The Financial Performance Analysis of Nike Inc: with Special Reference Year 2015 Annual Report

Article · June 2016

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Abstract
Nike's financial statement was analysed and studied thoroughly to understand Nike`s financial performance. That financial statement includes balance sheet, income statement and cash flow statement. The financial performance of Nike has evaluated using methods of Horizontal analysis, vertical analysis tends analysis and selected key ratios for improvements to increase cash flow and improve dividend and reduce labilities. Therefore, analysed company`s latest annual report that is the 2015 annual report ending May 31st. That latest company annual report data was compared with the data from last five years from 2010 to 2015 to gain a understanding of company`s performance, which was shown in the trends analysis. According to the analysis data, recommendations have been given to ensure the company`s revenue and reduce liabilities. All the recommendation and suggestions were made according to key ratios which will directly influence company`s performance: mainly the net profit margin, current ratios, quick ratio, and debt to equity ratio, earning per share ratio, working capital turn over and cash return on capital investment.
Keywords : Nike, ratio analysis, Vertical analysis, Horizontal analysis, financial performance

Purpose of the Report
Aim of this financial report is to provide information and recommendation about the financial position, performance and changes in financial position of Nike Ins, that would be useful for the company's decision maker to get accurate financial and economic decision for future growth, compete in competitive market environment and ensure their market share. And also which will also benefit other stakeholders of the company such as employees, Shareholders, general public and Owners. Several key ratios have been analysed and compared with previous year financial performance and to that of competitor and improvement have been suggested which could help the organisation. The financial analysis will help to improve liquidity and profitability of the organisation through proper implementation.

Background of the Organisation
The Nike manufactures athletic footwear and sport apparels such as Kids product, athletic and recreational product (Nike, 2015b). The company was firstly started to manufacture athletic footwear (Xroads.virginia, n.d). The company's international headquarters is located near Beaverton in USA. Nike's EMEA (Europe, Middle East, and Africa) headquarters is located Hilversum, just 16 miles away from southeast of Amsterdam. The company was established on January 25, 1964 as Blue Robin Sport by Bill Bowerman and Phil Knight (Xroads.virginia, n.d). By the end of 1980, Nike completed its IOP and became a publicly tread company even though it is privately owned.

The company is operated by the board of directors with Phil Knight as its chairman (Nike, 2015). Nike being one of the world's largest supplier of athletic footwear and apparel and major manufacture of sports equipment, with the revenue in excess of USD$ 30 million in its fiscal year 2015 (ending May 31, 2015). The Nike brand and converse sales was accounted for 54% of total revenues, compared with 55% for fiscal year 2014. Nike has 592 total three different kinds of stores in 25 countries around the world excluding USA. It employs approximately 62,600 employees worldwide (Nike, 2015b).

Entirely owned by Nike Inc., subsidiaries including converse Inc which design, market and distribute athletic and kids footwear, accessories, and sport-inspired lifestyles products. Hurley International LLC which design, market and distribute surf and youth lifestyles footwear, apparel and accessories. The main policy of the company is to engage with free trades, fair and sustainable trades (Nikeresponsability.com 2014). The mission of the company is "To bring inspiration and innovation to every athlete in the world" (Help-en-us, nike.com, n.d). Nike is sponsoring high profiles athlete and sport teams around the world, with high recognise trademarks of "Just Do IT" and the swoosh logo (Nikeinc.com, 2014).

Financial Performance
At present business decision makers need relevant information to take accurate decision benefiting the business. Therefore they demand accurate information on operation and financial performance of a company (Boldeanu and Gheorghe, 2007). The financial statements of a company represent usual starting point for any assessment of financial performance (Bertonech and Kight, 2001). Financial performance is a general measurement of the organisation`s overall financial health which can reflect the firm's ability to generate new resources from day to

day operations over a period of time (Boldeanu and Gheorghe, 2007). Financial performance can be estimated by studying the balance sheet of an organisation and comparing the liquidity ratios, debt ratios and profit ratios over the last few financial results (Wilson and Joyce, 2008).

An important aspect of financial performance evaluation is benchmarking, benchmarking compares an organisation`s current performance against its own previous performance and its competitors (Brooks, 2010) and also that evaluation results are important for the investors, managers, creditors, and auditors and financial analysts(Bendell et al., 1998). Financial performance of a company can be analysed by the trends over a period of time, to understand the trends which it is necessary to analysed series of financial statement over a specific period of time (Wilson and Joyce, 2008; McGuire et al., 1988; Nissim and Penman, 2001).

This study analyse financial statements of Nike Inc. The annual report from fiscal year ending May 31, 2015 is being analysed. The financial statements analysed are mainly based on the balance sheet, the income statement and the cash flow statement which have been attached in the Appendix. The income statement shows whether organisation is selling their product and services less or more then cost of operations (Wilson and Joyce, 2008; Mckenzie, 2010). The balance sheet is the snapshot of the company's financial position which shows values of the assets purchased and liabilities owe to others at the end of a financial year or quarter. The cash flow statement shows the current money in hand of an organisation which gives clear insight into any problems of a business may have with its cash flow (Wilson and Joyce, 2008).

General methods of financial performance analysis are given below.

Methodology

Horizontal Analysis

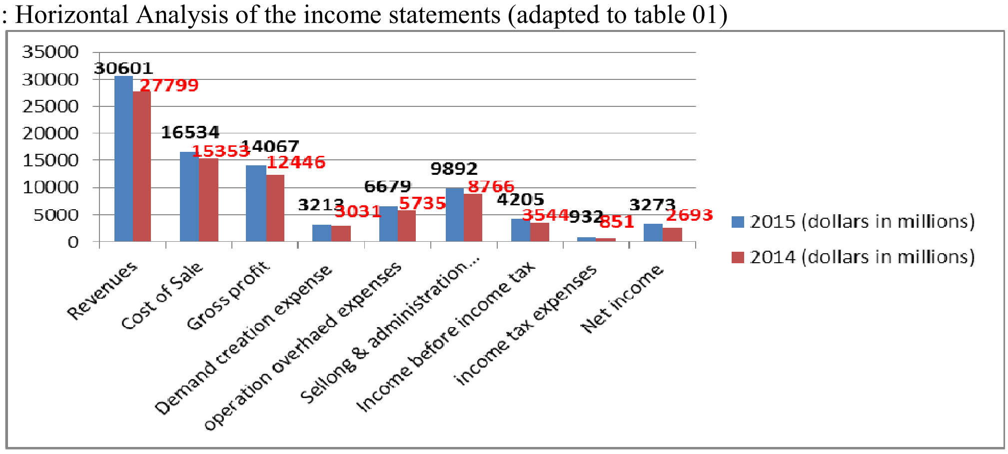
Horizontal analysis is a financial statement that shows changes in the amounts of corresponding financial statement items over a period of time, which is a helpful tool to assess the trend situations (Keown et al., 2008). That is useful to keep the organisation ahead of the competition and also that helps to make the organisation more nimble and adaptable to changes (Arnold, 2008). This study shows the financial statement over the past two year as a percentage. For instant, the cash reported on income statement sheets at May 31, 2015 and 2014 have been analysed as a percentage of ending year May 31, 2014 amount. The analysed data is shown in below table 01. This technique involves making a line by line comparison of company accounts which is used each year given period of account for the investigation (Dyson, 2004).

Table 01: Comparative Income Statement for May 31, 2014 and 2015

Items	2015	2014	Change %
	(Dollars in millions)	(Dollars in millions)	
Revenues	30601	**27799**	+10
Cost of Sale	16534	**15353**	+7.6
Gross profit	14067	**12446**	+13
Demand creation expense	3213	**3031**	+6
operation overhead expenses	6679	**5735**	+16.4
Selling & administration expense	9892	**8766**	+12.8
Income before income tax	4205	**3544**	+18.6
Income tax expenses	932	**851**	+9.5
Net income	3273	**2693**	+21.5

(Appendix II)

Graph 01: Horizontal Analysis of the income statements (adapted to table 01)



A healthy improvement is shown in the net Income of the company as well as the revenue and Gross profits have increased to double figure which is a good sign for the company`s financial health. Although, overhead and selling and administrated expenses have been increased to double figure that should be maintained as a single figure for good financial health of the company.

The main problem of horizontal analysis is rapid change of environment, that would effect to the business, therefore the figures may not in fact comparable over the years and even rules of account might be changed over the time and it does not take effects of inflation in to account (Gowthorpe, 2003).

Trends Analysis

The trends analysis is analysing series of account data over the period of time, baselining 100 as a selected year. That is analysing similar figure in series of company account for understanding decrease or increase of organisation financial status (Dyson, 2004). This method is useful to graph the changes in absolute cost and values shown in financial statement. In this study, revenues and net income of the Nike was analysed using trends analysis which was used company`s financial statements of last five years such as 2011,2012, 2013, 2014, and 2015 as got 2010 the baselining for 100.

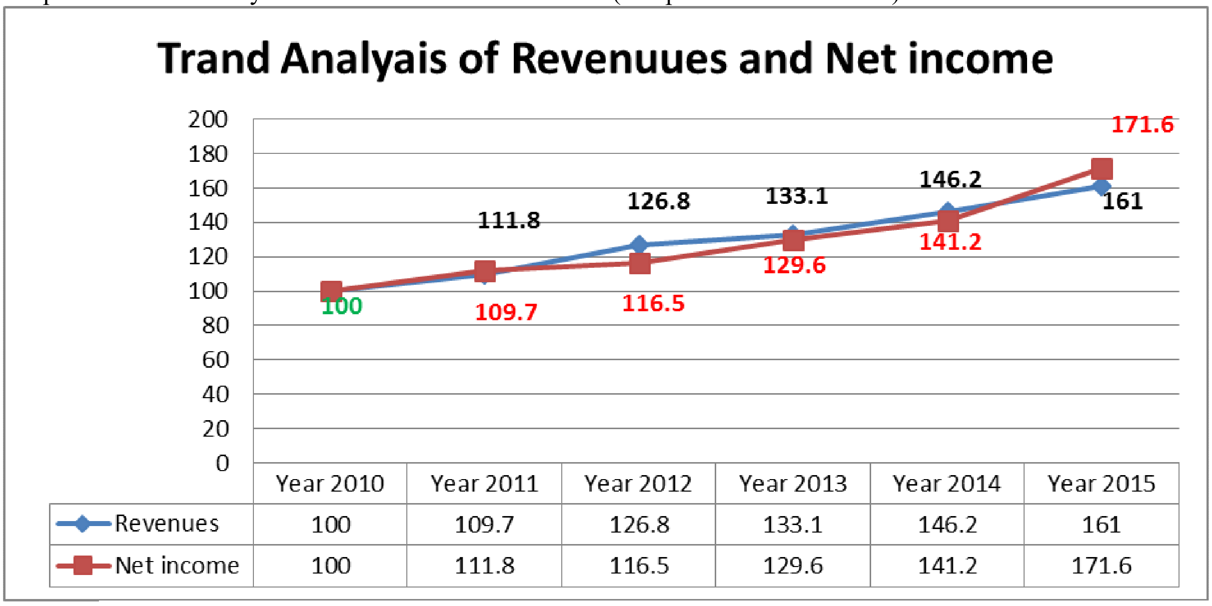
Table 02: Trends Analysis of Revenues (Adapted from Appendix II)

	Trends Analysis					
Revenues	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Doller in Million	19014	20862	24128	25313	27799	30601
2010=100	100	109.7	126.8	133.1	146.2	161

Table 03: Trends Analysis of Net Income (Adapted from Appendix II)

	Trends Analysis					
Net income	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
Doller in Million	1907	2133	2223	2472	2693	3273
2010=100	100	111.8	116.5	129.6	141.2	171.6

Graph 02: Trends Analysis for Revenue and Net Income (Adapted from Table 2&3)



The revenues trends are shown in table 02, increased in years 2011, 2012, 2013, 2014 and 2015 by 9.7, 26.8, 33.1, 46.2, and 61 respectively while net income trends have increased in year by year such as 11.8, 16.5, 29.6, 41.2 and 71.6 respectively. These figures depict meaning something by converting this way and relate more to our experience of money terms and values in everyday life (Dyson, 2004). The net income and revenue percentages have steadily increased over the six years and also the percentage of revenue has increased when compared with the net income percentage (Graph no 02). Although that trend was changed in the financial year ending May 31, 2015, the net income percentage of the company has increased rather than revenue which might be affected due to government tax policy, inflation rate, company policy and world economy (Wilson and Joyce, 2008).

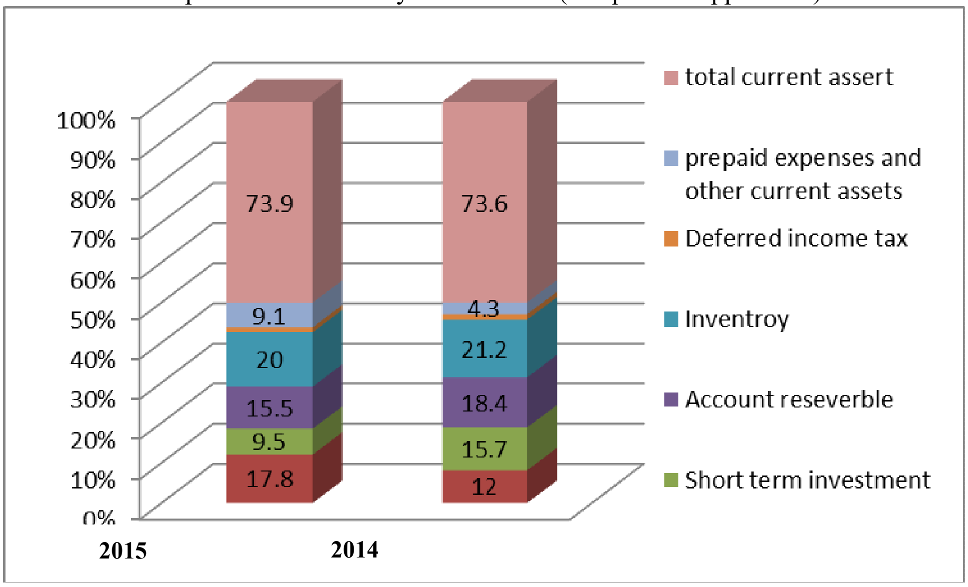
Vertical Analysis

Vertical analysis depicts each amount of the financial statement as a percentage of another item. The vertical evaluation of the balance sheet means every amount belongs to assert is resisted to be a percentage of total assert while vertical analysis of labilities in balance sheet means every amounts belongs to liability is resisted to be percentage of total labilities. Furthermore, vertical analysis of an income statement show that every income statement amount represented as a percentage of sales (Gowthorpe, 2003). After the analysis, all the data is mixed together and comparing each other in order to get a true picture of a company (Arnold, 2008).

Table 04 Vertical Analysis of Asserts (Adapted to Appendix I)

	Doller in Million			
items	**2015**	**%**	**2014**	**%**
current assert				
cash and equivalents	3852	17.8	2220	12
Short term investment	2072	9.5	2922	15.7
Account recoverable	3358	15.5	3434	18.4
Inventories	4337	20	3947	21.2
Deferred income tax	389	1.8	355	2
Prepaid expenses and other current assets	1968	9.1	818	4.3
total current assert	15976	73.9	13696	73.6
total fixed assert	5624	26	4898	26.3
total assert	**21600=100**		**18594=100**	

Graph 03 Vertical Analysis of Asserts (Adapted to Appendix I)

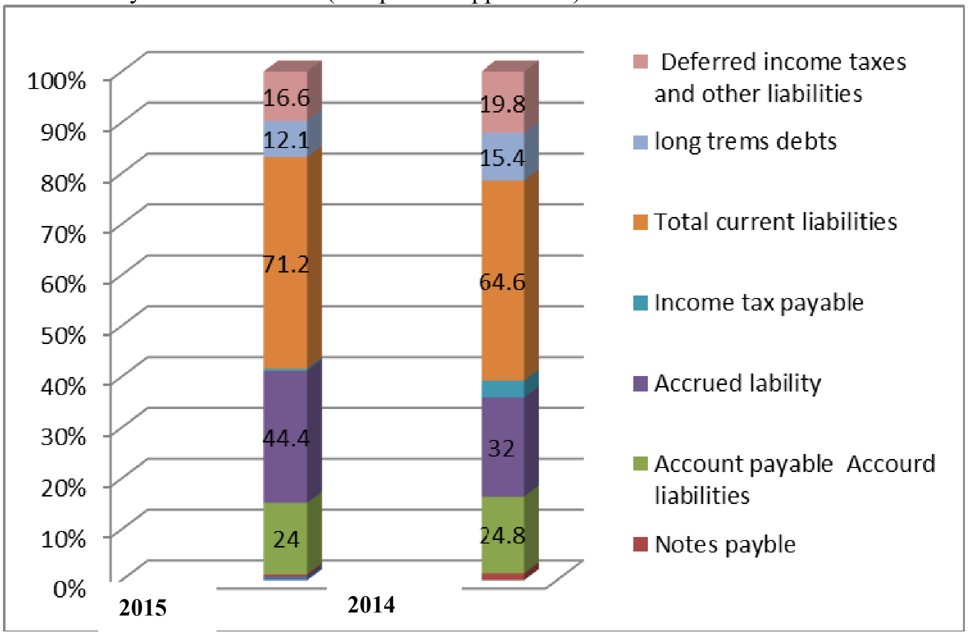


The vertical analysis results shown in the above table 04 and graph 03 that the total assert of the company is decreased by 0.3% from 2014 to 2015, although there was an increase in total current assert and cash and equivalents while inventory, account receivable and short terms investments have decreased making up the composition of the total asserts. Therefore, it can be concluded that organisation`s financial health and performance is maintained at a good level because there is low investment in year 2015 although total current assert has been increased (Altman, 1968).

Table 05 Vertical Analysis of Liabilities (Adapted to appendix I)

	Doller in Million			
items	**2015**	**%**	**2014**	**%**
Current portion of long term debt	107	1.2	7	0.1
Notes payable	74	0.8	167	2.1
Account payable	2131	24	1930	24.8
Accrued lability	3951	44.4	2491	32
Income tax payable	71	0.7	432	5.5
Total current liabilities	6334	71.2	5027	64.6
long terms debts	1079	12.1	1199	15.4
Deferred income taxes and other liabilities	1480	16.6	1544	19.8
Total liabilities	8893=100		7770=100	

Graph 04 Vertical Analyses of Liabilities (Adapted to appendix I)

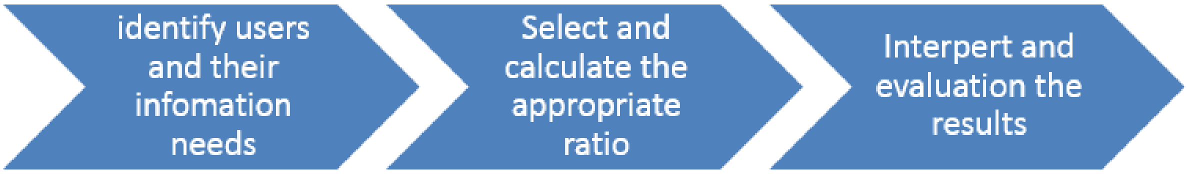


According to the above table 5 and graph 4 that total current liabilities have increased from the year 2014 to 2015 by almost 6.6% and also current position of long term debt and accrued liabilities have been increased. Although the percentage of notes payable, long-term debts, income tax payable and account payable have decreased. However, the total of liabilities has increased comparing with 2014 due to issues in current portion of long terms debts, account payable and accrued liability.

Ratio Analysis

The ratio analysis is an effective management tool for proper decision making that will improve your knowledge of financial results and trends over time. Ratio is used to relate one piece of financial data to another, for the comparing ratio put two pieces of data on an equivalent base. The ratio analysis is used to determine an organisation liquidity position, leverage position, the effectiveness of assert utilisation, and profitability performance (Lee et al., 2009). From an investors' point of view, financial statement analysis is useful in future prediction while managerial standing point of view ratio analysis helps to understand strengths and weaknesses of the organisation`s finance as well as its helps to plan strategies for company future performance (Brigham and Houston, 2004).

Figure 01: The key steps of financial ratio analysis



Adapted from (Atrill and Mcianey, 1999)

In the financial sector, different users have different interests in financial information which this information is utilised for the necessary purpose. For instant, employers are mainly interested in income from their investment and also they are keen on the level of risk involved in their investment. Furthermore, they are more interested in profitability ratio. The liquidity ratio is used to assess how well the business manages its working capital which is most important for short term lenders (McLaney, 2009). Therefore, it is essential to calculate needful ratios and interpret and evaluate them very carefully. The stepwise process is explained in the above figure 01.

The financial ratio can be present in three different ways depending upon convention. These are as follows:

A percentage: the profits presented as percentage of sales turnover

A multiple: for instant, sales being three time the size of the capital

A true ratio: as when the ratio of current assets to current liabilities is considered (Mott, 2008).

Key Ratios

Ratio analysis are basically divided into five categories; Profitability, sustainability ratio, operational efficiency ratio, leverage ratio (funding- Debt, equity, Grants), other ratio (Lee el at., 2009). In this study several key ratios to understand position of Nike's productivity are discussed such as measures of liquidity, profitability, investment and overall performance . These ratios could influence the financial wellbeing of the company. Those ratios are part of the profitability, solvency, productive, investment and performance ratios (McLaney, 2009).

Table 06: Calculation of the Key ratios (Adapted to appendix V)

	Year 2014	Year 2015	% change [(Year2/Year1)-1]*100
Net profits margin	**0.09%**	**0.10%**	11.1
Debt to equity ratio	**0.71**	**0.70**	-1.4
Current ratio	**2.7:1**	**2.5:1**	-7.4
working capital turn over	**3.2**	**3.8**	18.75
Quick ratio	**1.9**	**1.8**	-5.26
earnings per share	**$3.35**	**$3.79**	13.13
Cash return on capital invested	**0.26%**	**0.27%**	3.8
Assert turn over	**2**	**2**	-

According to table 06 net profit margin and working capital turn over have considerably grown, net profits margin shows percentage of sales after paid all expenses which is useful information for the company`s shareholders (McLaney, 2009). The working capital turns over measure the company's effectiveness (Walsh, 1996). The Nike's effectiveness has been increased compared to the financial year 2014.While current ratio and quick ratio of the company have been decreased by -7.4 and -5.26 respectively comparing with previous year. However, current ratio is higher than 1:1 therefore; the company confidently can show short term creditors (trade payables) that there are sufficient liquid asserts comfortably to cover their claim (McLeaney, 2009). As a business point of view investors are much more concerned about earning pre-share which is market prospective ratio that is calculated by the net profits earned per share of stock outstanding (McLeaney, 2009). The Nike's earnings per share have increased relatively compared to the previous year which is good for shareholder and motivate the investors to invest in Nike as well. Assert turnover is important to understand the company`s effectiveness of cash management which shows that how many sales are generated by each dollar of company asserts (Walsh, 1996). As shown in table assert turnover in Nike's financial analysis comparing with the previous year, has generated two sales per dollar. The capital turn over has been also increased by 3.8%.

Benefits of key ratios for the company

The work of Altman (1968) indicates that profitability, liquidity and solvency ratio analysis are as the most significant indicators for financial performance analysis, although that sub kinds of ratios are used differently as approaching problem. The value of working capital is important to understand the performance of the company (Lee, et al., 2009). The Nike has effective working capital ratio which has increased relatively in financial year 2014 and also that is positively impacted for the company performance. Even Nike revenues have been increased in the year 2015, current liabilities has increased as well as though the accrued liabilities for a large share of total current liabilities. Working capital (current assert- current liabilities) is used to found operation and purchased inventory. The operations are then converted into sales and inventory (Knott, 2004). The Nike has improved their working capital relatively in the year 2014, its means Nike management has been being efficient in using their short term assert and labilities support sales.

The current ratio of Nike has been decreased by 7.4% in compared analysis. However general rule of thumb is that if current ratio values are more than 1:1 its means company has sufficient liquidity assert to cover current liabilities (McLeaney, 2009), although current ratio has negatively impacted Nike's financial health comparing to the year 2014, On the other hand it means company invested in the business more than previous year which is good for the company`s future growth (Australian shareholders' association, 2010). The quick ratio has also decreased which is similarly to current ratio that is also measured by the ability to use of company's cash and equivalent to pay its current liabilities (Walsh, 1996). However Nike's quick ratio value is higher than its rule of thumb, therefore can manage their cash and equivalent to cover their current liabilities. However, quick ratio has increased due to higher inventory than previous year (Appendix I).

The leverage ratio is always refered as a gearing ratio which measures company`s utilities debt to financial growth, financial expertise has knowledge that debt to equity ratio is important for the debt carries and investors to understand their risks. The debt to equity ratio indicates whether the company is depended on debts or shareholder capital to fund assert and activities and company's capital structure (Australian shareholders' association, 2010). The debt to equity ratio of Nikes has indicated that every $1 of shareholder ownership in the company, the company owes $0.70 to creditors, which are compared with in the year 2014 it has decreased by

1.4% that means the company manage their capital structure and assert and activities in progressive manner and also decreasing dependence of shareholder and debts funds.

The earning per share is considered as a profitability ratio that indicates company`s ability to generate profits. A company's profitability and generate profits are important for shareholders as long as profits are used to fund business development and pay dividend to shareholder (McLeaney, 2009). Earnings per share of the Nike has increased in $ 3.35 to $3.79 from the financial year 2014 to 2015 which is increased by 13.13% comparing with financial year 2014. Its shows that the company is used their resources in effective and efficient ways to motivate investors to invest in company and also increasing confident of shareholders regarding the company (Australian shareholders' association, 2010).

The cash return on capital invested is measured by the amount of money earned compared to invested money (Brigham and Houston, 2004). In the year 2015 Nike has increased their cash return on capital investment by 3.8% relatively financial year 2014. This was beneficial for Nike`s financial performance because they have utilised their invested money effectively and efficiently, therefore there were increased value of share, revenues and net profits.

The net profit margin show that percentage of sales revenues after deducted all the cost of a company which is good indicator for comparing two companies in similar industry and analysis same company over time. Furthermore, if there is declining net profit margin ratio it would be effected increase competition or rising costs (Australian shareholders' association, 2010). The Nike's net profits margin has increased by 11.1% compared with year 2014. The shareholders concern much more about the net profits margin, because it shows how good the company is at converting revenues into profits, therefore Nike's net profit margin is good for the shareholders and they more motivated to invest in Nike and also it can be concluded that Nike's actual operation has headed to effective and efficient direction.

Recommendations

The company`s current ratio is decreased by 0.2 in relation to financial year 2014; however, company ratio level (2.5:1) is above the normal benchmark of ratio (2:1) which means they have sufficient current assert to cover the current liabilities as well as they have extra 0.5 current assert unutilised (Australian shareholders' association, 2010), therefore company should invest that extra current assert in the business to increase profits and to achieve sustainable position in marketplace.

The company has a good working capital turn over compared to the previous year which means that the company has been using their current assert in an effective way, however, company should maintain their effectiveness in future operation, therefore, they need to utilise their assert in productive manner and also should implement new strategies to deduce waste and increase profits.

The debts should be reduced because labilities need to run the company and increase the profits of shareholders but when debts financing cost surpasses the return, the company may starved of funds.

The company should control and reduce operation cost that influence the production which will lead to protecting and increasing present net profit margin

The product sale should be increased along with their price to acquire more working capital which will help to fund future operations

Company should utilise all its assert to increase organisation profits and productivity and invest extra cash and equivalent to increase sale that would help to increase share price and investment in open market.

Company should issue high equity from shareholders to minimize debt may by planning new expansions to shareholder interests.

Company should reduce stock in their current assert by increasing sales that would be helpful to increase profits margins and value of shares because in present company inventory it is higher than in the year 2015 (2014= 3434, 2015= 4337).

Introduce a new quality assurance practice and procedures for the entire business cycle to increase sales.

Limitations

- Present day inflation.
- Present day changing economic condition
- Human interpretation errors and some case even intentional manipulation of figure
- Selected key ratios

Conclusion

The company is performing well and increasing their revenues and profits and also will increase further more in the coming year. Although increase liabilities might risk company`s future profits. Overly Nike is maintaining their financial performance and their current assert and also increase their market share and share price. In percent, Nike manages their operation in profitable way however current liabilities and inventories are increased relatively compared to the previous year. That could be reduced by implementing new marketing strategies and selling unutilised asserts.

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