St. John's University Student Managed

Investment Research | Equity Research

NIKE (NKE)

April 4, 2004

Recommendation:	**BUY**
Sector:	**Consumer Cyclical**
Industry:	**Footwear**
Price:	**76.64**
52 – Week High:	**78.56**
52 – Week Low:	**49.60**
Shares Out (mil):	**263.12M**
Dividend:	**.80**
Market Cap:	**20.17B**
2003 Revenue:	**10,697M**
Project EPS Growth:	**21.66%**
2005 Target Price:	**$94.85**

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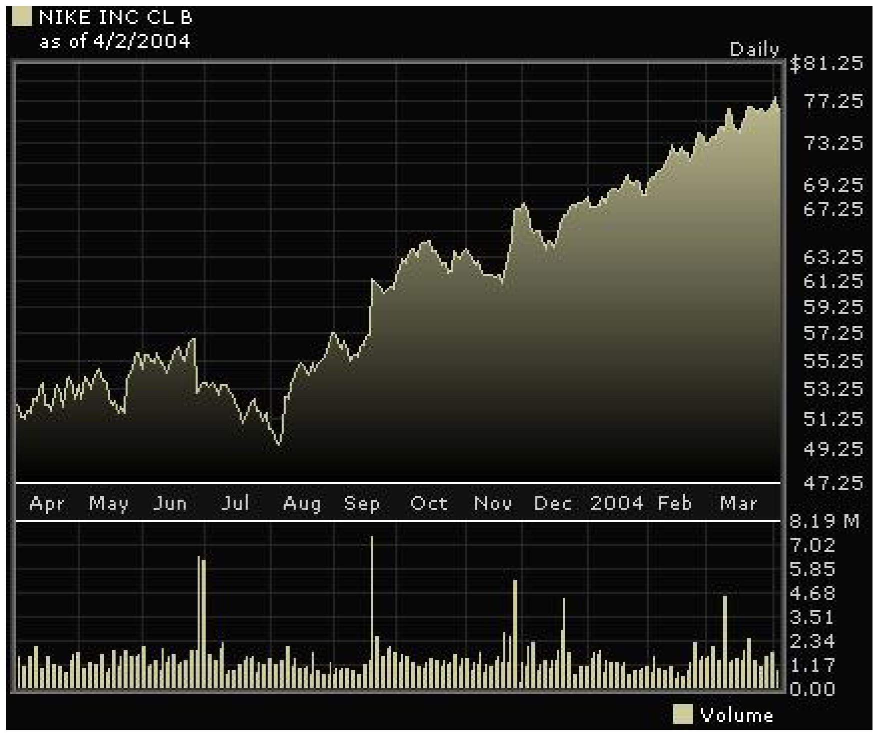


Highlights

- **The stock is currently undervalued at a price of $76.64. Our 2005 target price is $94.85.**
- **In 2003, NIKE reported revenues of $10.7 billion, an 8 percent increase from FY'02. The best year of the company's 31-year history.**
- **NIKE is ranked # 1 in the footwear industry**
- **NIKE's Market Capitalization is 20.17B compared to 2.49B of leading competitor Reebok and 334.60M for the entire Industry.**
- **Net income had risen 61% as demand for sneakers surged in March of 2004.**

Executive Summary:

We are recommending the purchase of 150 of shares of NIKE on limit order at $70 and 150 shares at market order for the following reasons:

- We have set the target price at $94.85, based on our P/E average of 24.70 by our 2005 estimated EPS of $3.84
- The stock is currently undervalued at a price of 76.64 (April 4th 2003). Our calculations indicate that Nike's intrinsic value is $88.10
- The continuous increase in dividends throughout the years
- The 21% increase in third quarter revenues and the expectation of higher figures for the overall year.

Company Description:

NIKE, Inc. is engaged in the design, development and worldwide marketing of footwear, apparel, equipment and accessory products. It sells its products to approximately 18,000 retail accounts in the United States and through a mix of independent distributors, licensees and subsidiaries in nearly 200 countries. NIKE's athletic footwear products are designed for specific athletic use, although some of its products are worn for casual or leisure purposes. The Company creates designs for men, women and children. Running, basketball, children's, cross-training and women's shoes are the Company's top-selling product categories. NIKE also markets shoes designed for outdoor activities, tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities, hiking and other athletic and recreational uses. NIKE sells active sports apparel that covers most of these categories, athletically inspired lifestyle apparel and others.

Index membership: S&P 500
Sector: Consumer Cyclical
Industry: Footwear
Employees: 23,300

History:

1957: Phil Knight and Bill Bowerman meet at the University of Oregon
1962: Phil Knight and Bill Bowerman founded Blue Ribbon Sports with the purpose of making quality American shoes and started out by selling their shoes from a car at the side of tracks to athletes and people who are interested
1963: Sold shoes from a manufacturer in Japan called Onitsuka Tiger
1972: Name changed to NIKE Inc, which was derived from the Greek goddess of ironically paid only $35 for her design. The team also convinced marathon runners at Olympic Trails to wear NIKE shoes and this resulted in strong advertising especially when several runners were some of the top finishers. Popularity continued to grow throughout the 70s
1979: By this time NIKE had 50% of the US running shoe market
1980: NIKE goes public
1988: Famous slogan "Just do it" introduced and company acquired Cole Haan. Throughout its existence, NIKE endorsed and sponsored different athletes like Michael Jordan the famous basketball player or Tiger Woods the young outstanding golf player
1995: NIKE acquired a license to place its logo on NFL uniforms

1992: Opens it first NIKETOWN store and a few years later, it acquired Canstar Sports, which included hockey equipment maker Bauer.
1**997**: NIKE launched the Jordan brand of athletic shoes and sportswear.
1998: the company had to cut 1,200 jobs because of falling sales in Asia
1999: demands for athletic shoes decreased in 1999, and NIKE declared its first drop in sales since 1994. Bowerman dies and as recognition for his achievements
2000: NIKE shifts a little more towards the electronic and technological sector and and historical impact on the industry, NIKE released a line of running shoes in his honor introduced a line of athletic electronics, including MP3 players, heart monitors, and two-way radios, which are always useful to athletes.
2001: The Company opened its first NIKEgoddess store in California
2002: Acquired Hurley International, a distributor of action sports apparel and Reebok takes Nike's place and acquires a license to place its logo on NFL uniforms
2003: NIKE acquired competitor Converse but left it as a separate operating company for the purpose of not loosing the brand's popular name

Products:

The Company creates designs for men, women and children. Running, basketball, children's, cross-training and women's shoes are the Company's top-selling product categories. NIKE also markets shoes designed for outdoor activities, tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities, hiking and other athletic and recreational uses.

NIKE sells active sports apparel that covers most of the categories mentioned, athletically inspired lifestyle apparel, as well as athletic bags and accessory items. NIKE apparel and accessories are designed to complement its athletic footwear products, feature the same trademarks and are sold through the same marketing and distribution channels. The Company often markets footwear, apparel and accessories in collections of similar design or for specific purposes. NIKE also markets apparel with licensed college and professional team and league logos. It sells a line of performance equipment under the NIKE brand name, including sport balls, timepieces, eyewear, skates, bats, gloves and other equipment designed for sports activities. The Company also has agreements for licensees to produce and sell NIKE brand swimwear, women's sports bras, cycling apparel, maternity exercise wear, children's clothing, school supplies, timepieces and electronic media devices. The Company also sells small amounts of various plastic products to other manufacturers through its wholly owned subsidiary, NIKE IHM, Inc. and plastic injected and metal products to other manufacturers through its wholly owned subsidiary, BAUER Italia S.p.A. NIKE has recently started offering customers the option of customizing their own sneakers by allowing them choices in areas such as color, and design and even allows customers to put their names on sneakers.

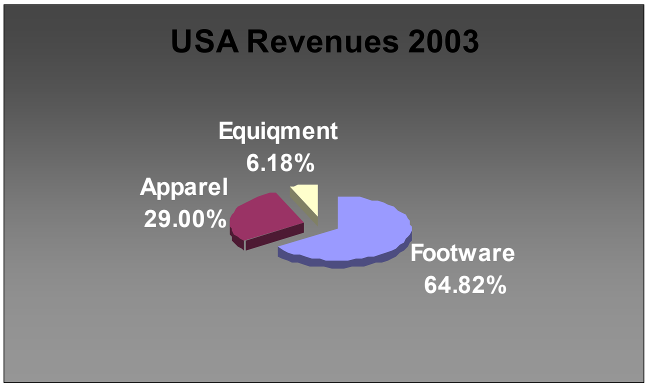
Dress and casual footwear, apparel and accessories for men and women under the brand names Cole Haan, CH, Gseries by Cole Haan and Bragano are sold by the Company through its wholly owned subsidiary, Cole Haan Holdings, Inc., headquartered in Yarmouth, Maine. NIKE's wholly owned subsidiary, Bauer NIKE Hockey Inc., manufactures and distributes ice skates, skate blades, in-line roller skates, protective gear, hockey sticks and hockey jerseys, licensed apparel and accessories under the Bauer and NIKE brand names. Bauer also offers a full selection of products for street and roller hockey. The Company's wholly owned subsidiary, Hurley International LLC, headquartered in Costa Mesa, California, designs and distributes a line of action sports apparel (for surfing, skateboarding and snowboarding) and youth lifestyle apparel and footwear under the Hurley brand name.

On July 9, 2003, NIKE entered into an agreement to purchase all of the equity shares of Converse Inc., a footwear company based in Massachusetts. Closing of the transaction is subject to regulatory review, including U.S government review under the Hart-Scott-Rodino Premerger Notification Act.

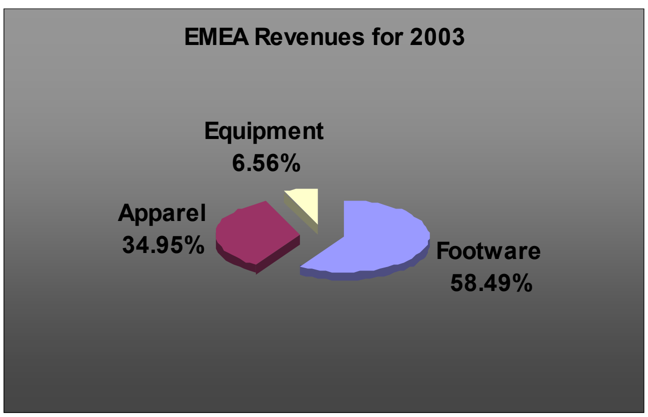
1 www.nike.com

Revenues for Region broken down by product segment

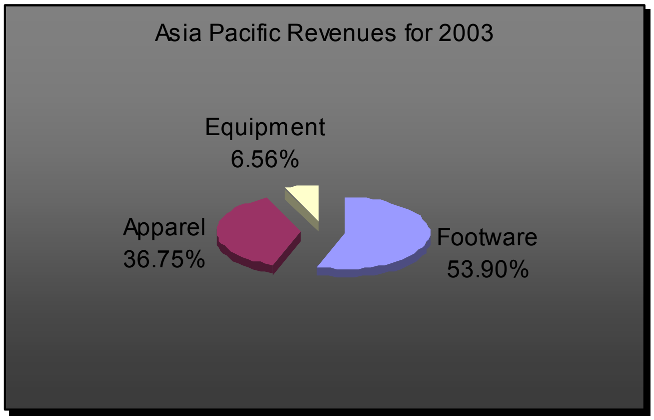
USA Region Revenues for 2003



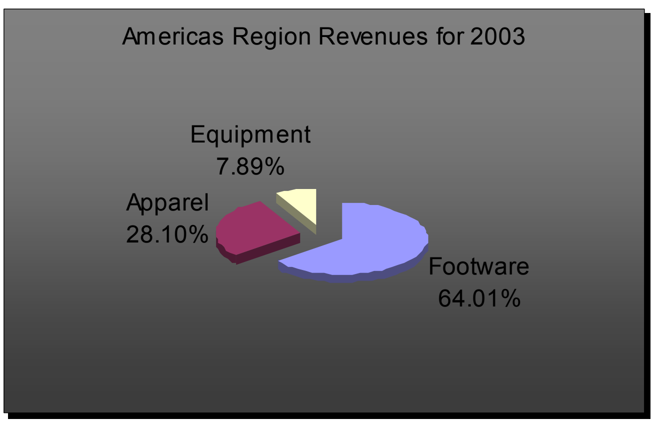
Europe, Middle East and Africa (EMEA) Region Revenues for 2003



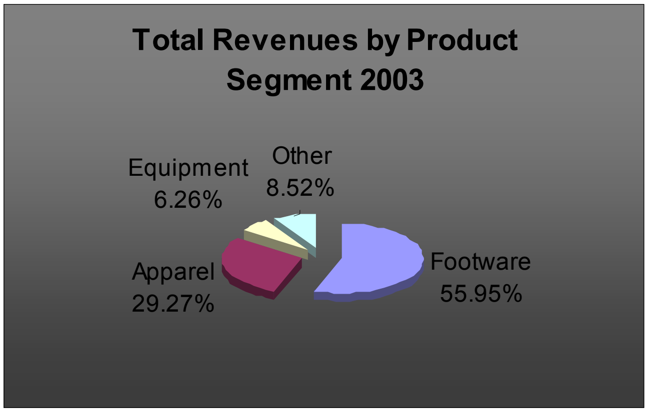
Asia Pacific Region Revenues for 2003



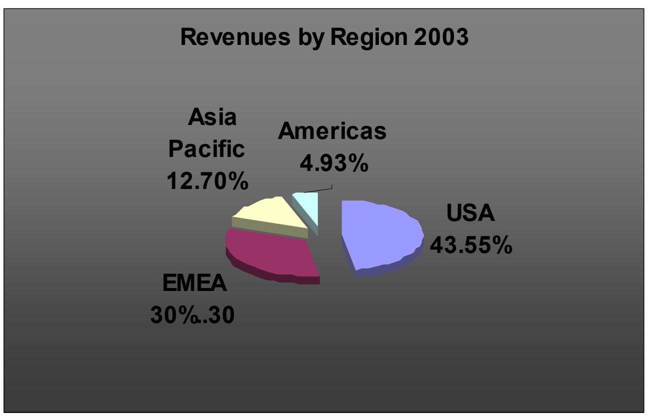
Americas Region Revenues for 2003



Total Revenues for 2003



Revenues by Region



NIKE has several outlets under different names where customers can find solely NIKE brand products.
Retail Stores in the United States

NIKE factory stores (which carry primarily B-grade and close-out merchandise	75
NIKE stores (including NIKE Goddess Stores)	4
NIKETOWNs (designed to showcase NIKE products	13
Employee-only stores	4
Cole Haan stores (including factory and employee stores)	65
Total	161

News:

February 11th 2003

Nike CEO named Cannes' top advertiser

NIKE'S CEO and founder Philip Knight has been named the Cannes International Advertising Festival's Advertiser of the Year for the second time. Knight will receive the award at this year's festival in June. He previously received the award in 1994.

Festival chairman Roger Hatchuel said that in the same way that there was no limit to the number of Oscars that outstanding actors could receive, advertisers should also be "recognized when their work has been consistently outstanding and innovative over the years". Hatchuel said the award recognized not only the quality of Nike advertising but also its major influence on creativity and lifestyle of the last decade.

Nike has been the most awarded brand in Cannes in the past five years, including winning two Film Grand Prix—for 'Tag' in 2002 and for the campaign 'Tennis', 'Golf' and 'Running' in 1998.

Affect and Opportunity: NIKE spends a substantial amount on advertising but this is not an idle waste of funds, rather NIKE is recognized not only for the quality of its advertising but also its ability to reach consumers and garner support and interest in its products. When competition is strong, differentiation of products and the establishment of loyalty and interest in a product are factors that set a company apart from its competitors and NIKE is able to continuously generate customer awareness and foster interest in its products through effective advertising and marketing.

March 3rd 2004, Wall Street Journal, B3

Foot Locker Profit Jumps 25%, Boosted by Influx of Nike Shoes

Foot Locker Inc.'s net income increased 25% in its fourth quarter, helped in part by an influx of shoes from NIKE Inc. and reflecting a general upswing in the athletic-footwear industry.
Nike, of Beaverton, Ore., has said that Foot Locker will be carrying more of its higher-end sneakers for the important back-to-school months this fall. The ventures are a sign the feud between the two athletic giants-, which escalated more than a year ago when Foot Locker started discounting $100-plus shoes from makers such as NIKE-, is cooling.
The upturn in Foot Locker's fourth quarter also comes as the athletic-foot-wear industry rebounds from the sluggish sales of high-end sneakers that marked 2002 and the first half of 2003.
For the fiscal year, Foot Locker, which also owns athletic retailer Champs Sports and sporting-goods catalog East-bay, reported net of $207 million 0r $1.39 a share, up 35% from 153 million. Foot Locker sales are up 6% from 4.51 billion

Affect and Opportunity: Strong relationships with suppliers are key and positive results for NIKE's suppliers indirectly means good things for NIKE as well. A remedy of the dispute that occurred between the two parties last year is also a good sign. In the main, when customers enter Foot Locker there is a high supply of NIKE shoes in comparison to other brands. This is a great opportunity for NIKE to sell its variety of products in several price ranges. The mention of an upswing in this industry is also good news for NIKE for the year and years to follow.

Beaverton, OR (18 March, 2004) - NIKE, Inc. (NYSE:NKE)
Nike Reports Third Quarter Earnings Per Share Up 57 Percent; Worldwide Futures Orders Increase 9.9 Percent
today reported financial results for the Company's third quarter ended February 29, 2004. Third quarter revenues increased 21 percent to $2.9 billion, versus $2.4 billion for the same period last year. Third quarter net income totaled $200.3 million, or $0.74 per diluted share, compared to $124.7 million, or $0.47 per diluted share, in the prior year.

Philip H. Knight, Chairman and Chief Executive Officer said, "It was another great quarter for Nike. Top and bottom line results were again driven by healthy consumer demand for innovative products and the strength of Nike's diverse portfolio of businesses. For the first nine months of the year, Nike's revenue has grown 14 percent and earnings per share* are up 29 percent. As we look ahead, we are optimistic about the significant long-term growth opportunities for our company."**
Also, the Company reported worldwide futures orders for athletic footwear and apparel scheduled for delivery from March 2004 through July 2004, of $4.7 billion, 9.9 percent higher than such orders reported for the same period last year. Approximately four points of this growth were due to changes in currency exchange rates.

Nike Net Income Rises 61% As Demand for Sneakers Surges
Stephanie Kang. Wall Street Journal. (Eastern edition). New York, N.Y.: Mar 19, 2004. pg. B.3
Nike, of Beaverton, Ore., posted net income of $200 million, or 74 cents a share, for the quarter ended Feb. 29, compared with $124 million, or 47 cents a share, in the year-earlier period. Revenue rose 21% to $2.9 billion for the fiscal third quarter, from $2.4 billion a year earlier. Nike estimated revenue growth at a high-single-digit percentage for the fourth quarter.

In a call to investors, Nike Co-President Mark Parker cited the continued improvement in the U.S. footwear industry, along with the returning popularity of $100-plus sneakers. "If the results of our past quarter are any indication, this could be a watershed year for Nike," Mr. Parker said, adding, "We've just posted the most-successful third quarter with respect to revenues and gross margins in our company's 32-year history. . . . Our revenues are strong, our gross margins are trending up and our average price per pair is increasing."

Affect and Opportunity: This announcement resulted in an upswing in NIKE's stock price as analyst expectations were surpassed. Many remain positive and expect earnings results for 2003 when announced on May 31st to be even higher. This improvement over last yr despite some set backs highlights NIKE as a strong company and with expected upswings in the market NIKE's improvements will continue. The increase in worldwide future orders also suggests strong consumer interest and support for NIKE's products.

Australian Soccer Association Announces Significant New Partnership With Nike

Australia (23 March 2004) - The Australian Soccer Association (ASA) announced today that it has formed a significant new partnership with Nike, which will have a positive impact on the future of soccer in Australia. As the new official supplier of apparel, footwear and ball to ASA, Nike will provide all the national soccer teams with the most innovative product on the market.

ASA Chief Executive John O'Neill was delighted with the partnership agreement, "As we begin to re-vitalize our organization to lead the whole of soccer in Australia and help the Socceroos qualify for the FIFA World Cup in Germany 2006, it is appropriate that we establish strategic partnerships with leading global companies, especially when they are so closely associated with our sport around the world, with some of the most famous soccer countries and clubs."

Australian national teams will join an illustrious group of Nike teams, including World Champions Brazil, English Champions Manchester United, Premiership giants Arsenal, Spanish legends Barcelona, Juventus, Inter Milan of the Italian Serie A, and European glamour team Holland. They also join an emerging powerhouse of soccer nations including the USA and Korea.

Affect and Opportunity: Partnerships and alliances are always a good move but when fostered with national teams these partnerships highlight strong indicators for increases support and sales especially when these alliances are garnered with country's serious about sports. This not only applies for competitions like the World Cup but also the upcoming Olympics. Supporters of athletes can also translate into supports of NIKE.

3 NIKE Annual Report

4 www.wallstreetjournal.com

5 www.bandt.com/au

6 Wall Street Journal

7 www.nikebiz.com

INDUSTRY OVERVIEW

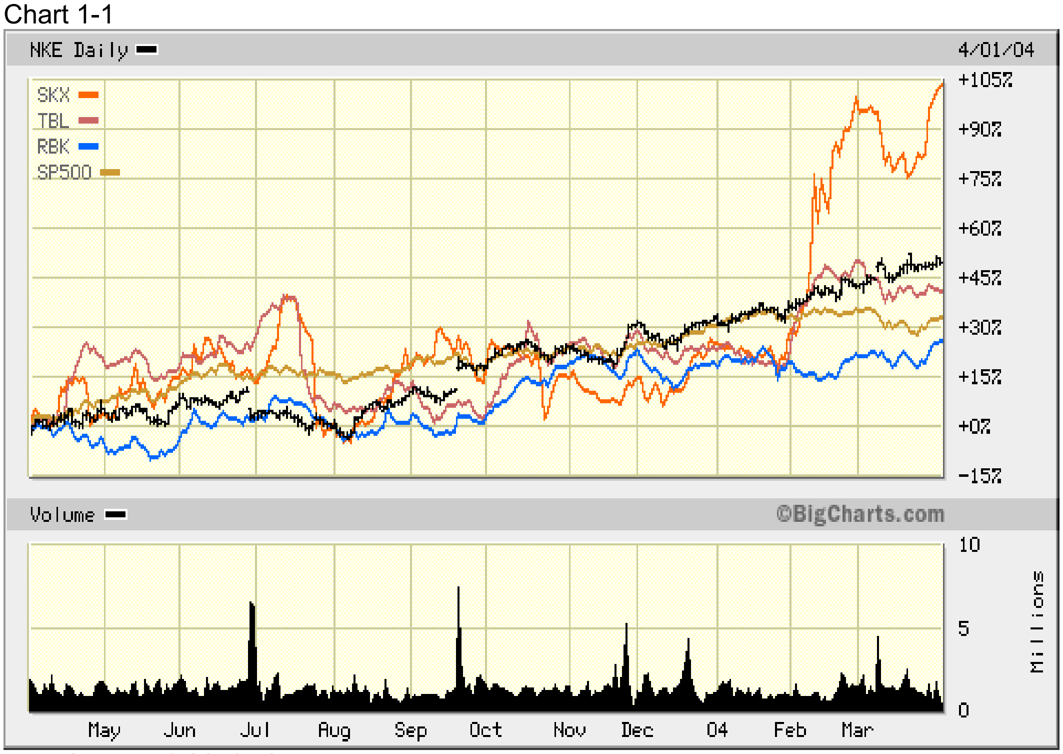
The US economy grew at an annualized rate of 4.0% in the final quarter of 2003. Although the rate decreased from 8.2% in the third quarter, it was above the 3.1% of the second quarter. According to the US Department of Labor, the December producer price index for finished goods increased 0.3% since November and 0.8% since October, which indicates improvement in the US economy. In addition, a weaker US dollar means that the prices on imports would rise, but US goods will be cheaper for the US population. For the apparel and footwear industry the weakening of a dollar signals that customers will be looking at the US goods more favorably and they will be more cautious about imports, since imports would become more expensive to acquire. On the other hand, large footwear manufacturers, such as NIKE and REEBOK will continue to boost their sales in Europe due to a stronger euro currency.

Increased consumer confidence suggests a US economic recovery. According to the University of Michigan's consumer sentiment survey, the consumer confidence index rose from 92.6 in December 2003 to 103.2 in January 2004, thus signaling healthy economic growth for 2004.

Another factor in the form of US Personal Consumption Expenditures (PCE) indicates an improvement in the US economy. During 2002 and 2003, PCE was stable as compared with the other components that measure the US economy. Nevertheless, in the fourth (4) quarter of 2003, PCE rose 2.6% and closed out at a 3.1% growth by the end of the year. According to Standard & Poor's projections, the personal consumption expenditures will rise to 3.4% in 2004, which will increase companies' optimism in general.

Standard & Poor's estimates suggest that in the Footwear industry, NIKE remains by far the largest footwear manufacturer. For the year ended 2003, NIKE generated $10.7 billion in total revenue, while ADIDAS-SOLOMON and REEBOK generated €2.8 billion and $3.1 billion in total revenue respectively. Other major footwear manufacturers include FILA USA Inc., PUMA, TIMBERLAND Co., SKECHERS USA Inc., and others.

Chart 1-1



* Data for ADIDAS-SOLOMON and PUMA is not available

Chart 1-1 presents the daily comparison of the top footwear manufacturer's stock performance over the past year. The analysis of this chart shows that for the most part, all competitors had the same stock price trend. NIKE, however, has been steadily outperforming all of its major competitors, except SKECHERS, which outperformed NIKE for the last few moths of 2004. Nevertheless, a closer look reveals that SKECHERS has had the most fluctuating stock price performance than any other major sports conglomerate; therefore, making it a very risky stock. NIKE on the other hand has a steady, upward growth in relation to its competitors (as seen in Chart 1-1) and the S&P 500 index (refer to Technical Analysis).

The US Department of Commerce reported that consumers' spending on footwear slightly decreased, from $42.6 billion in 2001 to $40.6 billion in 2002. This decline can be explained by consumers seeking price bargains on footwear, as well as, the increased popularity for casual shoes that meet consumers' demand for lower-priced footwear. The US Department of Labor's consumer price index for footwear also decreased to 119.6 in 2003 from 121.4 in 2002.

However, the horizon for the athletic footwear segment has been and continues to be favorable. Based on SGMA International's (a trade group for sporting goods companies) findings, unit sales of athletic footwear increased by 4.9% due to a stronger second half in 2003. Consumer spending on athletic footwear has also rose by 4.5% in 2003. Standard & Poor's estimated that these increases equaled to "about 450 million pairs of athletic shoes purchased by US consumers at a total cost of about $16.5 billion" in 2003". Nevertheless, a market research firm, the NPD Group, also found out that although consumer purchases of athletic footwear increased for the past few years, the average price they paid per pair also dropped. Specifically, the average price per pair in 2001 was $38.20, but in 2002 it dropped 4.2% to $36.61.

Demographically, men's spending for athletic footwear rose 2.5% in 2002, but women's sales were essentially unchanged. However, children's sales surpassed both men and women's sales, and increased by 7.0% during the same year.

In terms of sports categorization, running styles remained the biggest segment for the footwear industry's sales, with 28.6% of the total market in 2002. The basketball category also remained one of the most popular styles, and it came second after running shoes generating $3.25 billion in sales in 2002, or 20.7% of the total market. According to SGMA, this trend continued in 2003 when basketball styles captured 22% of the market.

The footwear industry and NIKE Inc. are both at the maturity stage in terms of life cycle. A maturity stage, however, does not mean that NIKE's profit growth is at a zero level. Rather, the company generates stable sales and its profits increase with new management strategies, new product lines, expansion into new markets, and continued demand for its premium footwear products.

Standard & Poor's forecasts that the footwear industry will continue to face a highly competitive but improving environment. S&P also anticipates a modest gain in sales for the footwear industry in 2004. Positive economic growth, a higher consumer price index, increased consumer spending, and higher consumer confidence strengthens Standard & Poor's forecast that footwear sales will experience a moderate increase in sales in the forthcoming years.

Footwear manufacturers and retailers will continue to attract customers by introducing new lines of products and brand diversification. While NIKE and REEBOK are expected to drive most of the footwear industry's sales, casual shoe companies, especially those that manufacture lower-priced hybrid shoes (a combination of casual and athletic shoes), will gain more customer acceptance and share a small percentage of the market with the top footwear manufacturers. Finally, the 2004 Summer Olympics in Athens, Greece, will be a great opportunity for the major athletic footwear manufacturers to market their products and increase sales.

PORTER’S MODEL FOR ANALYSIS OF COMPETITVE FORCES

Rivalry

Rivalry in the apparel and footwear industry is very proactive. Many new sports conglomerates are attracted to this market due to high and promising profits. Nevertheless, NIKE faces only few competitors that come close to its size and product differentiation. The company’s major competitors include Adidas-Solomon, Reebok, and Fila USA, the latter of which is a privately held company.

During the 1990’s, NIKE controlled nearly half of the market. Once competitors started rapidly entering this market, NIKE’s market share fell to 32.5% in 2002. However, NIKE is still considered to be the leader in the footwear industry, since it is ranked number one (1) in US and International sales. Adidas-Solomon, on the other hand, is the fourth (4) largest US seller of athletic footwear and the second (2) largest globally, while Reebok currently comes second (2) in US sales in this area. Another fast growing company Skechers, has acquired a significant market share in the past few years. Skechers’ market share rose to 5.5% in 2002, but compared to the top athletic footwear manufacturers such as NIKE, Skechers is still a very small player in this colossal industry.

Barriers to Entry

Product Technology

NIKE has always striven to provide a competitive edge to foster the best possible performance in their athletes. This is the reason NIKE continues to lead innovation in footwear, apparel, and equipment.

The ability to test and examine footwear products serves as one of the major barriers for any footwear company that considers entering the market. NIKE is already highly advanced in the Research and Development area. Specifically, NIKE operates its own Sport Research Lab, where it carefully examines each of its new products. Three primary areas that researchers work on include: Biomechanics (study of human movement), Physiology (study of the integration of the body’s energy systems and responses to the environmental stresses), and Sensory/Perception (subjective evaluation of product attributes, usability and durability).

NIKE Inc. invests heavily in having researchers perform a number of scientific techniques to quantify their findings. Among numerous tests performed, here is a list of some exams NIKE’s athletic shoes are tested for:

- Motion Analysis (kinematics)
- Foot-pressure Measurement
- Ankle Range of Motion
- Metabolic Cart
- Heart-rate Monitors
- Blood-work

Proprietary Knowledge

NIKE has invested and achieved the most amongst any other sports company in developing cushioning systems that reduce shock, distribute pressure, and provide comfort for athlete’s feet. NIKE is credited with being the first to design footwear that encapsulates air to cushion foot-strike. The company’s scientists have also engineered a new model called “Zoom Air” for NIKE’s running shoe-line. Zoom Air shoes are very light and they are designed to bring the athlete’s foot closer to the ground to allow greater maneuverability.

For the apparel category, NIKE continues to develop an array of innovative designs for different types of sports such as basketball, volleyball, track-and-field, swimming, tennis, golf, and fencing. NIKE is also an expert in manufacturing high-performance fabrics that enhance athletes' performance under various conditions. *Nike Sphere Dry*, which is a double-brushed micro-fiber fleece that retains energy and resists heat loss, *Nike Sphere Thermal*, which is a garment that serves as a thermal insulation, or *Dry-FIT*, which uses a special fabric that absorbs the sweat and then brings it to the surface of the fabric where it evaporates leaving the athlete's skin dry, are few of the designs that NIKE engineered so far.

Brand Identity

NIKE enjoys the popularity of its brand name, which is recognized all around the world. Its name carries a trademark, and thus makes it illegal for other companies to infringe upon the NIKE name. Besides the brand name, the company also has a trademark for the 'Swoosh Design' logo that identifies NIKE Inc. In fact, NIKE considers its name and the 'Swoosh' symbol to be the most valuable assets; therefore, the company registered these trademarks in over 100 countries.

Patents

One of the exclusive licenses that distinguishes NIKE from the rest of its competitors is the patented "Air" technology that the company uses to sell footwear. "The process utilizes pressurized gas encapsulated in polyurethane."[1] Although some NIKE AIR patents have expired, NIKE still holds a number of subsequent NIKE AIR patents, and patents that cover specific features in various athletic and leisure shoes that will not expire for several years. In addition, the company places a significant emphasis on its Research and Development, Production and Marketing, and Design departments to maintain its competitive edge.

Product Differentiation

In terms of product differentiation, NIKE is also leading the market. The only competitor nearly has an identical business is Adidas-Solomon.

Product differentiation is healthy in the footwear industry and allows the company to increase its profits through the sale of different products. Another advantage of manufacturing a number of product lines is the reduction of risk in that if one product fails there are numerous other products to compensate for this loss. Companies in the apparel and footwear industry that concentrate on manufacturing a single product are at a great disadvantage since their revenues depend exclusively on the sales of only one type of product, therefore, increasing the potential default risk.

NIKE designs most of its footwear for athletic use; however, in order to diversify its products, a large percentage of their products come from sales of footwear, apparel, and accessories for casual and leisure purposes.

The company segments its products in variety of ways. First of all, it manufactures sports goods and accessories for three different groups of people: men, women and children. Each segment is carefully examined in terms of physical capabilities, sociological needs, and design preference. Another type of segmentation used by NIKE that helps to increase product diversification is achieved by offering footwear, apparel, accessories, such as NIKE watches or gym bags, as well as performance equipment, including sport balls, timepieces, eyewear, skates, bats, gloves, and others in virtually every type of sport: running, basketball, tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities, hiking, fencing, and others.

Besides the two segmentations described above, NIKE also has agreements for licensees to produce and sell NIKE brand items aside from athletic footwear and apparel. In part, this product differentiation is accomplished through strategic management planning by having the company sell NIKE brand timepieces, children's clothing, school supplies, electronic media devices, and other items.

NIKE subsidiaries, such as Bauer NIKE Hockey Inc., are yet another way the company segments its product lines. Specifically, the Bauer NIKE Hockey Inc. subsidiary manufactures and distributes ice

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[8] NIKE Annual Report 2003

skates, skate blades, in-line roller skates, protective gear, hockey sticks and many other licensed apparel and accessories that make NIKE stand out in its industry.

MANAGEMENT STRATEGIES

NIKE's mission statement is very straightforward. By referring to legendary track-and field coach Bill Bowerman's quotation, NIKE states that the vision of their company is "To bring inspiration and innovation to every athlete in the world."

To follow its mission, NIKE's managers are concerned with elaborating on the strategies listed below:

- *Functional-level strategy*: is directed at improving the effectiveness of operations within the company. NIKE is employing this strategy within its manufacturing, marketing, product development, and customer service processes. Thus, in order to improve its customer services, NIKE strives to represent the highest service standard within its industry, and tries to build loyal customer relationships around the world.

- *Business-level strategy*: encompasses the business' overall positioning in the market. NIKE stays competitive due to its cost leadership, product differentiation, and industry segment management.

- *Global strategy*: addresses the company's needs to expand its operations outside the home country and compete on a global scale. NIKE is applying this strategy to its fullest extent reaching its customers on all six continents: USA, Europe, Middle East, Africa, Asia Pacific, and the Americas Regions.

- *Corporate-level strategy*: concentrates on the firm's ability to focus on particular businesses that maximize the long-run profitability of the organization. NIKE is able to maintain its long-run profitability and even continue to grow within its industry because it produces what it knows best, as well as, improves and innovates its products.

NIKE depends heavily on Strategic Outsourcing. Virtually all footwear products are produced outside the United States. There were seven (7) contract suppliers outside the US that manufactured NIKE brand footwear in 2003. The Republic of China, Indonesia, Vietnam, and Thailand manufactured 38%, 27%, 18% and 16% of total NIKE footwear respectively. In FY2003, only approximately 1% of total NIKE brand apparel was manufactured in the US. Independent contractors located in 35 countries manufactured the remainder.[2]

Another key to success for NIKE Inc. is its exploitation of the network structure, which allows it to replace the non-performing alliance partners that fail to meet NIKE's standards with new partners. In addition, the company works closely with its suppliers, which helps NIKE reduce costs and increase product quality with new developments in technology.[3] NIKE's use of killer applications allows it to use new technology to manufacture superior products that are so compelling that the company persuades customers to adopt the new format, thereby "killing" demand for competing companies. Generally, killer applications help NIKE to jump-start demand for the new standard and allow it to lead the market.

Currently, NIKE Inc. began a realignment of the company's US footwear distribution to address the challenging retail market. NIKE has reduced its offerings of premium footwear to one of its largest customer Foot Locker. Even though sales to Foot Locker in FY2003 were below the level of FY2002, the company's management believes that realignment will improve the presentation and profitability of the NIKE brand in U.S.A.

Figure 1-1

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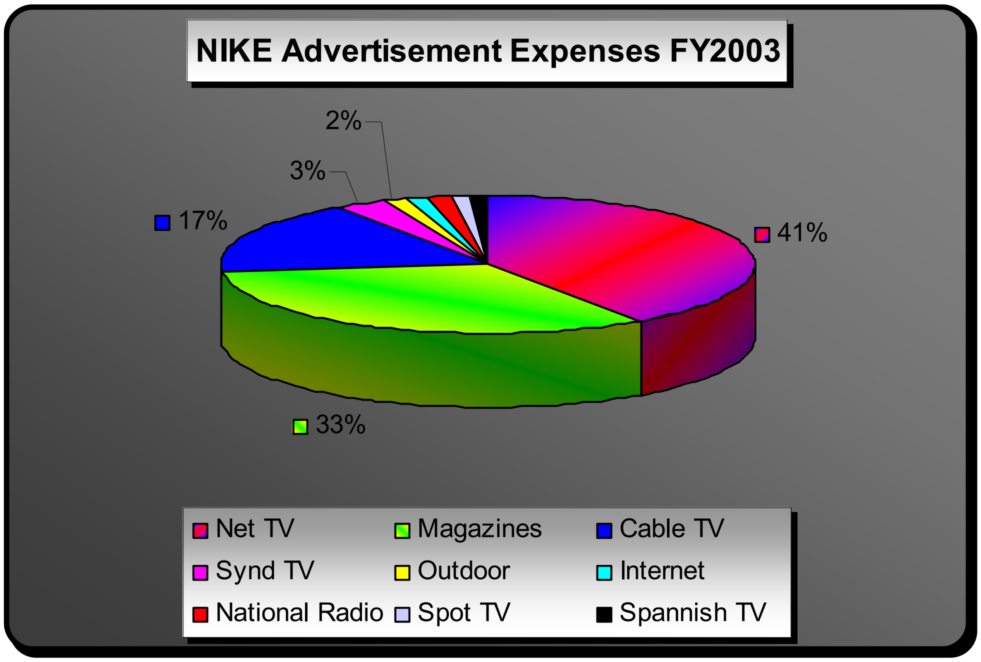
[9] NIKE Annual Report 2003

[10] *Strategic Management: An Integrated Approach* by Charles W.L. Hill and Gareth R. Jones



NIKE places a significant emphasis on marketing the company and its products. One of the primary reasons NIKE is so successful in popularizing its footwear, apparel and sports accessories is because it hires sports celebrities as their spokespeople, including legendary basketball player Michael Jordan, Serena Williams, Tiger Woods, and 18-year-old LeBron James who signed a seven-year endorsement deal with NIKE worth over $90 million in May 2003. According to Philip H. Knight, CEO, Chairman of the Board, and President of NIKE, the company did not start advertising itself on national TV until it generated its first $1 billion in sales. The strategy that they employed was, so called "word-of-foot" advertising. NIKE wanted to have their products be worn by the best athletes in the world and this strategy paid off tremendously. Customers began purchasing NIKE footwear due to the product-quality image the athletes were portraying, and the company's sales reached new highs.[4]

Nevertheless, advertising became one of the main strategies that NIKE applied in marketing its brand products. NIKE's primary areas of marketing remain Net TV and magazines as in the previous years. In 2003 NIKE spent $32.4 million on Net TV commercials, and another $39.8 million for magazine ads; thus comprising 74% of total advertisement expenses in only these two categories (Figure 1-1). Other major areas NIKE markets the company were Cable TV with 17% of total expenses, Syndicated TV with 3%, Outdoor advertising including billboards with 2%, while Sports and Spannish TV and Internet averaged 1% each of total NIKE advertising expenses. Although NIKE measured media spending decreased by 26.7% from the last year, the company still ranks in the first 100 of the top 200 Megabrand advertising spenders in the US during the first half of 2003. [5]

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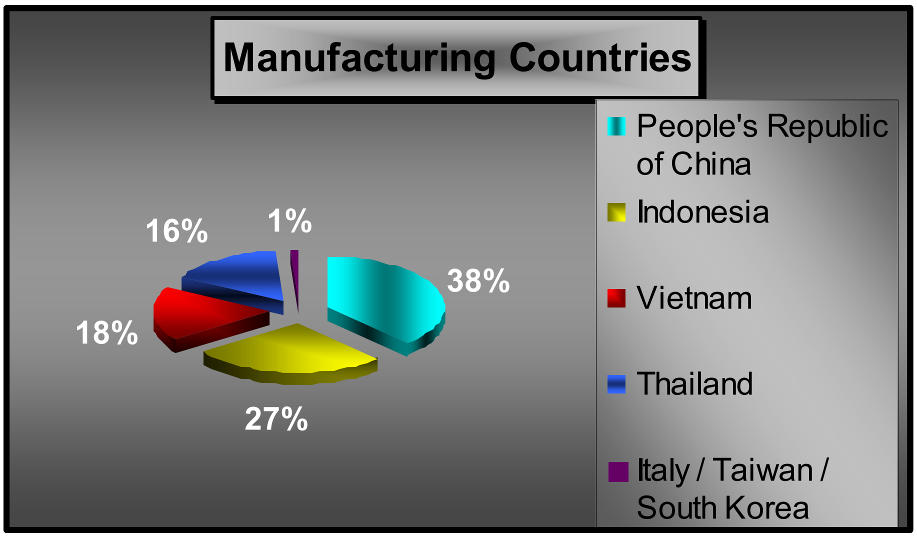
[11] www.fortune.com *"Winning Ideas in Marketing"* by Patricia Sellers
[12] www.adage.com

Supplier Power
Like all producing and manufacturing industries, supply of raw materials are of the essence of the business. The most needed supplies in the footwear industry involve:

Labor: since NIKE Inc. provides its products to a customer base on the worldwide level, it is in need of a large labor force to "keep-up" with the demand. The company has workers and factories in many countries.



NIKE Inc. follows specific values, intentions, and guidance that are presented clearly in their core Code of Conduct that emphasizes on:

- Forced Labor: contractors ought not to use forced labor.
- Child Labor: contractors do not employ a child under the age of 18 to produce footwear; and under the age of 16 to produce apparel, accessories, and equipment.
- Compensation: contractors provide their employees with at least the minimum wage, or the prevailing industry wage. (Which ever is higher)
- Benefits: contractors provide the employees with all legally mandated benefits.
- Work Hours: contractors mandate with the legal amount of work hours. (No more than 60 hours of work per week)
- Environment / Safety and Health: NIKE makes sure that the employees work in a safe environment and are provided the necessary care.
- Documents and Inspections: contractors are always ready to supply every legal document for inspectors and other necessary purposes.

Supplier Diversity: Supplier diversity is a very important part of a successful business and it holds several key aspects. It is about understanding the importance of consumers and satisfying their needs. However, since NIKE's customers are on a worldwide scale, the company needs as broad a base of suppliers as possible to actively and significantly reflect the world in which it operates. NIKE relies heavily on its supplier relationships to help the company arrive at innovative and creative solutions, to understand its business, and to help it reach its goals. Furthermore, with such a large and diverse supplier base, NIKE is able to have a strong presence in the markets it operates, and it has a solid brand name that is recognizable worldwide, with strong credibility.

Threat of Substitutes

A threat of substitutes is highlighted with the ability to replace the company's existing products with one of its competitors or other industries. When a product's demand is affected by the **price changes of substitute products**, the company ought to adjust its prices by reducing manufacturing costs or other unnecessary costs. However, in the case of NIKE, the company is to some extent able to keep its prices higher than other competitors because of its recognizable brand name, and its customer loyalty that it heavily depends on.

The threat of substitutes is also affected by **the cost of supplies** that are used for manufacturing. Again, we see that NIKE is able to keep those costs lower than other competitors because of its good supplier relationships, its low default risk, and its continuous productivity all year long for all seasons.

In terms of fear of the **buyer inclination to substitute**, NIKE is less affected than other companies because of its product quality, brand recognition, and geographic diversification. NIKE products are distributed on all continents and target different age groups.

NIKE Inc. is a well-established company, with quality products, at very competitive prices. The latter qualities dramatically decrease the threat of substitutes for its products.

Buyer Power

The power of buyers in the footwear industry is distributed among several companies. Even though the number of buyers is around 25 companies, there are a small number of them that control the market.

Market Capitalization[6]

NIKE	Reebok	Timberland	Skechers	Adidas*
20.21B	2.46B	2.08B	489.02M	n/a

* Data for Adidas-Salomon AG is not available.

Being a very large corporation with a very large consumer base, NIKE is able to acquire other competitors or producing firms. NIKE joined with some great partners over the years to extend and improve its products' quality, variety and efficiency. Some of those companies include: Cole Haan, Bauer, Hurley International, and Converse. Because of its rigorously established situation in the markets it operates, the company is also able to control its supplies by increasing the number of suppliers and therefore increasing competition and lowering costs.

NIKE designs, manufactures, and markets a much diversified portfolio of products which includes footwear, clothing, sports accessories, and other equipment for almost every existing type of sport. This characteristic gives NIKE an advantage over other sports companies that carry a smaller product line by limiting their control over the market and product diversification, which essentially increases the possibility of default.

Analysis of Management Strategies

To offer a better service quality to their customers, suppliers and other parties interested in doing business with NIKE, the company is about to launch a new **Supplier Diversity Management System**[7]. This new system will assist the company in sourcing for certified diverse suppliers, supplier registrations, and reporting and tracking of their supplier diversity goals and expenditures.

Management focuses in large on **supplier diversity initiatives** that afford solid benefits that can have a favorable impact on business. It's accomplished in several ways:

- Creating more competition in the supply chain results in lower costs of goods and services.

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[13] http://finance.yahoo.com
[14] http://www.nike.com

- Maintaining a connection to the broad consumer base that is populated with increasing numbers of minorities, women, and those who are physically challenged.
- Providing economic stimulus to the community as a result of increased business with a wider range of diverse suppliers.
- Dedicating to supplier diversity not only contributes to the enhancement of our brand, but it also creates and strengthens our relationship with our customers who also value diversity.

The year of 2003 brought a lot of challenges and obstacles to NIKE and other companies in general. Some of the problems that they had to face were a global economic recession, West Coast port closures, the unforgettable mystery of the virus SARS, a crushed European supply chain, and a major cut in demand from Foot Locker. Even with such high hurdles to face, NIKE's management had their best year ever in sales and in earnings per share before an accounting change.

Fiscal Year	2000	2001	2002	2003
Sales	8,995	9,489	9,893	10,697
Earnings per Share*	2.07	2.16	2.46	2.77

* Amount based on diluted earnings before accounting change.

NIKE's management focuses on delivering **high earnings**[8] year after year by increasing sales and by establishing company growth. To achieve high earnings, management promises long-term potential which is broken down as follows:

1. "The regenerative nature of sports itself."[9] New athletes are born every day; and today's generation of athletes promises to reach new levels of human potential, and it's the company's job to help them get there.
2. Behind the performance and greatness of athletes and teams, is NIKE's product. Great quality, and great innovations and technology put into the manufacturing and design of NIKE's products is a key factor to success of the company.
3. Advertising and marketing are becoming one of the essential factors to a successful business. With all the competition in the market, being able to gain an advantage over other competitors through advertisements and marketing has become a must.
4. Behind it all are the people of Nike, the men and women of this company who have never accepted failure, who consider us a growth company, even when sales go down. With a lot of dedication and a competitive edge in their work, NIKE's employees are considered the "back bone" of the company.

Growth is one of NIKE's main goals. It enjoys growing sales revenue every year, which allows it to pay out dividends since it was a start-up company in 1987. The dividends that NIKE paid out through the years are increasing gradually reaching its second highest of $0.20 per share in March 2004, having paid its highest in 1994-95 of $0.25 per share. Being a growth company, NIKE has acquired several other competitors like Cole Haan, Bauer, Hurley International, and Converse. By doing so, NIKE grew even bigger and stronger, and was able to control a larger part of the market and serve a larger customer base, which generated higher returns.

The footwear industry is one of the industries where new products and new designs are a must for the survival of the company. For that fact, one of NIKE's managerial strategies is the emphasis on the **research and development** section, which is considered a key factor in the past and future success of the company. Technical innovation in the design of footwear, apparel, and athletic equipment receives

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[15] http://www.nike.com, *Chairman's Letter to Shareholders*.
[16] http://www.nike.com, *Chairman's Letter to Shareholders*.

continued contribution and attention, as NIKE strives to produce products that reduce or eliminate injury, aid athletic performance and maximize comfort.

Executive Officers of the Registrant

Executive Officers of NIKE as of July 25th, 2003 are follows:

Philip H. Knight, Chief Executive Officer, Chairman of the Board and President- Mr. Knight, 65, has been director since 1968, is a co-founder of NIKE and, except for the period from June 1983 through September 1984, served as it President from 1968 to 1990, and from June 2000 to present. Prior to 1968, Mr. Knight was a certified public accountant with Price Waterhouse Coopers and Lybrand and was an Assistant Professor of Business Administration at Portland State University. (refer to news)

Donald W Blair, Vice President and Chief Financial Officer- Mr. Blair, 45, Joined NIKE in November 1999. Prior to joining NIKE, he held a number of financial management positions with PepsiCo's Pizza Hut Division, and Senior Vice President, Finance of The Pepsi Bottling Group, Inc. Prior to joining PepsiCo, Mr. Blair was a certified public accountant with Deloitte, Haskins, and Sells.

Thomas E. Clarke, President of New Ventures- Dr. Clarke, 52,he joined the company since 1980 and as has been a director since 1994. He was appointed divisional Vice President in charge of marketing in 1987, elected corporate Vice President in 1989, appointed General Manager in 1990 and served as President and Chief Operating Officer from 1994 to 2000. Dr. Clarke previously held various positions with the Company, primarily in research, design, development, and marketing. Dr. Clarke holds a doctorate degree in biomechanics.

NIKE Historical Ratios

	5/31/2003	5/31/2002	5/31/2001	5/31/2000	5/31/1999
Return on Equity	18.55	17.41	16.88	18.47	13.54
Return on Assets	11.02	10.37	10.13	9.89	8.60
Operating Margin	11.65	10.79	10.69	10.95	9.76

NIKE's Return on Equity rose 36.41% between 1999 and 2000, while a shaky position between 2000 and 2001 resulted in a fall in the return on equity gained from the previous yr by 8.61% to stand at 16.88 in 2001. This position was reversed in the following two years with return on equity rising by 3.14% between 2001 and 2002 and then 6.54% between 2002 and 2003.

Return on Assets steadily increased for NIKE from the period from 1999 to 2003 with an overall increase of 28.14% showing that NIKE continuously earned more returns on the employment of its assets throughout the years.

Operating Margin also steadily grew from 1999 to 2003 with a slight drop by 2.37% in 2001 but then rose again by 0.94% and then 7.97% resulting in an overall increase in operating margin from 1999 to 2003 of 19.36%.

Liquidity Indicators

	5/31/2003	5/31/2002	5/31/2001	5/31/2000	5/31/1999
Current Ratio	2.32	2.26	2.03	1.68	2.26
Quick Ratio	1.44	1.37	1.14	0.90	1.3
Total Debt to Equity	0.19	0.18	0.13	0.17	0.12

NIKE's liquidity fell between 1999 and 2000 by 25.66% but the company was still able to meet its short-term obligations with its current assets. After 2000 the company's liquidity then steadily increased from 2000 to 2003 to highlight an overall increase in liquidity of 2.65%

The quick ratio also highlights a similar movement in liquidity. Liquidity dropped between 1999 and 2000 by 30.77% but then the company steadily improved its liquidity throughout the following years to result in an overall increase in liquidity of 10.77% as represented by the quick ratio.

In terms of the ratio of debt to equity in financing between 1999 and 2000 NIKE showed an increase in debt in its financing as compared to equity but then in 2000 the company showed a reversal in its position with more reliance on equity compared to debt. 2001 to 2003 showed an increased use of debt compared to equity in NIKE's capital structure and therefore showed NIKE to be more leveraged at the end of 2003.

Asset Management:

	5/31/2003	5/31/2002	5/31/2001	5/31/2000	5/31/1999
Revenues/Total Assets	1.59	1.54	1.63	1.54	1.67
Revenues/Working Capital	4.01	4.26	5.16	6.18	4.83
Interest Coverage	27.18	22.37	16.70	21.43	17.92

Revenues as a percentage of total assets dropped between 1999 and 2000 by 7.78% then improved by 5.84% in 2001 but then declined again in 2002 by 5.52% and then improved in 2003 by 3.24% to stand at 1.59. Even with these fluctuations, NIKE achieved positive gains on its total assets in the form of revenues for example in 2003 for every $1 in total assets NIKE generated $1.59 in revenues.

Revenues as a percentage of working capital fluctuated throughout the years moving up between 1999 and 2000, and then continuously fell between 2000 and 2003 by an overall 35.11%.

The Interest covered figures showed improvement between 1999 and 2000, a drop between 2000 and 2001 but then a continuous increase from 2001 to 2003 showing that NIKE is able to cover its interest expenses 27.18 times.

Comparison Data for 2003

Financial Ratios:

	NIKE	REEBOK	ADIDAS	INDUSTRY	MARKET
Current Ratio	2.32	3.05	2.07	2.82	1.43
Quick Ratio	1.44	2.17	1.20	1.80	1.00
Total Debt/Equity	0.19	0.34	0.70	0.27	1.41

Liquidity Ratios: Liquidity is a measure of a company's ability to meet its short-term obligations. A liquid asset is one that can be quickly converted into cash. Liquidity ratios express the variability of liquid resources relative to potential claims.

Current Ratio: With this current ratio, Nike is able to cover its current liabilities 2.32 times with its current assets. Reebok's ratio is slightly higher at 3.05 and Adidas is slightly lower at 2.07. In comparison the industry is more liquid than Nike and the market is less liquid. Focusing on its main competitors in the form of Reebok and Adidas, Nike's liquidity is at a viable position and the higher liquidity of Reebok and the industry may mean that other companies are leaving its cash idle and not using it to its full potential.

Quick/Acid Test Ratio: This means that with the exclusion of its most illiquid asset in the form of inventory, Nike is still able to cover its current liabilities. The industry to which NIKE belongs is more liquid with ADIDAS being less liquid than NIKE and REEBOK being even more liquid than industry. The market as a whole stands at a more balanced position with a 1 to 1 ratio.

Leverage Ratios: A leveraged company uses more debt than equity including stock and retained earnings in its capital structure.

Debt-to-Equity: Nike's debt-to-equity ratio of 0.19 shows that Nike uses more equity in its financing than debt and is therefore not highly leveraged. Reebok and Adidas are more leveraged but the industry as a whole shows capital structures that weigh more on the equity side with a figure of 0.27 but still more leveraged than Nike. The market as a whole however is highly leveraged represented by a figure of 1.41, which shows that debt, outweighs equity in capital structure.

Operations Indicators for 2003

	NIKE	REEBOK	ADIDAS	INDUSTRY	MARKET
Inventory Turnover	7.06	9.89	5.38	3.70	7.60
Asset Turnover	1.59	1.75	1.50	1.20	0.30
Average Collection Period	61.59	54.98	N/A	52.95	58.55

Activity Ratios: These ratios assess the efficiency with which the firm manages its assets. More specifically, they describe how efficiently or intensively a firm uses its assets to generate sales.

Inventory Turnover: This means that NIKE turned over its entire inventory 7.06 times. As long as a company is not running out of stock and thereby foregoing sales, the higher this ratio is the more efficiently inventory is being managed. Inventory turnover for REEBOK and ADIDAS is 9.89 and 5.38 times respectively. This highlights that REEBOK turns over its inventory much faster than NIKE and the industry as a whole. The industry position is much lower at 3.70 and the market turns over its inventory faster than the industry with a figure of 7.60. Even though NIKE is less liquid than its closest competitor REEBOK this can be accounted for by NIKE's wider and more extensive range of products in comparison to REEBOK and other competitors.

Asset Turnover: Measures how efficiently a company uses its assets to generate sales. NIKE uses its assets to generate sales better than ADIDAS, the industry as a whole and much better than the market. REEBOK however utilizes its assets to generate sales approximately 10% better than NIKE does.

Average Collection Period: Highlights how effective the company's credit, billing, and collection procedures are. This shows that it takes NIKE approximately 61.59 days to receive its cash after making a sale. REEBOK and the industry takes 6.61 and 8.64 days less to receive its cash after making a sale. The market takes 5.6 days more than the industry but takes 3.04 days less than NIKE to receive its cash.

Profitability Ratios for 2003:

	NIKE	REEBOK	ADIDAS	INDUSTRY	MARKET
Gross Profit Margin	40.98%	38.40%	46.89%	46.19%	48.29%
Net Profit Margin	7.55%	4.51%	2.66%	6.15%	4.09%
Return on Assets	11.02%	7.90%	6.43%	7.20%	1.30%
Return on Equity	18.55%	15.21%	20.02%	11.90%	7.90%
Return on Invested Capital	17.70%	11.30%	6.48%	10.00%	3.80%

Profitability Ratios: These ratios measure the efficiency with which a company uses its resources and the more efficient a company is the higher its profitability. A number of different ratios can be used to assess different aspects of profitability in relation to a company's performance.

Gross Profit Margin: This calculation represents the amount of each dollar of revenue that results in Gross Profit. Approximately forty-one percent of NIKE's revenues result on gross profit, Reebok's figure is slightly less at 38.40% with ADIDAS, the industry and the market reaping higher results.

Net Profit Margin: This represents the amount of each dollar of revenue that results in Total Net Income. NIKE realizes a higher percentage of its revenue in total net income compared to its main competitors, the industry and the market, with a net profit margin of 7.55%. This turnaround between the positions realized with the gross profit margin suggests that NIKE manages its expenses better than the other groups with which it is compared.

Return on Total Assets: This measures the profit earned on the employment of assets and this shows that NIKE earned 11.02% on its total assets. This shows a better return when compared to its main competitors, the industry and a superior position over the market which only earned 1.30% on its assets. For every dollar of assets in NIKE the company generated approximately $0.11 in returns.

Return on Equity: Because shareholders benefit is the main goal, ROE is one of the most important measurers of performance. According to this calculation NIKE an 18.55% return on its shareholders investments, that is, for every dollar of shareholder investments NIKE was able to generate approximately $0.19. REEBOK was able to generate less with a $0.15 return, but ADIDAS was slightly higher at $0.20. In comparison the industry as a whole generated $0.12 and the market was even lower at $0.08.

Return on Invested Capital: This represents the profits earned on the capital invested in the company and highlights a continuation of the trend realized by the previous figures. NIKE was able to generate approximately $0.17 for every $1 of capital invested in the company while, REEBOK was able to generate $0.11, ADIDAS $0.65, the industry $0.10 and the market approximately $0.40. As such, NIKE was able to generate or garner higher profits on the capital invested.

Risks: Risks are not inherently bad but left un-addressed can cause serious harm to a company. Like all companies NIKE faces risk and these risks can stem both internally and externally. From an internal standpoint the company itself is the focus and from an external standpoint the industry in which the company operates is the source. Under the umbrella of market risk lie foreign exchange risk, translation and interest rate risk, all of which Nike undoubtedly faces due to its international stature.

Bad Publicity and False Advertisements: Even though NIKE has implemented a new code of ethics in carrying out its business, there still remains some negative backlash from previous linkages to sweat shops and poor working conditions in factories of its foreign suppliers. Any resurgence in this sort of negativity can lead to a drop in consumer confidence and ultimately NIKE's stock price as experienced in the past. As with other companies in this position NIKE faces this threat but the company has attempted to rectify the situation and should continue to foster good relationships with its suppliers and continue checks of working conditions.
Some organizations not in favor of NIKE's touted affiliations with poor working conditions continue to protest sporadically at NIKE store locations and also post websites that make false advertisements about the company and try to gain the support of consumers through these means. Despite this, the company is still experiencing growth and has taken a vigilant look at these groups.

Fashion Changes and changes in consumer tastes and preferences: NIKE needs to stay on top of changes in consumer tastes and preferences as evidenced by changes in fashion. NIKE faces the risk that fashion trends may change that fail to incorporate NIKE's styles. To combat this NIKE, should position itself as a trendsetter and not a trend follower, as well as, be responsive to its consumers.

Like all companies Pall Corporation faces risk and these risks can stem both internally and externally. From an internal standpoint the company itself is the focus and from an external standpoint the industry in which the company operates is the source. Under the umbrella of market risk lie foreign exchange risk, translation and interest rate risk, all of which Pall Corporation undoubtedly faces.

NIKE is exposed to foreign currency fluctuation as well as translations risk as a result of international sales, production and funding activities. The company however realizes and accounts for this risk by hedging. According to the company's annual report, "our foreign currency risk management objective is to reduce the variability of local cash flows as a result of exchange rate movements". The company uses forward exchange contracts and options to hedge certain anticipated but not yet firmly committed transactions as well certain firm commitments and the related receivables and payables, including third party or inter-company transactions.

Investment Drivers:

The economy as experiencing an upswing and this has been translated to an upswing in the athletic footwear, apparel and equipment segments of consumer products industry. Existing investment drivers include NIKE's strong brand recognition, differentiation of products, and high market share. These have translated in increased earnings for the past three quarters and much of our valuation of this company is based on expected future increases in earnings for the upcoming quarter and year.

Unlike many companies that remain sluggish in a stagnant economy NIKE seems able to overcome these setbacks and still realize high earnings as well as pass on dividends to its shareholders. NIKE also adopts innovative ideas with the use of extensive research and development and technology. The

Company continues to venture into new, but related areas by applying key management strategies in its approach. This approach, has proven to be successful in the past.

NIKE continuously searches for new opportunities for partnerships and alliances that not only build brand loyalty and support but also generate sales. These partnerships come in the form of relationships with buyers, suppliers as well as athletes, which have proven to drive consumer purchases.

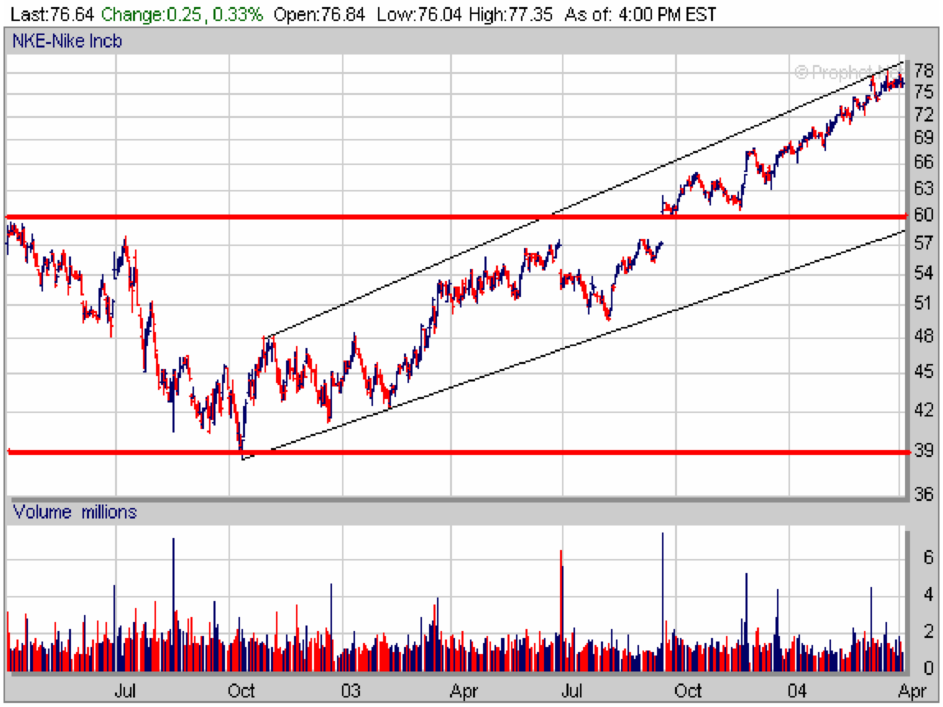
Nikes propriety knowledge pushes the company to the top of its industry while maintaining a competitive edge, quality products at affordable prices. Two key events also occur soon. The Olympics is an event that always pushes consumer desire to be more athletic but also patriotism. These increases in positive feelings will ultimately spill over into support for NIKE who sponsors an enormous amount of athletes and sports teams. Also, children, mainly teenagers accounted for the majority of sales recently, with this in mind along with back to school shopping coming up around August this can also result in increases sales as these teenagers demand the latest styles and products offered by NIKE. NIKE also benefits from its first mover status by always being innovative and pushing itself to take advantage of all opportunities that appear.

Technical Analysis

This previous chart is a comparison between NIKE Inc. relative to the S&P 500 and the Footwear Industry for the previous 2-year period. As we can observe, all three performances were side-by-side until February of 2003. However, since then, NIKE stock performance and the Footwear Industry outperformed the S&P 500 on an increasing gradual pace. Around Mid-2002, we realize that all three curves have fallen because of a weakening of the economy, decreased investor confidence, and stock deterioration as in some large companies like Enron.

In this chart, we have a close-up on the last three months of the comparison between NIKE Inc. relative to the S&P 500 and the Footwear Industry. As we mentioned before, the gap between the three curves is increasing gradually for the favor of NIKE stock performance and the Footwear Industry.

This is a weekly stock chart performance for the previous 2-year duration of NIKE Inc. As we can see, the company's stock prices traded at above its 50 and 100 daily moving averages (DMA) since mid-2002 where prices have dipped below the moving averages for weak economic reasons. Since February of 2003, the stock has kept an upward stable trend showing a major recovery after the price drop in 2002. The MACD indicator below the chart shows that NIKE's stock price has traded mostly above the 0-line which shows that the stock has been bullish since its recovery from the downfall in mid-2002. The RSI indicator above the chart also shows that the stock is bullish. For the last 2 years, the RSI indicator curve has never crossed below 30. However, and especially after its recovery in 2003, the RSI stayed stable in the upper 50s to middle 60s. The RSI is now above the 70s line. With the right adjustments, we expect it to decrease to its previous level of upper 50s to middle 60s.



On this 2-year chart, we can see that until October of 2003, the support level was at the 40 line, while the resistance level was at the 60 line. Starting October 2003, the support level has become the 60 line, while the resistance level is now estimated to be at the 80 line based on the historical prices of the stock, where the curve did not cross above the 80 line. Furthermore, from the two diagonal lines limiting the lower level and the upper level of the curve, we realize that they are almost parallel which allows us to say that the stock has been increasing in a positive stable trend.

Disclosure

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