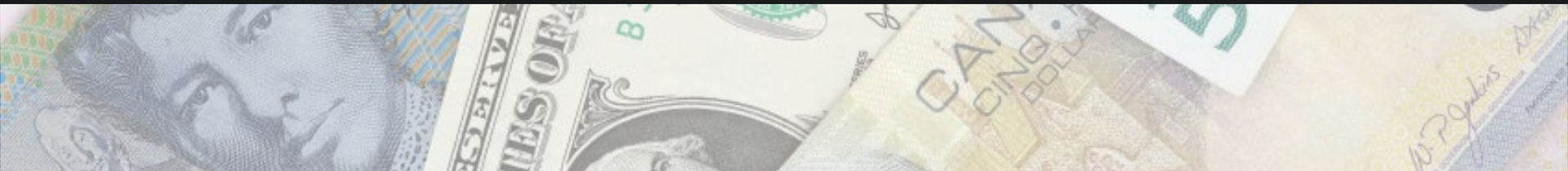
More likely than not, these will get incrementally better than worse.

Keep in mind DTC impact on Inventory as well as Revs.

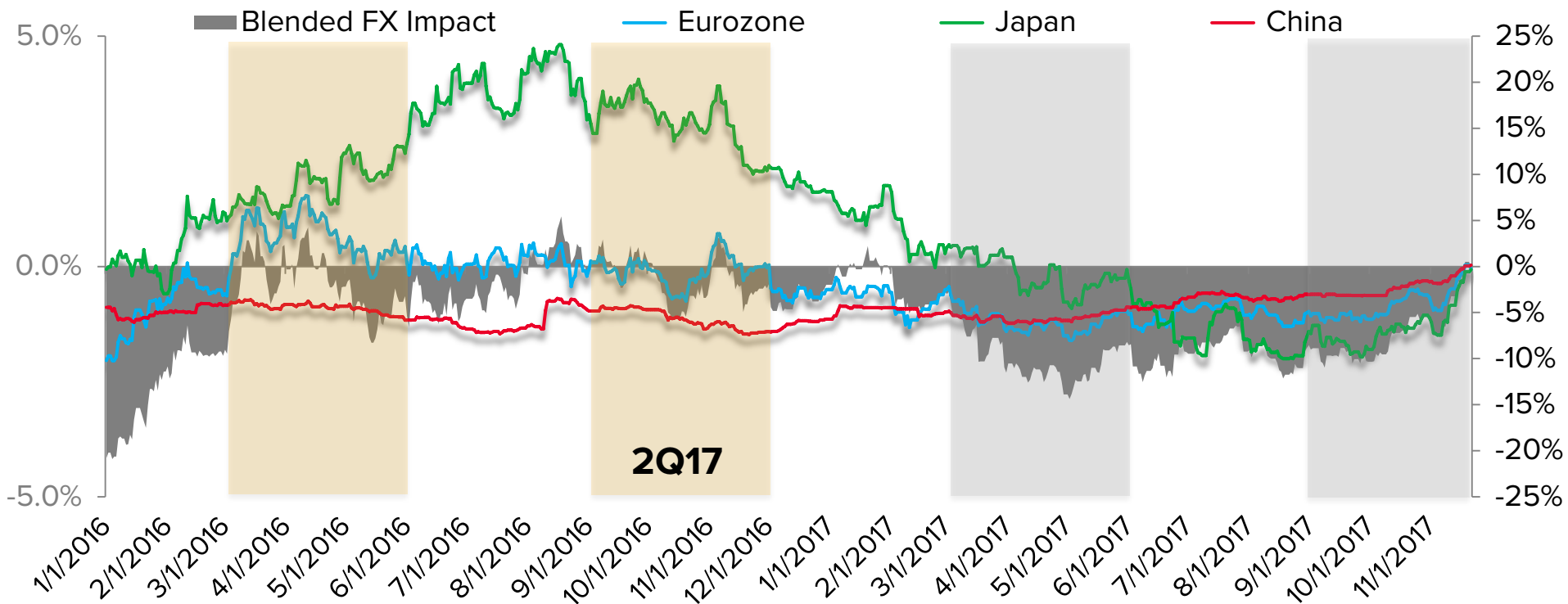
**Inventory and margin values become skewed by “standard rate” accounting method Nike uses.



FX



BLENDED FX IMPACT SLIDE








FX IMPACT ON REVENUE - BLENDED AND BY REGION

TWO PRONGED FX IMPACT

#1 = TRANSACTION

- Lock in product costs on Futures orders.
- Entirely shows up in COGS line.
- Opened up to more risk here as goes vertical, but it's not material.

#2 = TRANSLATION

- Nike hedges 60-80% of expected PTI in every region. Today it is near the top end.
- When FX is negative...
 -  Rev
 -  GM %
 -  SG&A
 -  Balance Sheet
 -  'Other' Income

NET SHORT CHINA – IN A BIG WAY

carter's®

~50% -- \$900mm



% of COGS Sourced in China



~29% -- \$4bn

~1.5% = \$47mm

% of Revenue Generated in China

~12% -- \$4.9bn

**28% (\$853mm)
levered to China**

Implied Positioning

**Less Absolute leverage to
China despite 10 rev base**

% OF REVENUE AND COGS SOURCING ATTRIBUTABLE TO CHINA

"We think China's recent economic stabilization is long in the tooth and we expect the preponderance of Chinese growth metrics to resume their structural downtrends within the next 3-6 months. ...China consumer story may very well be past-peak."

- Hedgeye Macro



THE FLEX FACTOR



NIKE AND FLEX LTD

FLEX: “Last week, during Nike's Investor Day, Nike announced a partnership with Flex to accelerate the introduction of advanced innovation to Nike's manufacturing supply chain.”

FLEX: “In Nike's most recent annual report dated July of this year, CEO Mark Parker said that Nike was, and I quote, partnering with innovators who help and accelerate systematic change at scale.”



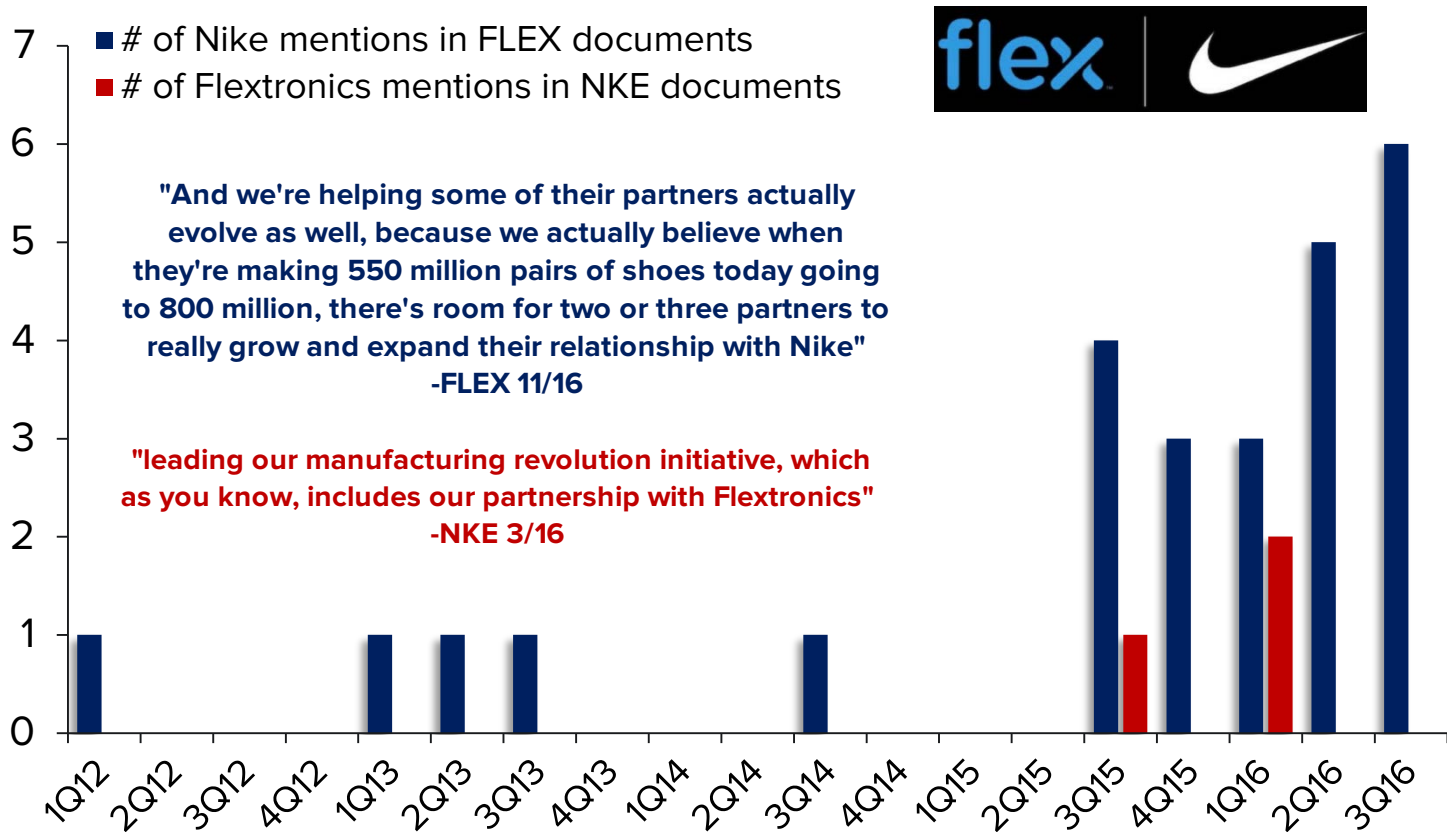
NKE: “Many of you know about the impressive work that Flex does. We're already accelerating our manufacturing revolution efforts. It's in the early stages yet, but in one specific process, they've combined automated material management with automated laser cutting, which can reduce waste by up to 50%.”

NKE: “With Flex, Nike is driving the modernization of footwear manufacturing process across its supply chain.”

FLEX: “I think I would frame Nike this way...think about 2016 and 2017 as being invention and re-creation of how manufacturing happens, FY18 as a ramp year, which we will still have some profitability challenges as a result of course. And FY19 being full revenue, where we will expect to make very good progress around profitability.”

WATCH FLEX TO SEE IF WE'RE RIGHT ON TIMING

CONFERENCE CALL MENTIONS BY EACH PARTNER



In 2017 watch FLEX.

If it misses, it's Nike Bearish

Beats = Nike Bullish

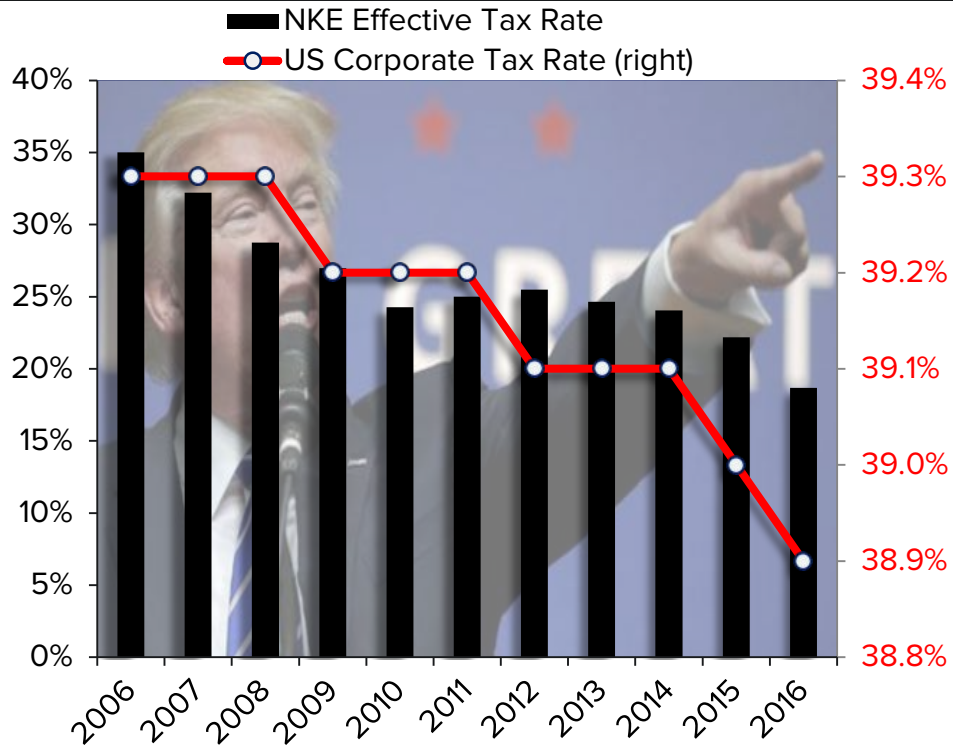
Arguable a better way to play the 40-year paradigm change is to Long FLEX.



THE DONALD



IMPLICATIONS OF TRUMP PRESIDENCY



The 23 TPP nations represent 40% of the world's economy.

WHAT WILL HAPPEN TO NKE TAX RATE DURING A TRUMP PRESIDENCY?

The Trump Administration intends to quit the Trans-Pacific Partnership in January when Trump takes office. Absence of a positive, which is probably a negative.

AGAIN...NET SHORT CHINA

carter's®

~50% -- \$900mm



% of COGS Sourced in China



~29% -- \$4bn

~1.5% = \$47mm

% of Revenue Generated in China

~12% -- \$4.9bn

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"We think China's recent economic stabilization is long in the tooth and we expect the preponderance of Chinese growth metrics to resume their structural downtrends within the next 3-6 months. ...China consumer story may very well be past-peak."

- Hedgeye Macro

DESIGN PATENT HOLDERS TO FACE MORE COPIES/COSTS?

Issue(s): Whether, where a design patent is applied to only a component of a product, an award of infringer's profits should be limited to those profits attributable to the component.



Final Ruling
TBD



SUPREME COURT CASE – SAMSUNG ELECTRONICS CO. V. APPLE (ARGUED OCT 11)

The old precedent was that an infringed company could sue for all profits from a design infringement. The oral arguments lead us to believe that the court will change it to profits attributable to the infringed component. This means the penalty for copying designs will essentially be less severe, therefore more copies will be present, and the costs to defend design patents will be higher.

NKE BRINGING MANUFACTURING CLOSER TO HOME

STRATEGIC PARTNERSHIP WITH APOLLO GLOBAL MANAGEMENT

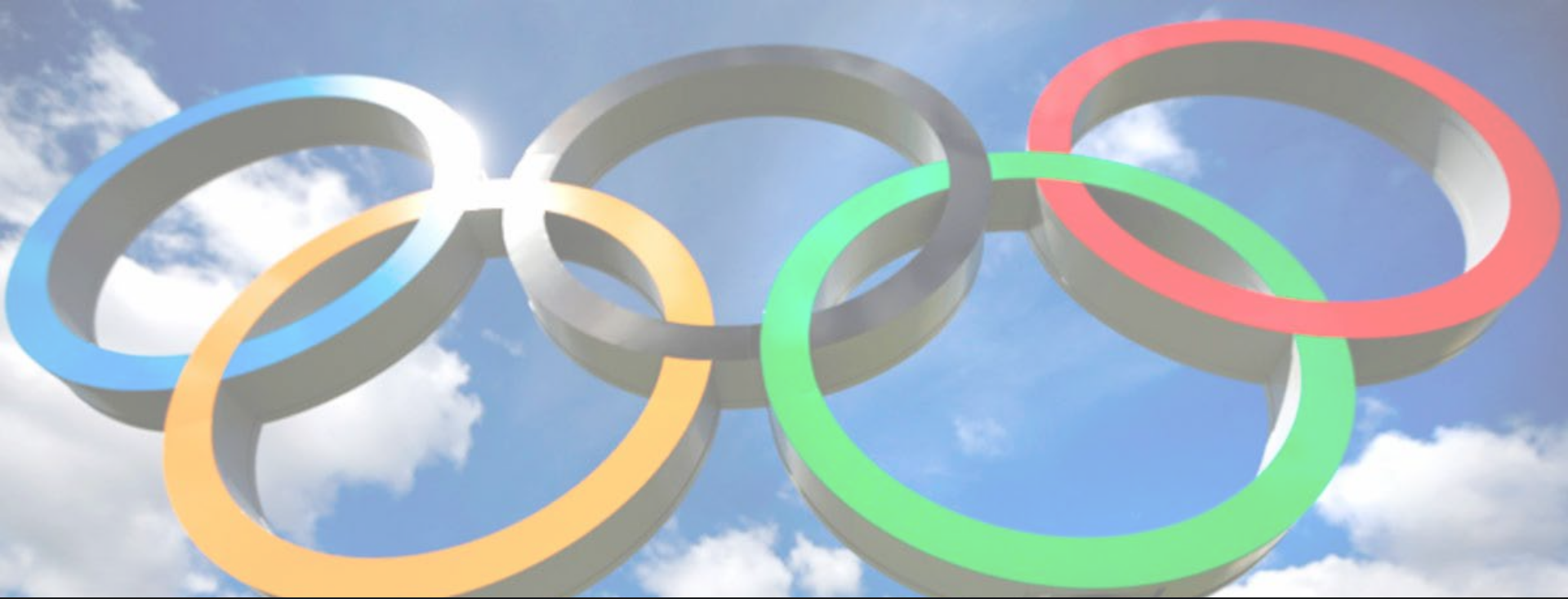


- New Holland has apparel facilities in Honduras and Nicaragua, doing Sewing, Embroidery, Screen Print, Laser Fabric Cutting, and Product Creation/Digital Printing.
- -Has port access on both Atlantic (Caribbean) and Pacific oceans. Facilities with 45 min drive of the port.
- -Has 4300 employees.

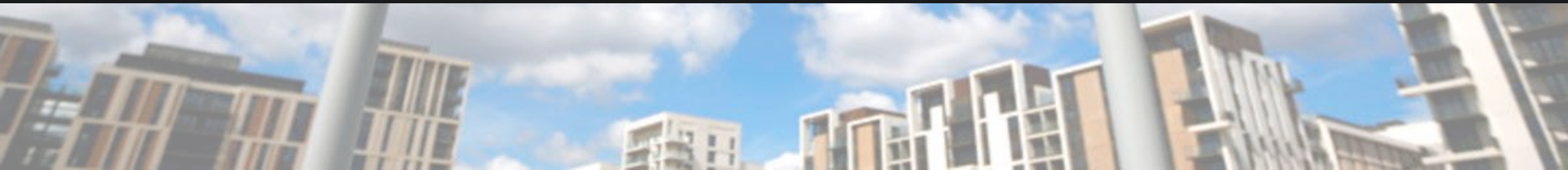
- ArtFX provides creative screen printing solutions... including screen printing, graphic design, custom packaging
- -Has 3 locations, all in US: Virginia, Texas, and North Carolina.
- -Has 400 employees.

NOT AN INVESTMENT FOR NKE - A STRATEGIC SOURCING PARTNERSHIP.

Management says "partnership will increase regional manufacturing capabilities, enable quicker delivery of more customized product to consumers and drive investment in sustainability ". Nike has not made any investment, but rather a strategic sourcing partnership.



APPENDIX



2015 NIKE US REVENUE HEAT MAP

Retail Value (\$mm) 21,520

Athletic Specialty	10,621	49.4%
FL	4,216	19.6%
FINL	1,389	6.5%
DKS	1,425	6.6%
HIBB	533	2.5%
Academy	939	4.4%
Sports Authority	1,063	4.9%
Sport Chalet	64	0.3%
BGFV	147	0.7%
DTLR	105	0.5%
Modells	245	1.1%
Dunhams Sports	113	0.5%
Schells	98	0.5%
MC Sports	34	0.2%
Olympia Sports	69	0.3%
Fleet Feet	53	0.2%
Shiekh Shoes	96	0.4%
Road Runner Sports	33	0.2%

NKE DTC	3,583	16.6%
NKE Retail	2,866	13.3%
NKE e-comm	717	3.3%

Dept Stores	3,198	14.9%
M	563	2.6%
KSS	825	3.8%
JWN	350	1.6%
JCP	550	2.6%
DDS	222	1.0%
BLKIA	22	0.1%
WMT	329	1.5%
TGT	103	0.5%
SHLD	236	1.1%

Family/Other	767	3.6%
SCVL	273	1.3%
Famous Footwear	75	0.3%
DSW	198	0.9%
TLYS	17	0.1%
SSI	64	0.3%
GCO	30	0.1%
TJX	55	0.3%
ZUMZ	57	0.3%

Online	515	2.4%
Zappos	203	0.9%
AMZN	312	1.5%

NIKE US SALES DISTRIBUTION BY CHANNEL

Here's our estimate for sales by channel and by retailer after triangulating current and historical disclosure by Nike and the companies noted above. 5% of US distribution went away this year. That's a 2% consolidated revenue hit all else equal.

NIKE'S STATED GOALS ARE DOABLE

DTC & ECOMMERCE GOALS VS ACTUAL

2010 Meeting

2015 DTC Target

\$5.0

2015 DTC Actual

\$6.6

2013 Meeting

2017 DTC Target

\$8.0

2016 DTC Actual

\$7.9

2017 Ecommerce Target

\$2.0

2016 Ecommerce Actual

\$1.7

2015 Meeting

2020 DTC Target

\$16.0

2020 Ecommerce Target

\$7.0

Nike beat it's publicly-stated e-commerce target twice so far, and there's likely to be a third.

Target = incremental \$5bn in e-comm, or 30% CAGR.
#doable

40% CAGR = \$8.5bn
50% CAGR = \$12.5bn

ECOMMERCE TARGETS ARE DOABLE

ECOM TARGETS BREAKDOWN

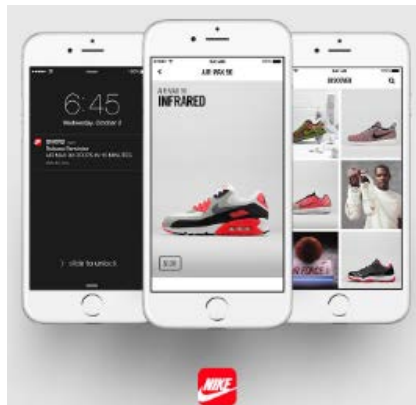
External Target: \$7bn

Internal Target: \$8-9bn

OUR Targets \$9-11bn

2015 NIKE, INC. INVESTOR MEETING

[View the Agenda](#)



Nike beat it's publicly-stated e-commerce target twice so far, and there's likely to be a third.

Target = incremental \$5bn in e-comm, or 30% CAGR.

#doable

40% CAGR = \$8.5bn

50% CAGR = \$12.5bn

NIKE WHOLESALE VS RETAIL CONVERSION MATH

Wholesale Margin Math		On-Line Margin Math	
Price at Retail	100.0	Online Direct Price	100.0
		Apparel Attachment Rate	30%
'At Once' Cost	50.0	Net Revenue	130.0
- Futures Discount	5.0		
Retailer's Cost	45.0	Online Servicing Cost	6.0
		Incr Mktg/Cust Acquisition	4.5
		Cost of Goods	26.0
		Shipping	2.6
Nike Revenue	45.0	Nike Revenue	130.0
Cost of Goods	22.0	Total Costs	39.1
Nike Margin	23.0	Nike Margin	90.9
GM %	51%	GM %	70%

ITS ALL ABOUT THE \$\$\$

20 points is not an extra \$20 dollars on a \$100 shoe.
It's about 4x as much. THAT's what matters to Nike.

FL GROWTH HEADWIND FROM NIKE DISTRIBUTION SHIFT

	NKE-FY10	NKE-FY11	NKE-FY12	NKE-FY13	NKE-FY14	NKE-FY15	NKE-FY16	NKE-FY17(E)
FL Sales (adjusted for NKE)	4919	5220	5749	6242	6735	7199	7483	7839
NA %	70.6%	70.7%	70.4%	72.7%	70.2%	69.6%	71.6%	72.6%
NA \$	\$3,471	\$3,689	\$4,048	\$4,539	\$4,728	\$5,009	\$5,356	\$5,689
NKE %	68%	63%	61%	65%	68%	73%	72%	70%
US % NKE inflator	4%	4%	4%	4%	4%	4%	4%	4%
NKE US %	72%	67%	65%	69%	72%	77%	76%	73.9%
NKE US FL Sales	\$2,499	\$2,472	\$2,631	\$3,132	\$3,405	\$3,857	\$4,070	\$4,202
Incremental Nike		(\$27)	\$159	\$501	\$273	\$453	\$213	\$132
NKE points to FL growth		-0.8%	4.3%	12.4%	6.0%	9.6%	4.3%	2.5%
NKE Wholesale Sales (NA)		\$5,801	\$6,720	\$8,571	\$9,296	\$10,243	\$10,674	\$10,931
Retail Equivalent		1.80x	1.78x	1.75x	1.71x	1.71x	1.71x	1.71x
NKE Wholesale Retail Equivalent		\$10,440	\$11,944	\$14,971	\$15,869	\$17,509	\$18,246	\$18,685
NKE DTC Sales (NA)		\$1,778	\$2,119	\$2,587	\$3,003	\$3,497	\$4,090	\$4,908
YY % NKE DTC NA Growth			19.2%	22.1%	16.1%	16.5%	17.0%	20.0%
Incremental NKE US Wholesale (Retail Eqv.)			\$1,504	\$3,027	\$898	\$1,640	\$737	\$440
% captured by FL			10.6%	16.5%	30.4%	27.6%	28.9%	30.0%
NKE NA Sales (reported)		\$7,579	\$8,839	\$11,158	\$12,299	\$13,740	\$14,764	\$15,839

		% of growth wholesale								
		30.0%	40.0%	50.0%	60.0%	70.0%				
UA NA FW Sales	\$1,008	20%	\$24	\$32	\$40	\$48	\$56	0%	AdiBok NA FW Sales	\$2,001
% UA Growth		30%	\$48	\$64	\$80	\$97	\$113	5%	% AdiBok growth	
		40%	\$72	\$97	\$121	\$145	\$169	10%		
		50%	\$96	\$129	\$161	\$193	\$225	15%		
		60%	\$121	\$161	\$201	\$241	\$281	20%		
		70%	\$145	\$193	\$241	\$289	\$338	25%		
		80%	\$169	\$225	\$281	\$338	\$394	30%		

In this analysis, in order for FL to meet street expectations, UA would need to grow FW 60% and AdiBok 20%, with 50% of that growth coming from wholesale in order for those brands to fill the Nike void, assuming FL captures 40% of the incremental share from each of the brands.

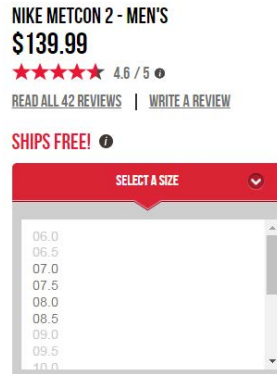
ASP IMPACT TO ACCRUE TO NIKE NOT WHOLESALE

Shoe sold at Foot Locker

- Price \$140
- Nike Inc. consolidates \$63



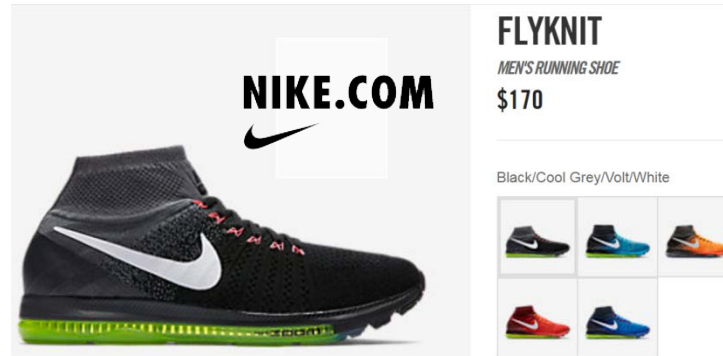
NKE Gross Profit \$32



Unit Channel Shift
0% Share Gain

Shoe sold on Nike.com

- Price \$170
- Nike Inc. consolidates \$170

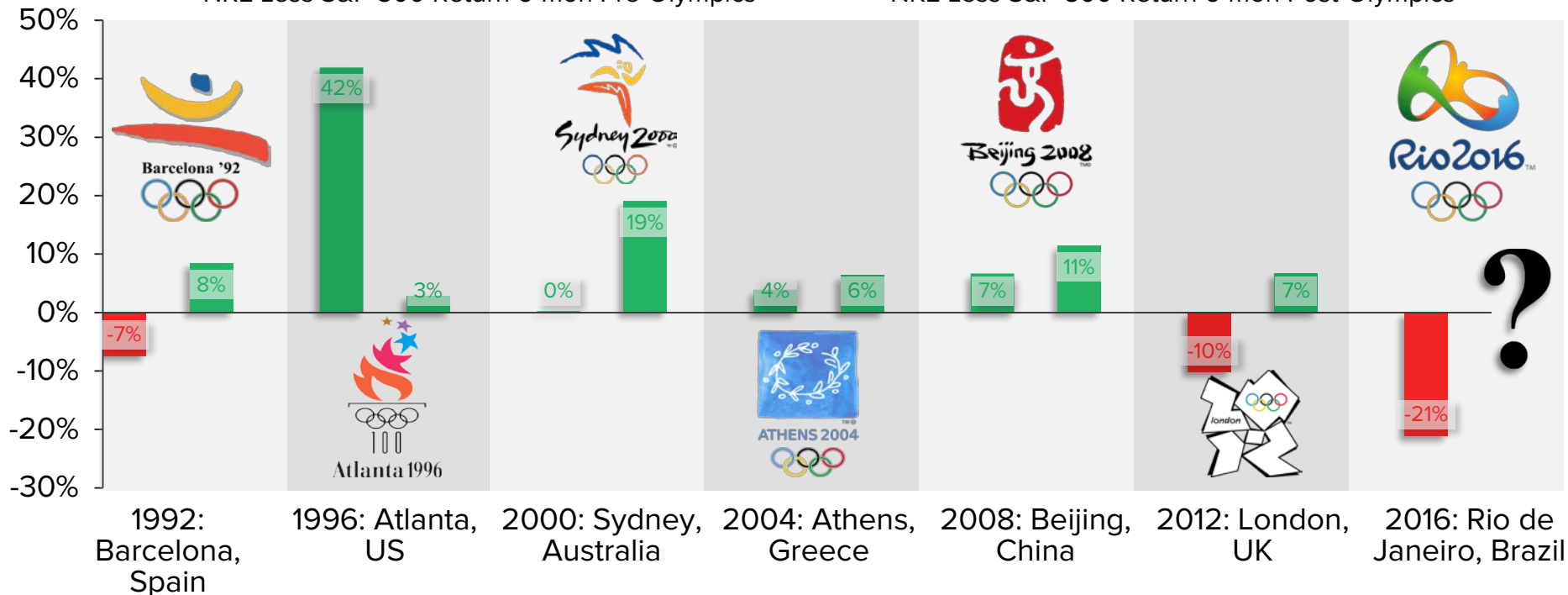


NKE Gross Profit \$119 +270%

THE OLYMPIC TRADE

■ NKE Less S&P 500 Return 6-mon Pre-Olympics

■ NKE Less S&P 500 Return 6-mon Post-Olympics



OLYMPIC TRADE – BUY BEFORE SELL AFTER???

The reality is that an Olympic Trade does not exist. Never really did. If anything it does better AFTER the Olympics, not before. Why? Because the lead-up to the event hurts financials. The 'hangover' helps the numbers.

PLEASE SUBMIT QUESTIONS* TO

QA@HEDGEYE.COM

**ANSWERED AT THE END OF THE CALL*

FOR MORE INFORMATION, CONTACT US AT:

SALES@HEDGEYE.COM
(203) 562-6500