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Nike—Globalizing the Sportswear Industry

The share price is up about 45% over the last 12 months. Although near-term business prospects are bright, 3- to 5-year stock appreciation potential is not all that exciting, given the recent advance. Nike's solid financial strength and healthy balance sheet, however, are reassuring.

Value Line, August 13, 2004

Andrew Amphlett sat back in his chair as he contemplated *Value Line*'s sober assessment of Nike's share price appreciation potential. Nike was listed on the New York Stock Exchange under the symbol "NKE." As a recent MBA graduate, Amphlett's first assignment at Sequim Investments was to evaluate Nike as a possible addition to Sequim's high-growth stock portfolio.

Amphlett was feeling uncomfortable as he leafed through JPMorgan's report, noting that it was "reiterating NKE as an Overweight and a Focus List pick with a September 2004 price target of $88. We believe Nike's U.S. business recovery is under way with strong market share gain in most channels of distribution and a renewed relationship with Foot Locker" (Nike, Inc., JPMorgan, August 11, 2004). In order to estimate Nike's intrinsic value, Amphlett obtained financial data about Nike and its competitors from a variety of sources. If *Value Line*'s assessment of the company's share price appreciation potential was correct, Nike's current share price of $70 per share already reflected much of the anticipated future growth discussed in JPMorgan's report (see Exhibit 1 for Nike's recent stock price performance). It was going to be a long night to complete the financial analysis and valuation report by the following morning.

Company Background

Nike is the largest retailer of athletic footwear and athletic apparel in the world, with a market capitalization of $18.7 billion and revenues of $12.3 billion in fiscal year 2004 (see Exhibit 2 for Nike's recent financial statements). Nike was ranked 173rd on *Fortune* magazine's *Fortune 500* list of the largest U.S. companies based on 2004 revenues, and 112th based on total returns to investors during 2004.[1] Nike was ranked 374th on *Forbes* magazine's *Global 2000*, a list of the largest 2000 global companies in 2005 based on market equity value.[2]

The company was founded in 1962 by Phil Knight, a University of Oregon accounting student and competitive runner. Knight dreamed of bringing low-priced, high-tech athletic shoes from Japan to compete with German manufacturers, who dominated the U.S. athletic footwear industry at the time. In 1962, Knight and Bill Bowerman, the track coach at the University of Oregon, each contributed $500 to a partnership operating under the name Blue Ribbon Sports to begin importing Onitsuka Tiger shoes to the United States. Soon they were joined by Jeff Johnson, a former track rival of Knight's

[1] *Fortune*, April 18, 2005.
[2] *Forbes*, April 18, 2005.

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at the University of Oregon, and Steve Prefontaine, also previously at University of Oregon. In 1966, Johnson joined the new company as its first full-time employee, selling shoes out of the back of his van at high school track meets. Johnson opened the company's first retail outlet in 1966 in Santa Monica, California. Prefontaine was the first major track athlete to wear the company's products, and later had a significant influence on the design of its running shoes.

The company quickly gained a solid presence in the U.S. running shoe market with new designs and a new company name—Nike. The company adopted the Nike name in 1972, after the Greek goddess of victory. The Nike "Swoosh" logo was designed by a graduate student named Carolyn Davidson, at a cost of $35. In 1972, Knight and Bowerman persuaded some of the marathoners at the 1972 Olympic Trials to wear Nike shoes, and soon began advertising that Nike's were worn by "four of the top seven finishers" after some of these runners placed. In 1974, while experimenting with new shoe construction, Bowerman stuffed pieces of rubber into a waffle iron and the waffle sole was born. As running increased in popularity during the 1970s, Nike's revenues surged, and by 1979 the company had captured 50% of the U.S. running shoe market.[3] In December 1980, Nike went public with an initial public offering of common stock.

Business

Nike designs, develops, and markets high quality footwear, apparel, equipment, and accessory products. The company sells its products to retail accounts and through a mix of independent distributors, licensees, and subsidiaries in over 120 countries around the world. Nike's athletic footwear products are designed primarily for specific athletic use, although a large percentage of the products are worn for casual or leisure purposes. Nike places considerable emphasis on high quality construction and innovative design for men, women, and children. Running, basketball, children's, cross-training, and women's shoes are currently the company's top-selling product categories; however, Nike also markets shoes designed for outdoor activities, including tennis, golf, soccer, baseball, football, bicycling, volleyball, wrestling, cheerleading, aquatic activities, hiking, and other athletic and recreational uses. Nike also sells active sports apparel, athletically inspired lifestyle apparel, as well as athletic bags and accessory items. Nike's apparel and accessories, designed to complement its athletic footwear products, feature the same trademarks and are sold through the same marketing and distribution channels. Nike 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.

During 2004, sales in the United States accounted for approximately 47% of total revenues, compared to 49% in 2003, and 53% in 2002. Nike sells to approximately 28,000 retail accounts in the United States. The Nike brand domestic retail account base includes a mix of footwear stores; sporting goods stores; athletic specialty stores; department stores; skate, tennis, and golf shops; and other retail accounts.

Nike uses a "futures" ordering program which allows retailers to order five to six months in advance of delivery, with the commitment that 90% of their orders will be delivered within a set time period at a fixed price. In 2004, 90% of the company's U.S. wholesale footwear shipments (excluding Cole Haan, Bauer Nike Hockey, Hurley, Nike Golf, and Converse) and 67% of U.S. wholesale apparel shipments were made under the futures program.

Nike has 21 sales offices to solicit sales in the United States and ten independent sales representatives to sell specialty products for golf, cycling, water sports, and outdoor activities. Nike also operates 165 retails stores in the U.S., including 13 NIKETOWNs, designed to showcase Nike products.

[3] See *Hoovers Online*.

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Non-U.S. sales accounted for 53% of Nike's total revenues in 2004, compared to 51% in 2003, and 47% in 2002. In 2004, Nike's revenue grew 3% in the U.S., but 18%, 20%, and 19% in Europe/Middle East/Africa, Asia Pacific, and Americas regions, respectively, making non-U.S. regions the fastest growing segments. The company operated 23 distribution centers in Europe, Asia, Australia, Latin America, Africa, and Canada, and also distributed through independent distributors and licensees. Nike estimates that it has sold to more than 23,000 retail accounts outside the United States, excluding sales by independent distributors and licensees. In many countries and regions, including Japan, Canada, Asia, some Latin American countries, and Europe, Nike maintains a futures ordering program for retailers similar to the United States futures program. Nike's three largest customers outside of the U.S. accounted for approximately 13% of non-U.S. sales. Nike operated 165 retail outlets outside the United States, including 126 factory stores and two NIKETOWNs.

Virtually all of Nike's footwear is manufactured outside of the United States. In 2004, contract suppliers in China, Indonesia, Vietnam, and Thailand manufactured 36%, 24%, 22%, and 16% of total Nike brand footwear, respectively. In addition, Nike had manufacturing agreements with independent factories in Argentina, Brazil, India, Mexico, and South Africa to manufacture footwear for sale primarily within those countries. Almost all of Nike brand apparel production for sale to the United States market is manufactured outside of the United States by independent contract manufacturers located in 37 countries. Most of this apparel production occurred in Bangladesh, China, Greece, Honduras, India, Indonesia, Malaysia, Mexico, Pakistan, The Philippines, Sri Lanka, Taiwan, Thailand, and Turkey.

The principal materials used in the company's footwear products are natural and synthetic rubber, plastic compounds, foam cushioning materials, nylon, leather, canvas, and polyurethane films used to make AIR-SOLE cushioning components. The principal materials used in apparel products are natural and synthetic fabrics and threads, plastic and metal hardware, and specialized performance fabrics designed to repel rain, retain heat, or efficiently transport body moisture. Nike and its contractors and suppliers buy raw materials in bulk. Most raw materials are available in the countries where manufacturing takes place.

Strategy

Technical innovation in the design of footwear, apparel, and athletic equipment reduces injury, aids athletic performance, and maximizes comfort. In addition to Nike's own staff of specialists in the areas of biomechanics, exercise physiology, engineering, industrial design, and related fields, Nike utilizes research committees and advisory boards made up of athletes, coaches, trainers, equipment managers, orthopedists, podiatrists, and other experts to review designs, materials, and concepts for product improvement. Employee athletes wear-test and evaluate products during the design and development process.

Nike's mission is to "bring inspiration and innovation to every athlete in the world—If you have a body, you are an athlete." The company focuses on building capabilities in four key areas: (1) deepening its relationship with consumers; (2) delivering superior, innovative products to the marketplace; (3) making the company's supply chain a competitive advantage, through operational discipline and excellence; and (4) accelerating growth through focused execution.

Nike strives to create value for its shareholders by focusing on four key long-term financial goals: (1) high single-digit revenue growth; (2) mid-teen earnings per share growth; (3) increased return on invested capital and accelerated cash flows; and (4) delivery of consistent results through management of a diversified portfolio of businesses.[4]

[4] Nike Inc., 2004 Annual Report.

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Industry and Competition

The apparel and shoe industries worldwide are large and growing. *Value Line* estimates that worldwide sales by U.S.-listed companies in the apparel industry were just under $31 billion 2004, but were expected to reach $34 billion by 2006. Meanwhile, sales in the worldwide shoe industry by U.S.-listed companies were just over $24 billion in 2004, but expected to grow to around $25 billion by 2006. Due to the saturation of the U.S. domestic market, analysts expect overseas markets to play a key role in current and future growth plans of many of the companies in both industries.

Competition in the sports and fitness footwear and apparel business is intense in the United States and in other parts of the world, with new entrants and established companies providing challenges in every category. Leading competitors in the industry include Reebok and adidas-Saloman, among others. The intense competition and the rapid changes in technology and consumer preferences in the market for athletic and leisure footwear and apparel and athletic equipment have a significant influence on the industry. Performance and reliability of shoes, apparel, and equipment, new product development, price, product identity through marketing and promotion, and customer support and service are important aspects of competition in the athletic footwear, apparel, and equipment industry. Companies in the industry contract with prominent and influential athletes, coaches, teams, colleges, and sports leagues to endorse their brands and use their products.[5]

Reebok International Ltd. is a global company that designs and markets sports and fitness products, including footwear, apparel, equipment, and accessories.[6] In 2004, Reebok reported revenues of $3.8 billion and net income of $192 million (see Exhibit 3 for comparative financial information about Nike and Reebok). Under the Reebok brand, the company designs and markets sports, fitness and casual footwear, apparel, equipment and accessories. The Reebok brand also includes the company's sports licensing business. Reebok brand products also include footwear and apparel for children as well as the Weebok brand. Following the company's acquisition of The Hockey Company in 2004, Reebok expanded Reebok-branded products to include hockey skates, sticks, helmets, equipment, and hockey-related apparel. The Reebok brand's mission is to enroll global youth through sports, music, and technology.

During 2004, the company organized the Reebok brand business around integrated product development and marketing teams focused on each of three main product lines: Rbk; Performance; and Classic. Each of these product lines features product offerings for men, women, and children that are designed for specific consumer groups and is supported by targeted marketing and advertising initiatives. In February 2005, the Reebok brand introduced its comprehensive new advertising campaign, "I Am What I Am." This campaign, which celebrates authenticity and individuality in sports and life, is expected to be the cornerstone of Reebok's brand positioning and will flow through the marketing of each of its Rbk, Performance, and Classic product lines.

In 2004, Reebok spent approximately $54.6 million on product research, development, and evaluation to bring consumers innovative technology in both its footwear and apparel products. Reebok places a strong emphasis on technology and incorporates various proprietary performance technologies into its products, focusing on custom fit, cushioning, stability and lightweight features in footwear products, and on comfort and moisture management in apparel products. Significant technologies include DMX, The Pump, and 3D Ultralite. The company's DMX technology uses a heel-to-forefoot, active airflow system to deliver cushioning when and where it is needed. Originally introduced in 1995, Reebok enhanced and expanded this technology by developing multiple versions of DMX to meet the performance demands of various activities, taking into account performance attributes, aesthetics and price.

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[5] Nike is listed as 33rd and Adidas as 67th on *Business Week*'s 2003 Top 100 Global Brands (August 4, 2003).
[6] Reebok International Ltd., 2004 Annual Report.

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In 2004, the company also continued to redevelop its proprietary inflatable shoe technology, The Pump, exploring broader and more varied applications for this technology in its footwear. During 2004, Reebok unveiled a new generation of The Pump called The Pump 2.0, which features a self-inflation technology that automatically provides the wearer with a custom fit. In addition, the company continued to incorporate 3D Ultralite, its proprietary material that allows midsole and outsole to be combined in a single, injection molded unit, in its performance footwear. 3D Ultralite provides a unique blend of lightweight, flexible and durable properties. Reebok also incorporated advanced technologies into certain of apparel products with its Play Dry moisture-management systems. Moisture-wicking technologies help to keep the wearer dry, which facilitates regulation of the wearer's body temperature.

adidas-Saloman AG, headquartered in Herzogenaurach, Germany and in Portland, Oregon, produces, markets and distributes athletic footwear, apparel, and equipment under a variety of brand names including adidas (athletic footwear, apparel and accessories), Salomon (skis, bindings, inline skates, adventure shoes, accessories), Taylor Made (golf clubs, balls and accessories), Mavic (cycling components) and Bonfire (snowboard apparel). In 2004, adidas-Salomon AG recorded revenues of 6.5 billion.[7] In 1997, adidas acquired the Salomon Group and the company's name changed to adidas-Salomon AG (see Exhibit 4 for comparative financial information for Nike, adidas-Salomon, and Reebok).

During 2004, adidas-Salomon focused on strengthening and developing its brands to achieve the company's goal of leading the sporting goods sector. The company emphasized the application of five tactics to achieve a leadership position in the industry: (1) anticipating and fulfilling consumer desires and needs by ensuring that the company's brand values were inseparably linked to the particular expectations and aspirations of its consumers; (2) developing a product pipeline with new designs coupled with market-leading, high-profile technologies to capture consumer imagination; (3) aiming to occupy the number one or number two positions in all markets and categories in which it competes through focused activities on key accounts, own-retail initiatives and increased focus on selected consumer groups, such as women; (4) developing consistent on-time retail delivery, ensuring quality and by shortening and streamlining the company's global supply chain, ensuring best-practice social and environmental standards and improving customer service efforts; (5) achieving sound financial performance though tight management of working capital, generating significant free cash flow and striving to achieve an operating margin of 10% by 2006.

Nike's Intrinsic Value

Amphlett poured over the myriad of financial and strategic information he had compiled on Nike and its principal competitor, Reebok and adidas-Salomon. Amphlett noted that Nike's cash balance of $828 million in 2004 was approximately 6.8%. Based on historical analysis, Nike's average cash holdings had been about 4% of annual revenues. Thus, Amphlett decided to treat $490.1 million as Nike's cash holdings for transaction purposes and the remaining amount as more in the nature of a short-term investment. He had also gathered information he would need to value Nike (see Exhibit 5 for selected capital market data). He wondered whether Nike was really worth $88 per share as suggested by JPMorgan's report.

[7] adidas-Saloman AG, 2004 Annual Report. At December 31, 2004, 1 = $US1.3538.

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Exhibit 1 Nike's Stock Price Performance—June 1, 1999 – September 1, 2004

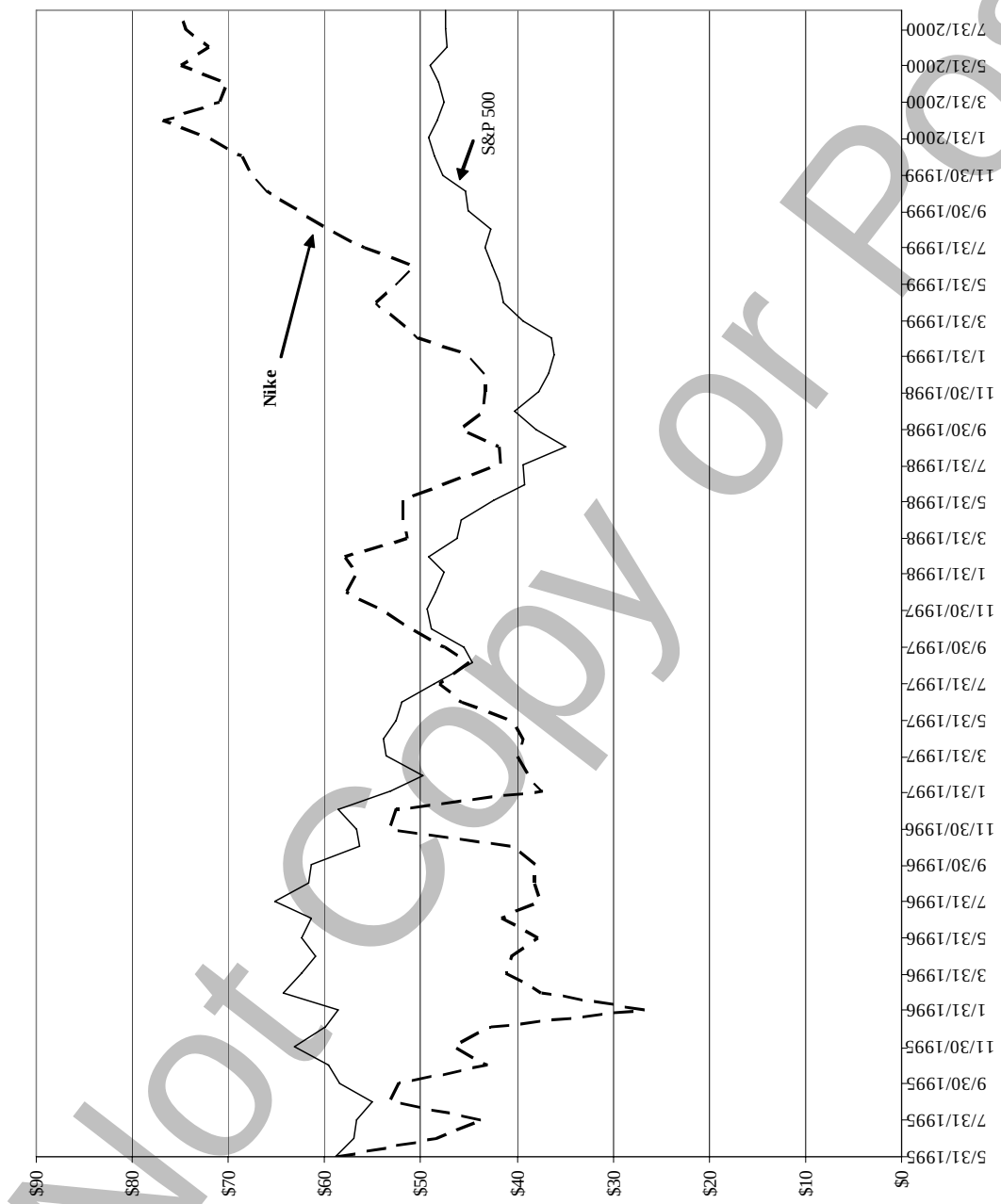

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Exhibit 2 Nike's Financial Statements

Nike, Inc.
Consolidated Statements of Income
For Period Ended May 31, 2004

	In Millions			*Common-Size*		
	2004	**2003**	**2002**	***2004***	***2003***	***2002***
Revenues	12,253.10	10,697.00	9,893.00	*100.0*	*100.0*	*100.0*
Cost of sales	7,001.40	6,313.60	6,004.70	*57.1*	*59.0*	*60.7*
Gross Margin	5,251.70	4,383.40	3,888.30	*42.9*	*41.0*	*39.3*
Selling and administrative	3,702.00	3,154.10	2,835.80	*30.2*	*29.5*	*28.7*
Interest expense, net	25.00	28.80	34.00	*0.2*	*0.3*	*0.3*
Other expense, net	74.70	77.50	1.20	*0.6*	*0.7*	*0.0*
Income before income taxes and cumulative effect of accounting change	1,450.00	1,123.00	1,017.30	*11.8*	*10.5*	*10.3*
Income taxes	504.40	382.90	349.00	*4.1*	*3.6*	*3.5*
Income before cumulative effect of accounting change	945.60	740.10	668.30	*7.7*	*6.9*	*6.8*
Cumulative effect of accounting change, net of income taxes of ($-, $- and $3.0)	—	266.10*	5.00	—	*2.5*	*0.1*
Net income	945.60	474.00	663.30	*7.7*	*4.4*	*6.7*
Basic earnings per common share— before accounting change	3.59	2.80	2.50			
Cumulative effect of accounting change	—	1.01	0.02			
	3.59	1.79	2.48			
Diluted earnings per common share— before accounting change	3.51	2.77	2.46			
Cumulative effect of accounting change	—	1.00	0.02			
	3.51	1.77	2.44			

*Change in the method of accounting for goodwill.

Source: *Thompson One Banker-Analytic.*

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Exhibit 2 Nike's Financial Statements *(continued)*

Nike, Inc.
Consolidated Balance Sheet
For Period Ended May 31, 2004

	In Millions		*Common-Size*	
	2004	**2003**	***2004***	***2003***
Current Assets:	—	—		
Cash and equivalents	828.00	634.00	*10.49*	*9.29*
Short-term investments	400.80	—	*5.08*	—
Accounts receivable, less allowance for doubtful accounts of $95.3 and $81.9	2,120.20	2,083.90	*26.87*	*30.55*
Inventories	1,633.60	1,514.90	*20.70*	*22.21*
Deferred income taxes	165.00	221.80	*2.09*	*3.25*
Prepaid expenses and other current assets	364.40	332.50	*4.62*	*4.87*
Total current assets	5,512.00	4,787.10	*69.85*	*70.18*
Property, plant and equipment, net	1,586.90	1,620.80	*20.11*	*23.76*
Identifiable intangible assets, net	366.30	118.20	*4.64*	*1.73*
Goodwill (Note 4)	135.40	65.60	*1.72*	*0.96*
Deferred income taxes and other assets	291.00	229.40	*3.69*	*3.36*
Total assets	7,891.60	6,821.10	*100.00*	*100.00*
Current Liabilities:	—	—	—	—
Current portion of long-term debt	6.60	205.70	*0.08*	*3.02*
Notes payable	146.00	75.40	*1.85*	*1.11*
Accounts payable	763.80	572.70	*9.68*	*8.40*
Accrued liabilities	974.40	1,036.20	*12.35*	*15.19*
Income taxes payable	118.20	130.60	*1.50*	*1.91*
Total current liabilities	2,009.00	2,020.60	*25.46*	*29.62*
Long-term debt	682.40	551.60	*8.65*	*8.09*
Deferred income taxes and other liabilities	418.20	257.90	*5.30*	*3.78*
Commitments and contingencies	—	—	—	—
Redeemable Preferred Stock	0.30	0.30	*0.00*	*0.00*
Shareholders' Equity:	—	—	—	—
Common Stock at stated value:	—	—	—	—
Class A convertible — 77.6 and 97.8 shares outstanding	0.10	0.20	*0.00*	*0.00*
Class B — 185.5 and 165.8 shares outstanding	2.70	2.60	*0.03*	*0.04*
Capital in excess of stated value	887.80	589.00	*11.25*	*8.63*
Unearned stock compensation	(5.50)	(0.60)	*(0.07)*	*(0.01)*
Accumulated other comprehensive loss	(86.30)	(239.70)	*(1.09)*	*(3.51)*
Retained earnings	3,982.90	3,639.20	*50.47*	*53.35*
Total shareholders' equity	4,781.70	3,990.70	*60.59*	*58.51*
Total liabilities and shareholders' equity	7,891.60	6,821.10	*100.00*	*100.00*

Source: *Thompson One Banker-Analytic.*

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Exhibit 2 Nike's Financial Statements *(continued)*

Nike, Inc.
Consolidated Statements of Cash Flows

In Millions for Period Ended May 31, 2004	**2004**	**2003**	**2002**
Cash provided (used) by operations:	—	—	—
Net income	945.60	474.00	663.30
Income charges not affecting cash:	—	—	—
Cumulative effect of accounting change	—	266.10	5.00
Depreciation	252.10	239.30	223.50
Deferred income taxes	19.00	55.00	15.90
Amortization and other	58.30	23.20	48.10
Income tax benefit from exercise of stock options	47.20	12.50	13.90
Changes in certain working capital components:	—	—	—
Decrease (increase) in accounts receivable	82.50	(136.30)	(135.20)
(Increase) decrease in inventories	(55.90)	(102.80)	55.40
(Increase) decrease in prepaids and other current assets	(103.50)	60.90	16.90
Increase in accounts payable, accrued liabilities and income taxes payable	269.10	30.10	175.40
Cash provided by operations	1,514.40	922.00	1,082.20
Cash provided (used) by investing activities:	—	—	—
Purchases of short-term investments	(400.80)	—	—
Additions to property, plant and equipment and other	(213.90)	(185.90)	(282.80)
Disposals of property, plant and equipment	11.60	14.80	15.60
Increase in other assets	(53.40)	(46.30)	(28.70)
(Decrease) increase in other liabilities	(0.90)	1.80	(6.90)
Acquisition of subsidiary, net of cash acquired	(289.10)	—	—
Cash used by investing activities	(946.50)	(215.60)	(302.80)
Cash provided (used) by financing activities:	—	—	—
Proceeds from long-term debt issuance	153.80	90.40	329.90
Reductions in long-term debt including current portion	(206.60)	(55.90)	(80.30)
Decrease in notes payable	(0.30)	(351.10)	(433.10)
Proceeds from exercise of stock options and other stock issuances	253.60	44.20	59.50
Repurchase of stock	(419.80)	(196.30)	(226.90)
Dividends — common and preferred	(179.20)	(137.80)	(128.90)
Cash used by financing activities	(398.50)	(606.50)	(479.80)
Effect of exchange rate changes	24.60	(41.40)	(28.10)
Net increase in cash and equivalents	194.00	58.50	271.50
Cash and equivalents, beginning of year	634.00	575.50	304.00
Cash and equivalents, end of year	828.00	634.00	575.50

Source: *Thompson One Banker-Analytic.*

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Exhibit 3 Selected Financial Ratios for Nike and Reebok

	NIKE, INC.						*REEBOK INTERNATIONAL LTD*					
FISCAL YEAR ENDING	**5/04**	**5/03**	**5/02**	**5/01**	**5/00**	**5/99**	**12/03**	**12/02**	**12/01**	**12/00**	**12/99**	**12/98**
LIQUIDITY												
Acid Test Ratio	1.667	1.345	1.298	1.078	0.852	1.201	*2.166*	*1.835*	*1.773*	*1.419*	*1.134*	*1.286*
Current Ratio	2.744	2.369	2.266	2.029	1.681	2.256	*3.051*	*2.782*	*2.881*	*2.510*	*2.017*	*2.512*
ASSET MANAGEMENT												
Day's Receivable	63.157	71.106	66.562	62.369	63.683	64.047	*55.747*	*49.215*	*46.755*	*53.991*	*52.538*	*58.615*
Day's Inventory	85.164	87.579	83.507	89.854	97.670	77.777	*59.956*	*75.576*	*69.923*	*80.724*	*84.833*	*95.872*
Day's Payable	39.155	32.385	30.919	27.361	34.950	27.389	*27.096*	*30.832*	*24.927*	*35.705*	*33.793*	*28.822*
Asset Turnover	1.553	1.568	1.536	1.630	1.536	1.673	*1.752*	*1.681*	*1.939*	*1.958*	*1.854*	*1.914*
FINANCIAL LEVERAGE												
Long-term Debt to Total Assets	0.087	0.111	0.106	0.076	0.089	0.074	*0.178*	*0.190*	*0.228*	*0.245*	*0.355*	*0.381*
Long-term Debt to Stockholders' Equity	0.144	0.190	0.177	0.126	0.166	0.116	*0.342*	*0.400*	*0.488*	*0.590*	*1.050*	*1.185*
Interest Coverage Ratio	59.000	39.993	30.921	16.697	21.427	17.918	*10.150*	*9.193*	*6.029*	*4.549*	*1.692*	*1.751*
PROFITABILITY												
Gross Margin Ratio	0.429	0.410	0.393	0.390	0.399	0.374	*0.384*	*0.383*	*0.367*	*0.379*	*0.385*	*0.368*
Return on Sales	0.077	0.044	0.067	0.062	0.064	0.051	*0.045*	*0.040*	*0.034*	*0.028*	*0.004*	*0.007*
Return on Assets (Net Income/Total Assets)	0.120	0.069	0.103	0.101	0.099	0.086	*0.079*	*0.068*	*0.067*	*0.055*	*0.007*	*0.014*
Return on Assets (Net Income + Interest Expense)/Total Assets	0.123	0.074	0.108	0.111	0.107	0.094	*0.092*	*0.081*	*0.087*	*0.081*	*0.033*	*0.043*
Return on Ending Equity	0.198	0.119	0.173	0.169	0.185	0.135	*0.152*	*0.143*	*0.143*	*0.133*	*0.021*	*0.044*
DUPONT ANALYSIS												
Return on Beginning Equity =	0.237	0.123	0.190	0.188	0.174	*na*	*0.178*	*0.176*	*0.169*	*0.153*	*0.020*	*na*
Return on Sales (NI/Sales)	0.077	0.044	0.067	0.062	0.064	0.051	*0.045*	*0.040*	*0.034*	*0.028*	*0.004*	*0.007*
*Asset Turnover (Sales/Assets)	1.553	1.568	1.536	1.630	1.536	1.673	*1.752*	*1.681*	*1.939*	*1.958*	*1.854*	*1.914*
*Leverage (Assets/Beg. SE)	1.977	1.777	1.843	1.856	1.756	*na*	*2.249*	*2.585*	*2.539*	*2.767*	*2.892*	*na*

**Based on 365 days per year and ending balances.

Source: *Thompson One Banker-Analytic*

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Exhibit 4 Selected Historical Data for Nike and Competitors

Nike, Inc.
(MILLIONS OF DOLLARS)

FISCAL YEAR ENDING	**5/31/04**	**5/31/03**	**5/31/02**	**5/31/01**	**5/31/00**	**5/31/99**
NET SALES	12,253.10	10,697.00	9,893.00	9,488.80	8,995.10	8,776.90
Sales Growth	14.5%	8.1%	4.3%	5.5%	2.5%	-8.1%
GROSS PROFIT	5,251.70	4,383.40	3,888.30	3,703.90	3,591.30	3,283.40
Gross Profit Percentage	42.9%	41.0%	39.3%	39.0%	39.9%	37.4%
OPERATING INCOME	1,549.70	1,229.30	1,052.50	1,014.20	984.90	856.80
Operating Income Percentage	12.6%	11.5%	10.6%	10.7%	10.9%	9.8%
NET INCOME	945.60	474.00	663.30	589.70	579.10	451.40
Return on Sales	7.7%	4.4%	6.7%	6.2%	6.4%	5.1%
Return on Assets	12.0%	6.9%	10.3%	10.1%	9.9%	8.6%
Return on Equity	19.8%	11.9%	17.3%	16.9%	18.5%	13.5%
CASH FLOW FROM OPERATIONS	1,514.40	922.00	1,082.20	656.50	699.60	961.00
CASH FLOWS FROM INVESTING	-946.50	-215.60	-302.80	-342.30	-440.00	-416.50

adidas-SALOMON AG
(MILLIONS OF EUROS)

FISCAL YEAR ENDING	**12/31/04**	**12/31/03**	**12/31/02**	**12/31/01**	**12/31/00**	**12/31/99**
NET SALES	6,478.07	6,266.80	6,523.42	6,112.35	5,834.81	5,353.95
Sales Growth	3.4%	-3.9%	6.7%	4.8%	9.0%	5.7%
GROSS PROFIT	3,058.21	2,813.67	2,676.61	2,470.83	2,409.56	2,249.79
Gross Profit Percentage	47.2%	44.9%	41.0%	40.4%	41.3%	42.0%
OPERATING INCOME	580.18	490.01	431.23	434.36	397.24	442.54
Operating Income Percentage	9.0%	7.8%	6.6%	7.1%	6.8%	8.3%
NET INCOME	314.25	260.09	228.57	208.49	181.68	227.72
Return on Sales	4.9%	4.2%	3.5%	3.4%	3.1%	4.3%
Return on Assets	7.1%	6.2%	5.6%	5.2%	4.7%	6.6%
Return on Equity	19.3%	19.2%	21.1%	20.5%	22.3%	33.5%
CASH FLOW FROM OPERATIONS	573.25	650.97	542.85	384.06	-10.42	336.16
CASH FLOWS FROM INVESTING	-367.08	-237.97	333.68	176.94	120.45	140.96

REEBOK INTERNATIONAL LTD
(MILLIONS OF DOLLARS)

FISCAL YEAR ENDING	**12/31/04**	**12/31/03**	**12/31/02**	**12/31/01**	**12/31/00**	**12/31/99**
NET SALES	3,785.28	3,485.32	3,127.87	2,992.88	2,865.24	2,899.87
Sales Growth	8.6%	11.4%	4.5%	4.5%	-1.2%	-10.1%
GROSS PROFIT	1,498.00	1,338.21	1,197.67	1,098.38	1,085.55	1,115.96
Gross Profit Percentage	39.6%	38.4%	38.3%	36.7%	37.9%	38.5%
OPERATING INCOME	294.35	252.36	215.45	184.44	170.17	144.01
Operating Income Percentage	7.8%	7.2%	6.9%	6.2%	5.9%	5.0%
NET INCOME	192.43	157.25	126.46	102.73	80.88	11.05
Return on Sales	5.1%	4.5%	4.0%	3.4%	2.8%	0.4%
Return on Assets	7.9%	7.9%	6.8%	6.7%	5.5%	0.7%
Return on Equity	15.8%	15.2%	14.3%	14.3%	13.3%	2.1%
CASH FLOW FROM OPERATIONS	175.66	135.44	224.10	176.24	183.12	281.63
CASH FLOWS FROM INVESTING	-255.18	-44.48	-27.61	-27.34	10.80	-51.20

Source: *Thompson One Banker-Analytic.*

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Exhibit 5 Selected Capital Market Data

Nike's common stock price per share (May 31, 2004)	$71.05
Nike's equity beta (from *Value Line*, August 13, 2004)	0.90
Market risk premium (from Dimson, Marsh and Staunton)	5.00%
Shares outstanding in millions (May 31, 2004)	263.1
Nike's long-term debt rating (Moody's)	A2
Yield to maturity on A-rated debt	6.02%
Yield to maturity on Baa-rated debt	6.47%
Yield to maturity on 30-year Treasury Bond	4.80%
First call consensus estimates sales growth rate in 2005	9.7%
First call consensus estimates sales growth rate in 2006-2009	6.8%

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