

## Cost of Capital Methods

Cost of capital: CAPM using Capital Asset Pricing Model = 9.81%

Equity	Debt	WACC
10%	8%	9.81%

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# Nike Inc.: Cost of Capital

THANK YOU!!!

GREATNESS IS EARNED,  
NEVER AWARDED

One at a Time Please



WE ARE BUYING...

Company	Price	Volume	Market Cap
Apple	150	100M	15B
Microsoft	120	80M	9.6B
Amazon	180	60M	10.8B
Google	200	50M	10B

- Recommendations**
- Buy shares, not private
  - Value will increase
  - Sensitivity analysis
  - High Equity

WACC Calculation

**Why is WACC important?**

- WACC is essential to create a viable business plan
- WACC determines whether a project is profitable
- WACC is used to evaluate the value of an investment
- WACC is used to determine the feasibility of a project
- WACC is used to determine the value of a company

**What is WACC?**

WACC is the average rate of return that a company's investors expect to earn on their investment. It is calculated as the weighted average of the cost of debt and the cost of equity.



**Joanna Cohen's Analysis**

- New assistant to Kim Ford
- Completed analysis based on book values



just do it



# Nike Inc.: Cost of Capital

# Background

- 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 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's Revenue

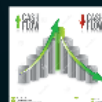
- Plateaued at \$9B while net income had fallen from ~\$800 M to \$580 M.
- Market share in U.S. athletic shoes had fallen from 48% in 1997 to 42% in 2000.
- Recent supply chain issues and strong dollar had negatively affected revenue.



- 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.

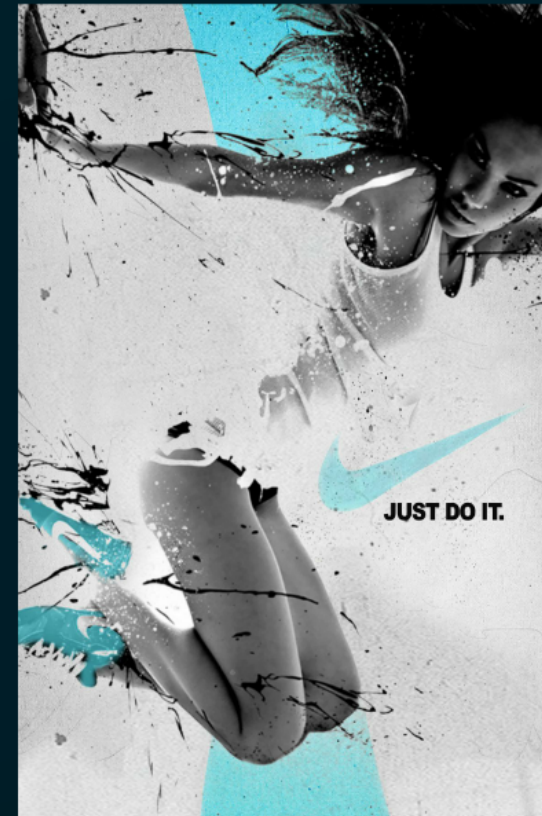


- Kimi Ford, a portfolio manager at NorthPoint Group a mutual-fund management firm, considering buying funds for NorthPoint
- NorthPoint historical investments have consisted of fortune 500 companies with an emphasis on value.
- While stock market had declined in recent past, NorthPoint performed well.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

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