

NIKE, Inc.

A global sports brand priced for permanent impairment while a career insider rebuilds product and distribution

Ticker / price	Equity / enterprise value	FY2026 diluted EPS	Current income yield
NYSE: NKE / \$40.73	~\$60.3bn / ~\$59.2bn	\$2.10	~4.0% dividend

Market data as of August 14, 2026. Enterprise value uses \$9.0bn cash / short-term investments and \$7.94bn debt at May 31, 2026. [1][2]

MARKET COMMENTARY | FOR INFORMATIONAL AND EDUCATIONAL PURPOSES ONLY

This material does not describe any First Principles fund or advisory service and is not an offer or solicitation to purchase or sell any security or interest in any investment vehicle. It is not investment, legal, tax or accounting advice. Forecasts and scenarios are hypothetical and do not represent actual First Principles investment results. See Important Disclosures.

5-YEAR TSR REFERENCE CASE: 27.6% = 4.0% + 11.0% + 12.6%			
27.6%	4.0%	11.0%	12.6%
Annualized TSR	Dividend yield	EPS growth	Multiple reversion

Mechanical bridge: \$40.73 / \$2.10 FY2026 EPS = 19.4x, reverting over five years to the 2016-2025 average year-end P/E of 35.1x. The mean includes 2018/2020 earnings dislocations and is not the underwriting exit multiple. [1][8]

Thesis

Nike remains the world's largest athletic brand, but years of over-indexing to direct digital sales, starving wholesale partners and leaning on retro franchises weakened product heat and marketplace health. Returning 32-year veteran Elliott Hill is reversing that system through Sport Offense: organize by sport, rebuild complete product portfolios, restore wholesale, localize country/city execution and elevate storytelling. FY2026 revenue stabilized at \$46.4bn and North America / wholesale grew, yet China, EMEA, digital sell-through and underlying margins remain weak; Q4 EPS also included \$0.52 of tariff-recovery benefit. At 19.4x depressed earnings with net cash and a 4% yield, the shares offer asymmetric recovery value if innovation and distribution—not multiple expansion alone—restore EPS.

Four-question scorecard

Question	Score	Why it is not higher
Business quality	4.5 / 5.0	Global brand, athlete network and distribution scale; fashion cycles and recent execution cap perfection
Price	4.0 / 5.0	19.4x depressed EPS, net cash and 4% yield; earnings quality includes tariff-recovery noise
People / allocation	4.0 / 5.0	Hill has rare commercial depth; turnaround proof and prior buyback timing remain incomplete
Hidden nugget	4.5 / 5.0	Wholesale repair, performance product and cost reset can recover margin before headline growth looks strong

2 Business and Industry

Nike sells cultural relevance and athletic performance through an asset-light design, demand-creation and distribution system

Business model in plain English

Nike designs and markets footwear, apparel and equipment, outsources nearly all manufacturing, and captures the spread between branded price and sourced product cost. The economic asset is not a factory: it is a global system of athlete endorsement, product innovation, storytelling, merchandising, wholesale reach and direct consumer data. Footwear is the profit engine; Jordan extends scarcity and culture; apparel and equipment widen the consumer relationship. Wholesale supplies reach and marketplace validation, while Nike Direct supplies control and data—neither channel is sufficient alone.

Business lens	FY2026 scale	Economic role	Current issue
Footwear	\$29.5bn Nike Brand	Innovation, franchise and margin engine	Lifestyle classics over-distributed
Apparel	\$13.4bn Nike Brand	Basket size and sport ecosystems	Less differentiated / promotional
Equipment	\$2.2bn Nike Brand	Sport credibility and adjacencies	Smaller profit pool
Jordan	\$7.0bn within Nike Brand	Cultural scarcity and premium pricing	Revenue -3%; protect heat
Converse	\$1.2bn	Lifestyle option	Revenue -31%; turnaround or prune

Why business quality is 4.5 / 5.0

- Brand reach is global and intergenerational. Elite-athlete credibility, leagues, teams and grassroots sport create attention that performance-only challengers must buy repeatedly.
- The model is asset-light relative to revenue. Contract manufacturing makes innovation, demand creation, inventory discipline and working capital—not plant utilization—the key owner-economics variables.
- Scale creates a data and distribution advantage: Nike can fund thousands of product iterations, global campaigns and local assortments across both wholesale and direct channels.
- Recovery evidence is uneven but real: FY2026 wholesale rose 6% reported while North America Nike Brand revenue rose 5%; performance running is improving. [2]
- The deduction reflects short product cycles, intense competitors, supplier and tariff exposure, fashion risk, China localization and the demonstrated ability to damage the marketplace through channel policy.

Industry structure and profit pool

Force	Assessment	Investment implication
Customer power	Medium-high	Consumers switch easily; brand and product heat must be re-earned each season
Supplier power	Low-medium	Scale diversifies sourcing, but Vietnam / Asia and tariffs concentrate risk
Rivalry	High	Adidas, Hoka, On, New Balance and specialists attack categories and culture
New entrants	Medium	Digital lowers awareness barriers; global wholesale and athlete scale remain difficult
Substitution	Medium	Casual footwear, resale and non-sport fashion compete for the same wallet
CUSTOMER VALUE PROPOSITION Nike combines credible performance innovation with identity and belonging; the consumer buys both a tool for sport and a symbol within culture.		

3 Financials and Business Quality

Revenue has stabilized, but reported EPS and cash flow still carry working-capital and tariff-recovery noise

Metric	FY2024	FY2025	FY2026	Underwriting read
Revenue	\$51.4bn	\$46.3bn	\$46.4bn	Top-line trough may be forming
Gross margin	44.6%	42.7%	42.9%	Far below prior potential; Q4 distorted
EBIT	\$6.54bn	\$3.78bn	\$3.85bn	8.3% margin vs 12.7% FY2024
Net income	\$5.70bn	\$3.22bn	\$3.11bn	Tax / tariff and mix affect comparability
Diluted EPS	\$3.73	\$2.16	\$2.10	FY2026 share count nearly flat
Operating cash flow	\$7.43bn	\$3.70bn	\$2.87bn	Receivables and working capital depressed cash
Capex	\$0.81bn	\$0.43bn	\$0.68bn	Asset-light, but distribution / digital still require spend
Free cash flow	\$6.62bn	\$3.27bn	\$2.18bn	Below dividend in FY2026; normalize carefully

Company-reported fiscal years ended May 31. Free cash flow is operating cash less capital expenditures. [2][3]

Owner-earnings bridge

Driver	Five-year base assumption	Reasoning
Revenue	5%-6% CAGR	Performance product, wholesale repair and modest global growth
Gross / EBIT margin	EBIT recovers to ~11%	Mix, discount normalization and overhead productivity; below FY2024
Working capital	Partial FY2026 unwind	Tariff receivable and wholesale timing depressed cash conversion
Share count	1%-2% annual decline	Repurchases resume only after cash conversion improves
EPS	~11% CAGR	Revenue, margin recovery and modest buybacks from depressed base
FCF / EPS	>90% by FY2028	Inventory, receivables and capex normalize

Balance sheet, ratings, maturities and covenants

Nike had \$9.0bn of cash and short-term investments, \$7.94bn of debt and \$14.9bn equity at May 2026. Ratings are A+ at S&P and A2 at Moody's. Debt maturities are \$1.0bn in November 2026, \$1.0bn in March 2027, \$1.5bn in 2030, then \$4.5bn spread across 2040-2050 at 3.25%-3.88%. Undrawn facilities include \$1bn due March 2027 and \$2bn due March 2030; no balances were outstanding. Covenants limit asset disposals and secured liens but include no disclosed leverage test; rating changes affect pricing, not acceleration. Nike was compliant at year-end. Near-term maturities are fully covered by cash, though refinancing choices matter. [3]

BALANCE-SHEET JUDGMENT Net cash, investment-grade ratings and long-dated low-coupon debt make liquidity a strength. The constraint is restoring FCF above the dividend—not creditor pressure.

4 Valuation and Hidden Nugget

The market prices Nike like a mature apparel company before the brand has proven whether its operating system can recover

Ten-year P/E context

2016-2025 year-end P/E	Low	Average	High	Today
Reported range	20.7x	35.1x	61.1x	19.4x
Median	—	30.6x	—	Below every year-end observation

MarketCapOf annual series. 2018 and 2020 P/E's were inflated by earnings dislocations; the underwriting exit is 25x, not the 35.1x mean. [8]

Five-year valuation cases

Case	2031 EPS	Exit P/E	Dividends	2031 value	5-year CAGR
Bear	\$2.32	15x	~\$8.2	\$43	1.1%
Base	\$3.54	25x	~\$8.2	\$97	18.9%
Bull	\$4.41	32x	~\$8.2	\$149	29.7%

Analyst estimates. Bear/base/bull EPS growth is 2%/11%/16% from FY2026; dividends held flat. Base exit multiple is below the historical median.

Hidden nugget — marketplace repair has operating leverage

Nike's turnaround does not require an immediate return to double-digit revenue growth. The hidden lever is mix and marketplace health. Clearing over-supplied classics, restoring wholesale allocations, scaling performance running / football / basketball and organizing teams by sport can reduce markdowns and make the same revenue more profitable. FY2026 wholesale rose 6% while Direct fell 6%—optically a channel mix headwind, strategically a repair of reach and partner trust. If gross margin and overhead recover only enough to lift EBIT margin from 8.3% toward 11%, EBIT rises by roughly one-third before meaningful top-line compounding. Hill's commercial background makes this more credible than a generic cost program. [2][4]

Potential unlock	Evidence today	Proof required
Wholesale repair	FY2026 wholesale +6%	Full-price sell-through and partner doors grow
Performance product	Running and North America improving	New franchises scale beyond launches
Margin normalization	FY2026 EBIT margin only 8.3%	Markdowns fall excluding tariff recoveries
Overhead / portfolio	Severance and Converse -31%	Structural cost reset; prune chronic drag

LBO reality check

A 20% equity premium implies ~\$71bn entry EV, or ~15.5x FY2026 EBITDA of roughly \$4.6bn. Even at 6x leverage, a sponsor contributes ~\$44bn. If year-five EBITDA reaches \$7.5bn, the company exits at 12x and debt falls to \$18bn, equity proceeds are ~\$72bn: ~1.6x MOIC and ~10%-11% IRR before fees. A sponsor would also sacrifice flexibility to fund innovation, endorsements and dividends. Nike is not a conventional LBO; its public-equity opportunity is brand and margin recovery with an investment-grade balance sheet.

VALUATION CONCLUSION BUY A STARTER. The full-decade TSR bridge overstates likely re-rating, but a 25x base exit still offers attractive returns if EPS recovery is operational rather than merely financial.

5 CEO and Capital Allocation

A lifelong Nike merchant returned to rebuild sport, product and partner relationships—not simply cut cost

Elliott Hill — commercial operator with institutional memory

Hill became President and CEO on October 14, 2024 after more than 32 years at Nike and a four-year retirement. He held senior roles across Europe and North America and helped grow revenue beyond \$39bn. Before retiring in 2020, he was President, Consumer and Marketplace, responsible for Nike and Jordan commercial and marketing operations and the P&L across all four geographies. He holds degrees in kinesiology and sports administration and began his career with the Dallas Cowboys. His advantage is a ground-level understanding of consumers, merchants and wholesale partners; his risk is attachment to the system and franchises he helped build. [4][5]

Capital priority	Recent evidence	Underwriting judgment
Product / demand creation	\$4.8bn FY2026 demand creation	Protect innovation and sport storytelling through the trough
Marketplace	Wholesale +6%; Direct -6%	Correct rebalancing if full-price sell-through improves
Inventory	\$7.5bn, flat; units up / mix down	Still needs cleaner age and markdown disclosure
Dividend	\$2.4bn FY2026; +5%	4% yield is valuable, but exceeded FY2026 FCF
Buybacks	\$146m FY2026 vs \$3.0bn FY2025	Pausing was prudent; resume only below value and after FCF
Debt / liquidity	\$9.0bn cash vs \$7.94bn debt	Refinance 2026/27 maturities without stressing investment
Converse / portfolio	Converse revenue -31%	Needs explicit fix, scale-down or strategic alternative

Capital-allocation record

Nike spent \$7.2bn on repurchases across FY2024-2025 at prices far above today's, then only \$146m in FY2026 as cash conversion weakened. The 2022 \$18bn authorization created no requirement to buy, yet prior pacing illustrates the danger of using backward earnings and a premium brand narrative as valuation discipline. The FY2026 pause was sensible. The forward order should be product and marketplace repair, dividend coverage, working-capital normalization, debt maturities, then valuation-sensitive repurchases.

Capital-allocation rules for the next five years

1. Maintain innovation, athlete and sport storytelling investment even if near-term overhead must fall elsewhere.
2. Require operating cash flow less capex to cover dividends by at least 1.3x before resuming large repurchases.
3. Repurchase only below conservative intrinsic value and disclose average price against normalized EPS / FCF.
4. Allocate inventory by sport and local market; do not use Direct promotions to clear strategic mistakes indefinitely.
5. Set a dated plan for Converse and structurally weak geographies, including exit criteria rather than perpetual turnaround spending.

MANAGEMENT JUDGMENT — 4.0 / 5.0 Hill's fit with the commercial problem is unusually strong. The score rises only when new product franchises, full-price sell-through and cash conversion validate the strategy.

6 Risks and Disconfirming Evidence

The thesis fails if Nike's brand remains famous but loses performance authority, product heat and partner economics

Risk	Why it matters	Early warning / thesis killer	Response
Product miss	Heat drives price, traffic and margin	No scaled new franchise across 4 seasons	Cut margin / multiple
Competition	Specialists win running and lifestyle niches	Share losses despite launches / marketing	Lower revenue CAGR
China	Scale and brand perception matter	China down double digits beyond FY2027	Value at lower local margin
Wholesale repair	Partners restore reach and validation	Orders rise but sell-through / reorders do not	Treat as channel stuffing
Tariffs / sourcing	Vietnam / Asia supply is concentrated	Gross margin misses ex-recoveries	Lower base margin
Inventory / markdown	Old product damages heat and cash	Units / aging rise with promotions	Reduce position
Brand dilution	Ubiquity can destroy scarcity	Jordan / icons need persistent discount	Cut long-term multiple
Cash conversion	Dividend and buybacks require cash	FCF < dividend for another normal year	Assume slower allocation
Key strategy reversal	Hill needs several product cycles	Another reorganization / CEO change	Exit turnaround thesis

Pre-mortem: it is 2031 and the investment failed

Nike restored wholesale shipments but not consumer pull. Running specialists retained credibility, China became a structurally local market, and new launches failed to replace aging Dunk, Jordan and Air Force franchises. Promotions kept revenue near \$46bn while gross margin remained below 43%. The dividend consumed most free cash, preventing repurchases at low prices. EPS grew only 2%, the market assigned a 15x multiple, and five years of dividends produced almost no real return.

Disconfirming evidence hierarchy

A quarter of lower Direct revenue is not disconfirming during channel repair. Temporary gross-margin pressure from clearing product is not disconfirming if inventory age and full-price sell-through improve. The strongest evidence is wholesale order growth without consumer sell-through, no scaled performance franchise, persistent double-digit China decline, or cash conversion below the dividend after working-capital normalization.

SINGLE MOST IMPORTANT UNKNOWN Can Sport Offense produce durable full-price consumer pull—or is wholesale growth merely redistributing stagnant demand across channels?

TWO-QUARTER DASHBOARD Wholesale sell-in / sell-through | Direct traffic / markdown | new-franchise mix | China currency-neutral sales | inventory age | gross margin ex-tariff | FCF | share count

7 Portfolio Decision and Research Plan

The holding period is always 5-8 years; buy the recovery in stages because product evidence arrives by season, not quarter

Conviction	Score	Reason
Analytical	4 / 5	Balance sheet and valuation are clear; brand heat and normalized margin require field evidence
Portfolio	4 / 5	Global consumer exposure with net cash; tariff and China risk remain correlated
Temporal	4.5 / 5	Five years allows multiple product cycles, channel repair and capital reallocation

Position-size recommendation

Initiate a 2.0%-2.5% starter at or below \$42. Increase toward 4% after two conditions: currency-neutral revenue turns positive outside tariff recoveries, and trailing FCF exceeds the dividend by at least 1.3x. A full 5% position requires evidence that new performance franchises scale, China stabilizes and EBIT margin has a credible path above 10% without starving demand creation.

Action	Price / evidence rule	Rationale
Buy starter	≤\$42 with A+/A2 and dividend intact	Valuation prices durable impairment
Add	≤\$35 or revenue growth + FCF coverage	Require more price or operating proof
Hold	\$42-\$85 while margin rebuilds	Allow Sport Offense product cycles
Trim	>\$100 without >\$4 normalized EPS	Return becomes re-rating dependent
Exit	No scaled new franchise by FY2028	Brand equity is not converting to product heat

Next research steps

- Build category and geography sell-in / sell-through, markdown and inventory-age data; separate channel shipment from consumer pull.
- Track new-product franchises in running, football and basketball by doors, reorder rate, full-price weeks and gross margin.
- Normalize FY2026 EPS / FCF for IEEPA recoveries, tariff cost, receivable timing, severance and stock compensation.
- Interview Foot Locker, JD Sports and independent running accounts on allocation, reorders, product heat and partner economics.
- Review every repurchase against average price, normalized FCF/share and the remaining \$18bn authorization.

FINAL DECISION BUY A STARTER / HIGH UPSIDE WITH TURNAROUND EVIDENCE RISK. Business quality is 4.5/5.0 and hidden nugget is 4.5/5.0; add as product heat and cash conversion—not wholesale shipments alone—improve.

Source notes

- [1] [MarketWatch NKE close, August 14, 2026](#)
- [2] [Nike FY2026 results](#)
- [3] [Nike FY2026 Form 10-K: debt, ratings and covenants](#)
- [4] [Elliott Hill official biography](#)
- [5] [Nike CEO appointment and career history](#)
- [6] [Nike FY2025 results and Sport Offense](#)
- [7] [Nike FY2026 Q1 results / Win Now progress](#)
- [8] [MarketCapOf Nike P/E history](#)

Framework source: Chapter 4 and Appendix E of Investing Book July 34(1). Facts are drawn primarily from Nike and SEC materials. Valuation, normalized earnings, probabilities, operating bridges, LBO returns and position sizing are analyst estimates, not company guidance. FY2026 EPS includes a material Q4 tariff-recovery benefit; scenario analysis therefore emphasizes normalized margin and cash conversion.



Important Disclosures

Regulatory status. First Principles Global Capital, LLC ("First Principles") is not registered with the U.S. Securities and Exchange Commission as an investment adviser. First Principles has filed reports with the SEC as an exempt reporting adviser. Exempt reporting status does not imply approval, endorsement or review by the SEC or any other regulator.

Purpose; no offer. This material is general market commentary provided solely for informational and educational purposes. It does not constitute an offer to sell or a solicitation of an offer to purchase any security, investment product or interest in a private fund. It does not describe the terms of any First Principles investment vehicle, and First Principles does not accept investment subscriptions through its website. Public availability of this commentary is not intended to constitute general solicitation or general advertising for any First Principles fund. Any offering would be made only through definitive private-placement and subscription documents, only to eligible investors, and only in compliance with applicable law.

No individualized advice. Nothing in this material constitutes individualized investment, legal, tax or accounting advice. The material does not consider any person's investment objectives, financial circumstances, risk tolerance or liquidity needs. Receipt of this material does not create an advisory, fiduciary, client or other professional relationship with First Principles.

Opinions and security references. The views expressed are those of First Principles as of the date shown and are subject to change without notice. They may differ from views reflected in an account or investment vehicle managed by First Principles. References to securities, companies, sectors or asset classes do not constitute recommendations and should not be interpreted as indications of current or future portfolio holdings or trading activity.

Forecasts and scenarios. The return forecasts, valuation assumptions and bull, base and bear scenarios are hypothetical, forward-looking estimates. They are not actual results achieved by First Principles or any investment vehicle and should not be interpreted as promises, targets or probability-weighted outcomes. The estimates depend materially on assumptions regarding valuation, earnings growth, inflation, interest rates, distributions and mean reversion. Actual outcomes may differ materially. Unless expressly stated otherwise, projected returns do not reflect management fees, performance allocations, fund expenses, transaction costs or taxes.

Historical data and investment risk. Historical results do not guarantee future results. Index results are unmanaged, include reinvested dividends where indicated, do not reflect investment-management fees or expenses and are not directly investable. Treasury yields assume the relevant securities are held to maturity; market values may fluctuate before maturity. Cash and money-market yields are not fixed and may decline. All investments involve risk, including possible loss of principal.

Sources and limitations. Information has been obtained from sources believed to be reliable, but First Principles makes no representation or warranty concerning its accuracy, completeness or timeliness. Estimates, forecasts and third-party data may be revised without notice.

Potential conflicts. First Principles and its personnel may own, purchase or sell securities or instruments discussed in this material, potentially without further notice. Readers should consult their own professional advisers before making any financial or investment decision.

Jurisdiction. This material is not directed to any person in a jurisdiction where its distribution or use would be unlawful or would subject First Principles to an additional registration or licensing requirement.