



Retail

# ELEVATOR PITCH

Presented by Hedgeye Retail Sector

LONG

Nike Inc

Ticker	NKE		2023A	2024E	2025E	2026E	2027E
Price	\$93.89	Hedgeye EPS	\$3.23	\$3.89	\$4.38	\$5.74	\$7.34
Market Cap	171.1 bn	Street EPS		\$3.71	\$3.96	\$4.41	\$4.64
Enterprise Value	166.7 bn	Variance		5%	11%	30%	58%
Short Interest	1.62%	P/E	29.1x	24.1x	21.4x	16.4x	12.8x
Debt/EBITDA	0.2x	Target P/E		30.0x	30.0x	30.0x	30.0x
Sell Side Target	\$111.00	Implied Price		\$117	\$131	\$172	\$220
Return to SS TGT	18%	Price Variance %		24%	40%	83%	134%

## HEDGEYE EDGE | The Next Super-Cycle of Growth Starts Now

In order to get Nike right from here, you've got to respect 50-years of history, and understand how Nike grows. Not slow and steady, but in 'bursts', or 'Supercycles', as we call it. After having EBIT flat at ~\$6.5bn for nearly 4 years running, we think the stars are aligned for Nike to go from investing mode to harvesting mode. Nobody believes that Nike is a growth company anymore. And from our vantage point, you don't have to in order to get the first leg of this call right. In the immediate term, Nike is deploying its cost savings back into the model in major product innovation, better retailer margins, co-op advertising, and fixturing in retail stores. Initially, this means that Nike is buying back the share it walked away from at wholesale over 4-yrs. We don't like the optics there, but the company guided to the cost therein, but did not guide to the revenue, which we think will come. By the end of CY24, we think we'll see something major out of Nike on the innovation front, at which point it will earn back its share. As the top line accelerates, we expect incremental margins to be material, putting \$4.50ps in play this year, and \$6-\$7 ps as the new narrative, which gets us to a \$130 stock initially, and a \$200 stock over a TAIL duration.

## NEAR-TERM (TREND) | At An Inflection Point

NKE de-risked earnings over the next year on the recent earnings call -- setting low expectations for the top and bottom line. That's at the same time growth should accelerate in Wholesale, and we should see a rebound in Europe due to materially better Macro (EMEA is about 30% of NKE cash flow). This leads us to a win/win scenario. Either Nike beats, which we think it will, and the stock works. Or the company misses, and Donahoe subsequently gets fired, which makes the stock work.

## KEY RISKS TO THE CALL | Concerned About Mgmt Pipe, Not Product Pipe

CEO Donahoe has one year left on the job until mandatory retirement age. The presumed successor is Heidi O'Neil, who we don't think should get the nod. The good news is that she's an insider, and the reason Donahoe is failing is because he's an outsider. Our point is that as much as we dislike her as CEO, she'll probably be better than Donahoe. Plus side is that there's a strong chance that NKE brings back Parker.

### COMPANY DESCRIPTION

Nike is the Global leader in the Athletic Footwear and Apparel industry, with approximately 40% share of the market globally. Its primary brands are Nike, Jordan and Converse. It operates a globally-balanced portfolio of product across geographies with a bullet-proof balance sheet. It is increasingly valued like a luxury brand due to category dominance, and increased penetration of DTC (now 40%).

### KEY MODELING ASSUMPTIONS

	2023A	2024E	2025E	2026E	2027E
Revenue	\$51,790	\$51,995	\$55,583	\$61,180	\$67,368
Gross Margin %	43.0%	44.9%	45.4%	46.9%	48.4%
SG&A %	31.6%	32.5%	31.5%	30.4%	29.6%
EBITDA	\$6,774	\$7,208	\$8,596	\$11,082	\$13,780
EBIT	\$5,915	\$6,443	\$7,712	\$10,082	\$12,655
EBIT Margin %	11.4%	12.4%	13.9%	16.5%	18.8%
Debt	\$8,933	\$8,933	\$8,933	\$8,933	\$8,933
Cash	\$7,441	\$5,584	\$4,032	\$3,994	\$5,721
Net Debt	\$1,492	\$3,349	\$4,901	\$4,939	\$3,212
ND to EBITDA	0.2x	0.5x	0.6x	0.4x	0.2x
FCF/Share	\$2.74	\$3.10	\$3.33	\$3.68	\$4.92