
Cost of Capital Methods
Joanna Cohen's Analysis
Why is WACC important?
What is WACC?
Background
NIKE
Nike Inc.: Cost of Capital
just do it
THANK YOU!!!
GREATNESS IS EARNED, NEVER AWARDED
One at a Time Please
WE ARE BUYING.....
Recommendations
WACC Calculation
Thecasesolution.com

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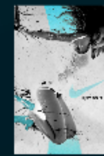
Nike Inc.: Cost of Capital

Background

- NIKE struggles with demand of changing design trends.
- Must respond to shifts in consumer preferences by adjusting existing product offerings, styles and categories.
- Failure to respond timely could have adverse effects on sales and productivity



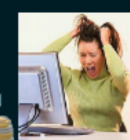
- Nike, Inc: Incorporated in 1968
- largest seller of athletic footwear
- design, development, market and sell athletic footwear, apparel, equipment, accessories, and services.
- Emphasis on high-quality construction and innovation in products
- Other brands owned by NIKE:

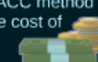
NIKE's Revenue

- Plateaued at $9B while net income had fallen from ~$800 M to $580 M.
- Market share in U.S. athletic shoes had fallen from 48% in 1997 to 42% in 2000.
- Recent supply chain issues and strong dollar had negatively affected revenue.

- NIKE decides to hold an analysts meeting to disclose 2001 results.
- Alternative meeting purpose: NIKE management wants to communicate strategy to revitalize company.
- NIKE reveals plan to address top-line growth and operating performance.
- Develop mid priced shoe segment
- Push apparel line, which has done well

- Forecast showed Nike was overvalued at current share price of $42.09.
- Sensitivity analysis showed NIKE was undervalued.
- Asked her assistant Joanna Cohen to estimate NIKE's cost of capital.
- Utilizes the WACC method to calculate the cost of capital.





- Kimi Ford, a portfolio manager at NorthPoint Group a mutual-fund management firm, considering buying funds for NorthPoint
- NorthPoint historical investments have consisted of fortune 500 companies with an emphasis on value.
- While stock market had declined in recent past, NorthPoint performed well.
- Analysts reactions mixed
- Ford decides to develop own discounted cash flow forecast.

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