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Investment Thesis

- The Company...
- The Real Questions
 - Market leader
 - Good vs. great companies
 - Business environment
 - Can Nike stay on top?



Multi-Domestic Strategy

- **Efficiency**
 - Economies of scale
 - Comparative advantages
 - Extended product life cycle
 - Operational flexibility
- **Pro**
 - Product customization
 - Product differentiation
 - Diversification of business risk
- **Reputation**
- **Con**
 - R&D driven products, not scalable
 - Decentralized control of products



Value Chain Analysis

Inbound Logistics

Significant value erosion in dealing with due diligence of Nike affiliated production facilities as well as on-going litigation.

New supply chain initiative will develop systems and processes involved in matching the worldwide supply and demand of Nike products. Expected to improve revenue, margins and cash flows of Nike through lower response time, distribution costs and inventories.

Operations

Outbound Logistics

Pick up in futures in both the US and abroad show a return to a successful "Pull" model following weak holiday season and trouble with Foot Locker.

Competitive Advantage

Marketing & Sales

A significant part of sales, Marketing is involved in Demand Creation as well as product advertisement.

Technology
Global Brand
Demand Creation
Product Differentiation

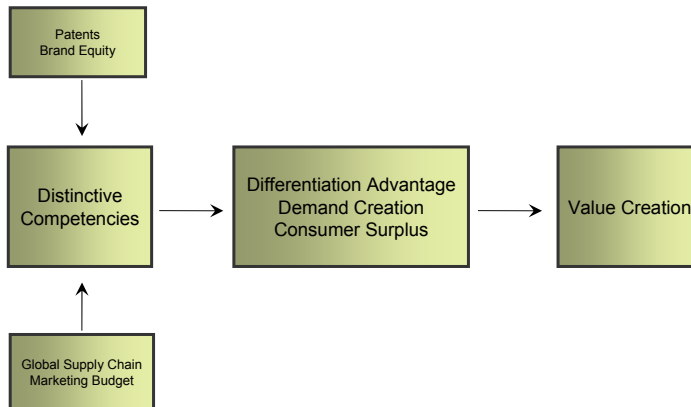
Downstream Distribution

Distribution network products include a wide array of stores and outlets.



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Value Creation



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Structure Conduct Performance

Price Cost Margin

| | AVC | EVA |
|-------------|-------------|-------------|
| Lerner | 0.41 | 0.18 |
| Elasticity | -2.43 | -5.71 |
| P/MC | 1.70 | 1.21 |

$$R = \frac{[\text{Rev} - \text{Production Cost} - \text{PV Capital Stock}]}{\text{Capital Stock}}$$

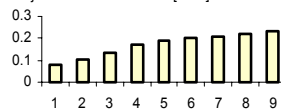
$$= [p - MC]p$$

$$= -1 / \text{Elasticity of Demand}$$

Excess Return

| | |
|------------|-------------|
| ROIC | 0.27 |
| WACC | 0.09 |
| EVA | 0.18 |

Projected Economic Profit [EVA]



+ Constant Excess Profit
= High Industry Concentration
= Evidence of Barriers to Entry



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How Nike Got Its Swoosh Back*

- **Opportunity**
 - US market tied to domestic business cycle
 - Contest for market share in Europe
 - Importance of fashion experiment and core competencies
- **Brand Positioning**
 - Investment in soccer to build European brand
 - Statistics strongly support loyalty to football brands in Europe
- **Retail Landscape**
 - US: Over-stored / discounts / brand dilution
 - Europe: Impeccable product presentation
 - Fragmented distribution leads to more costs

* Fortune June 11, 2002



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Competitive Landscape

Representative Consumer Model

- Differentiation across Industries creates Lower Volume, Higher Variable Cost
- Under-priced in apparel by knock-offs (H&M)
- Market pressures from fashion (Prada, Diesel)
- Possibility of acquisitions?

Market Segments



Core Competency

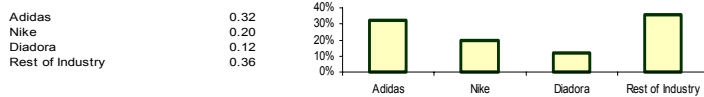
- Performance Sports Wear
- Superior Brand and Technology



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Market Share Opportunity

Global Football Market Share



Demand Creation in Football

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | | |
|---------------------------------|--------|------------|------------|------------|------------|------------|-----------|--------|
| Nike Football Revenue | 450 | 540 | 621 | 702 | 786 | 880 | | |
| Growth | | 0.2 | 0.15 | 0.13 | 0.12 | 0.12 | | |
| Share of Market | 18% | 21% | 23% | 26% | 28% | 30% | | |
| Non US Football Demand Creation | 7,372 | 7,593 | 7,821 | 8,056 | 8,297 | 8,546 | Growth | 0.03 |
| | | | | | | | Increment | 0.005 |
| | | 38 | 39 | 40 | 41 | 43 | | |
| Non US Apparel Demand Creation | 38,666 | 39,826 | 41,021 | 42,251 | 43,519 | 44,824 | Growth | 0.03 |
| | | | | | | | Increment | 0.0008 |
| | | 30 | 31 | 32 | 33 | 34 | | |
| Total Revenue Creation | | 608 | 691 | 774 | 860 | 957 | | |
| Marketing | | 155 | 135 | 125 | 125 | 125 | | |
| Incremental Expense | | 26% | 20% | 16% | 15% | 13% | | |

Estimates: Morgan Stanley Research



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Growth Opportunity

European Per Capita Spending

[Sensitivity Analysis]

| Per Cap Spend (\$) | Tot Sales (\$Mil) | vs '02 Sales | % chg over '02 | CAGR | Years Population '02 Sales | 5 550 2696 |
|--------------------|-------------------|--------------|----------------|------------|----------------------------|------------------|
| 4 | 2200 | -496 | -18% | -4% | | |
| 5 | 2750 | 54 | 2% | 0% | | |
| 6 | 3300 | 604 | 22% | 4% | | |
| 7 | 3850 | 1154 | 43% | 7% | | |
| 8 | 4400 | 1704 | 63% | 10% | | |
| 9 | 4950 | 2254 | 84% | 13% | | |
| 10 | 5500 | 2804 | 104% | 15% | | |
| 11 | 6050 | 3354 | 124% | 18% | | |



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Macroeconomics

- **Implications of the Dollar**
 - 100% of Footwear [58% of Sales] from Asian Contract Manufacturers
 - Purchases are denominated in US Dollars, placing currency risk on suppliers
 - 47% Sales generated outside of US, will be an enhancement to Gross Margins
 - NKE hedges currency exposure; Europe + Asia = 35% of sales
 - Seasonal prices locked in 9 months in advance
- **Guidance**
 - NKE is never 100% hedged
 - Experienced 150bps of erosion in 2002
 - Expect to see 10bps increase in margins = .025 to EPS
- **Net Effects of US + European Markets Should Be Positive**
- **Global Meltdown in Consumption**



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Valuation

Discounted Cash Flow Analysis

| | | | | | | | | | | | |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|
| Current Price | 46 | | | | | | | | | | |
| LT Sustainable Growth | 0.04 | | | | | | | | | | |
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Terminal |
| Operating Revenue | 9488.8 | 10,030 | 10,601 | 11,206 | 11,844 | 12,519 | 13,233 | 13,987 | 14,785 | 15,627 | |
| Growth | | 0.057 | 0.057 | 0.057 | 0.057 | 0.057 | 0.057 | 0.057 | 0.057 | 0.057 | |
| EBIT | 980 | 1137 | 1320 | 1531 | 1777 | 1878 | 1985 | 2098 | 2218 | 2344 | |
| EBIT Margin | 10% | 11% | 12% | 14% | 15% | 15% | 15% | 15% | 15% | 15% | |
| EBIT (1-t) | 627 | 728 | 845 | 980 | 1137 | 1202 | 1270 | 1343 | 1419 | 1500 | |
| Depreciation | 213 | 225 | 238 | 252 | 266 | 281 | 297 | 314 | 332 | 351 | |
| Capital Expenditures | 318 | 221 | 212 | 258 | 272 | 363 | 384 | 406 | 429 | 453 | |
| % of Sales | 0.033 | 0.022 | 0.020 | 0.023 | 0.023 | 0.029 | 0.029 | 0.029 | 0.029 | 0.029 | |
| Change in Non-Cash WC | 97 | | | | | | | | | | |
| Net Investment in Capital | -8 | 4 | 26 | -6 | -7 | -82 | -87 | -92 | -97 | -102 | |
| FCFF | 435 | 737 | 896 | 968 | 1124 | 1038 | 1097 | 1159 | 1226 | 1295 | 25313 |
| NPV | 16,443 | | | | | | | | | | |
| MV of Debt | 442 | | | | | | | | | | |
| Equity Value | 16,001 | | | | | | | | | | |
| Shares Outstanding | 272.2 | | | | | | | | | | |
| Price per Share | 58.78 | | | | | | | | | | |

DCF Sensitivity Analysis

| | | | | | | |
|------|-----|----------------------|----|----|-----|-----|
| | | Terminal Growth Rate | | | | |
| | | 2% | 3% | 4% | 5% | 6% |
| WACC | 7% | 68 | 79 | 96 | 129 | 211 |
| | 8% | 56 | 63 | 73 | 89 | 119 |
| | 9% | 48 | 52 | 59 | 68 | 83 |
| | 10% | 42 | 45 | 49 | 55 | 63 |
| | 11% | 37 | 39 | 42 | 46 | 51 |



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Valuation

Return on Invested Capital

| | | | | | | | | | | | |
|--------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------|----------|
| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Terminal |
| Capital Endowment | 4281.00 | 4276.51 | 4250.56 | 4256.76 | 4263.30 | 4345.33 | 4432.04 | 4523.69 | 4620.57 | | |
| Rev / Capital | 2.34 | 2.48 | 2.64 | 2.78 | 2.94 | 3.05 | 3.16 | 3.27 | 3.38 | | |
| Capital Growth | | 0.00 | -0.01 | 0.00 | 0.00 | 0.02 | 0.02 | 0.02 | 0.02 | 0.02 | |
| EBIT (1-t) | 727.84 | 844.53 | 979.94 | 1137.06 | 1201.87 | 1270.38 | 1342.79 | 1419.33 | 1500.23 | | |
| ROIC | 0.17 | 0.20 | 0.23 | 0.27 | 0.28 | 0.29 | 0.30 | 0.31 | 0.32 | | |
| ROIC - WACC | 0.08 | 0.10 | 0.14 | 0.17 | 0.19 | 0.20 | 0.21 | 0.22 | 0.23 | | |
| EVA | 328.75 | 445.86 | 583.69 | 740.23 | 804.43 | 865.29 | 929.62 | 997.62 | 1069.49 | 20,084.5 | |
| NPV | 12,369 | | | | | | | | | | |
| New Capital | 4468 | | | | | | | | | | |
| MV of Net Debt | 442 | | | | | | | | | | |
| Equity Value | 16,395 | | | | | | | | | | |
| Shares Outstanding | 272.2 | | | | | | | | | | |
| Price per Share | 60.23 | | | | | | | | | | |

Relative Valuation

| | | | | |
|----------------------|--------|--------|--------|------|
| | CY03 | FY03 | FY04 | Avg |
| EPS | 2.95 | 2.75 | 3.15 | - |
| Multiple | 15.59x | 16.73x | 14.60x | - |
| Discount to F/PE Avg | 29.12% | - | - | 22 |
| Discount to S&P500 | 2.54% | - | - | 16 |
| Market | 47.2 | 44.0 | 50.4 | 47.2 |
| Forward Guidance | 64.9 | 60.5 | 69.3 | 64.9 |



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Recommendation

Weights:

| | ST(%) | LT(%) |
|------------------------|-----------|-----------|
| Cash Flow | 15 | 60 |
| Economic Value | 30 | 0 |
| Market | 15 | 20 |
| Historic Value | 40 | 20 |
| Intrinsic Value | 60 | 57 |
| Discount | 10 | 20 |
| Accumulation Range (%) | 10 | 15 |

Accumulation Target **48.5** **39.3**

Current Price **\$46**



Endnote

- Valuations assume Nike maintains ability to create Demand
- Can Nike export domestic success when it counts?
- Declining Market Share = Failure of Business Model

