



COMPANY UPDATE / ESTIMATE CHANGE

Key Metrics

NKE - NYSE	(as of 3/21/17)	\$58.01
Price Target		N/A
52-Week Range		\$49.01 - \$65.44
Shares Outstanding, basic (mil)		1,653
Market Cap. (\$ mil)		\$95,896
3-Mo. Average Daily Volume		9,666,423
Institutional Ownership		78%
Total Debt/Total Capital (2/17)		22%
ROE (TTM ended 2/17)		33%
Book Value/Share (2/17)		\$7.70
Price/Book Value		7.5x
Annual Dividend & Yield	\$0.72	1.2%
EBITDA Margin (TTM ended 2/17)		15%

EPS FY 5/31 (excludes nonrecurring items)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.67		\$0.73	A	
2Q	\$0.45		\$0.50	A	
3Q	\$0.55		\$0.68	A	
4Q	\$0.49	\$0.59	\$0.52		
Year	\$2.16	\$2.34	\$2.43	\$2.64	\$2.55
P/E	26.9x		23.9x		22.7x

Note: Quarterly EPS figures may not add to annual figure due to rounding.
 EPS and revenue figures are from continuing operations.

Revenues (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$8,414		\$9,061	A	
2Q	\$7,686		\$8,180	A	
3Q	\$8,032		\$8,432	A	
4Q	\$8,244	\$8,759	\$8,687		
Year	\$32,376	\$34,500	\$34,360	\$36,800	\$36,500

Company Description: Nike, Inc. is a global designer, marketer, and distributor of athletic footwear, apparel, equipment, and accessories for a wide variety of sports and fitness activities. In addition to its namesake brand, wholly owned subsidiaries include Converse and Hurley.

Nike, Inc.

NKE — NYSE — Neutral-1

3Q EPS a Positive Surprise, But Challenges Exist

Investment Highlights

- Nike's fiscal 3Q results were mixed.** The main positive factors, in our view, were earnings per share that were well above expectations, tight cost controls, and continued share repurchases. Negative factors were the same as in the previous quarter—gross margin lower than our expectation, continued foreign currency headwinds, and relatively soft “futures” that included a notably weak figure for North America.
- 3Q revenues rose 5% to \$8.432 billion, just slightly below street consensus.** On a currency-neutral basis, revenues were up 7%. Gross margin declined 146 basis points. Combined, demand creation expenses and operating overhead declined nearly 3%, more than we anticipated. An increase in Other Income, a lower tax rate, and a 3% drop in the weighted average share count helped lead to diluted EPS of \$0.68 compared to the year ago figure of \$0.55. We projected EPS of \$0.52, while street consensus was \$0.53.
- Nike's “futures” figures were soft.** Worldwide orders for Nike-branded footwear and apparel scheduled for delivery from March 2017 through July 2017 were down 4% from the year ago level, or down 1% excluding the impact of currency changes. This included a 9% decline in the key North America market, a further sign of heightened competition, in our view. The reported North American futures decline one quarter ago was 4%.
- Our rating on NKE remains Neutral.** While recent EPS figures have been solid, we believe current business conditions pose challenges, particularly continued foreign currency headwinds (perhaps peaking in FY18) and stiffer competition. We will continue to closely monitor these factors, the related impact on Nike's financials, and stock valuation (currently 23x estimated forward earnings) as we seek a more attractive entry point.

**Note Important Disclosures on Pages 9-10.
 Note Analyst Certification on Page 9.**

Exhibit 1**Consolidated Statements of Income** (in millions except percentages and per share data)

	Quarter Ended			Nine Months Ended		
	<u>2/28/17</u>	<u>2/29/16</u>	<u>% chg.</u>	<u>2/28/17</u>	<u>2/29/16</u>	<u>% chg.</u>
Revenues	\$8,432	\$8,032	5.0%	\$25,673	\$24,132	6.4%
Cost of Sales	<u>4,682</u>	<u>4,343</u>	7.8%	<u>14,184</u>	<u>12,947</u>	9.6%
Gross Profit	3,750	3,689	1.7%	11,489	11,185	2.7%
Demand Creation Exp.	749	804	(6.8%)	2,552	2,405	6.1%
Operating Overhead Exp.	<u>1,747</u>	<u>1,762</u>	(0.9%)	<u>5,346</u>	<u>5,298</u>	0.9%
Total Selling & Admin. Exp.	2,496	2,566	(2.7%)	7,898	7,703	2.5%
Operating Income	1,254	1,123	11.7%	3,591	3,482	3.1%
Interest Expense (Income)	19	5		41	14	
Other Expense (Income)	<u>(88)</u>	<u>(17)</u>		<u>(168)</u>	<u>(82)</u>	
Income Before Taxes	1,323	1,135	16.6%	3,718	3,550	4.7%
Income Taxes	<u>182</u>	<u>185</u>	(1.6%)	<u>486</u>	<u>636</u>	(23.6%)
Net Income	<u>\$1,141</u>	<u>\$950</u>	20.1%	<u>\$3,232</u>	<u>\$2,914</u>	10.9%
Diluted Earnings Per Share	<u>\$0.68</u>	<u>\$0.55</u>	23.7%	<u>\$1.91</u>	<u>\$1.67</u>	14.3%
Avg. # of Dil. Shares Outst.	1,686	1,737	(2.9%)	1,696	1,749	(3.0%)
Dividends Declared	\$0.18	\$0.16	12.5%	\$0.52	\$0.46	13.0%
As a % of Revenues:			<u>bp chg.</u>			<u>bp chg.</u>
Gross Profit	44.47%	45.93%	(146)	44.75%	46.35%	(160)
Demand Creation Exp.	8.88%	10.01%	(113)	9.94%	9.97%	(3)
Operating Overhead Exp.	20.72%	21.94%	(122)	20.82%	21.95%	(113)
Operating Income	14.87%	13.98%	89	13.99%	14.43%	(44)
Income Before Taxes	15.69%	14.13%	156	14.48%	14.71%	(23)
Net Income	13.53%	11.83%	170	12.59%	12.08%	51
Tax Rate	13.76%	16.30%	(254)	13.07%	17.92%	(484)
Divisional Revenues (in millions):						
North America Footwear	\$2,490	\$2,404	3.6%	\$7,227	\$6,932	4.3%
North America Apparel	1,154	1,115	3.5%	3,744	3,583	4.5%
North America Equipment	<u>138</u>	<u>164</u>	(15.9%)	<u>492</u>	<u>514</u>	(4.3%)
Total North America	3,782	3,683	2.7%	11,463	11,029	3.9%
International Footwear	2,824	2,670	5.8%	\$8,381	7,857	6.7%
International Apparel	1,115	1,009	10.5%	3,609	3,244	11.3%
International Equipment	<u>183</u>	<u>188</u>	(2.7%)	<u>598</u>	<u>591</u>	1.2%
Total International	4,122	3,867	6.6%	12,588	11,692	7.7%
Global Brand Divisions (licensing)	<u>19</u>	<u>17</u>	11.8%	<u>55</u>	<u>61</u>	(9.8%)
Total Nike Branded Revenues	7,923	7,567	4.7%	24,106	22,782	5.8%
Converse	498	489	1.8%	1,488	1,442	3.2%
Corporate	<u>11</u>	<u>(24)</u>	N/A	<u>79</u>	<u>(92)</u>	N/A
Total Revenues	\$8,432	\$8,032	5.0%	\$25,673	\$24,132	6.4%
Nike Brand Revenue Mix:			<u>bp chg.</u>			<u>bp chg.</u>
Footwear	67.07%	67.05%	2	64.75%	64.92%	(17)
Apparel	28.64%	28.07%	57	30.50%	29.97%	54
Equipment	4.05%	4.65%	(60)	4.52%	4.85%	(33)
Global Brand Divisions	<u>0.24%</u>	<u>0.22%</u>	2	<u>0.23%</u>	<u>0.27%</u>	(4)
	100.00%	100.00%		100.00%	100.00%	

Source: Nike, Inc.

Note: May fiscal year

Exhibit 2**Contribution by Geographic Segment** (in millions except percentages and basis point figures)

	Quarter Ended			Nine Months Ended		
	<u>2/28/17</u>	<u>2/29/16</u>	<u>% chg.</u>	<u>2/28/17</u>	<u>2/29/16</u>	<u>% chg.</u>
<u>Revenues</u>						
North America	\$3,782	\$3,683	2.7%	\$11,463	\$11,029	3.9%
Western Europe	1,499	1,442	4.0%	4,647	4,382	6.0%
Central & Eastern Europe	362	359	0.8%	1,130	1,086	4.1%
Greater China	1,075	982	9.5%	3,150	2,806	12.3%
Japan	236	205	15.1%	719	589	22.1%
Emerging Markets	950	879	8.1%	2,942	2,829	4.0%
Global Brand Divisions*	19	17	11.8%	55	61	(9.8%)
Total Nike Brand	7,923	7,567	4.7%	24,106	22,782	5.8%
Converse	498	489	1.8%	1,488	1,442	3.2%
Corporate ~	11	(24)	N/A	79	(92)	N/A
Total Revenues	\$8,432	\$8,032	5.0%	\$25,673	\$24,132	6.4%
<u>EBIT</u>						
North America	\$980	\$903	8.5%	\$2,896	\$2,827	2.4%
Western Europe	290	334	(13.2%)	918	1,126	(18.5%)
Central & Eastern Europe	57	69	(17.4%)	196	243	(19.3%)
Greater China	381	358	6.4%	1,127	1,015	11.0%
Japan	49	36	36.1%	147	119	23.5%
Emerging Markets	193	202	(4.5%)	601	701	(14.3%)
Global Brand Divisions*	(598)	(625)	(4.3%)	(1,988)	(1,874)	6.1%
Total Nike Brand	1,352	1,277	5.9%	3,897	4,157	(6.3%)
Converse	109	127	(14.2%)	340	359	(5.3%)
Corporate ~	(119)	(264)	(54.9%)	(478)	(952)	(49.8%)
Total EBIT	\$1,342	\$1,140	17.7%	\$3,759	\$3,564	5.5%
<u>EBIT Margins</u>						
			<u>bp chg.</u>			<u>bp chg.</u>
North America	25.91%	24.52%	139	25.26%	25.63%	(37)
Western Europe	19.35%	23.16%	(382)	19.75%	25.70%	(594)
Central & Eastern Europe	15.75%	19.22%	(347)	17.35%	22.38%	(503)
Greater China	35.44%	36.46%	(101)	35.78%	36.17%	(39)
Japan	20.76%	17.56%	320	20.45%	20.20%	24
Emerging Markets	20.32%	22.98%	(266)	20.43%	24.78%	(435)
Total Nike Brand	17.06%	16.88%	19	16.17%	18.25%	(208)
Total Company	15.92%	14.19%	172	14.64%	14.77%	(13)

* Note: Global Brand Divisions represent licensing businesses not part of a geographic operating segment and include centrally managed expenses for the Nike brand.

~ Corporate segment consists of unallocated general and administrative expenses and other items.

EBIT = Earnings before interest and taxes

Source: Nike, Inc.

Note: May fiscal year

Additional comments on 3Q. Nike's bottom line was better than expected in the recent 3Q, but the figure was aided by several factors. Selling & administrative expenses declined nearly 3%, more than we expected as management may have found some additional areas to target in the period. The Other Income line item was higher due mainly to some net foreign currency exchange gains and other non-operating items. The tax rate dropped 254 basis points due to a reduction in tax reserves and the increase in the mix of earnings from non-U.S. territories. Lastly, the weighted average share count dropped 3%, which helped the EPS calculation.

The global futures figure (-4%, or -1% on a currency neutral basis) was weaker than recent quarters and street consensus, with a 9% decline in North America of particular note. We believe competitors—primarily Adidas—have generally stepped up their games, which could spur Nike to spend more on demand creation or perhaps become more promotional with pricing, either of which could impact margins.

Among the 3Q highlights:

- North America—by far the company’s largest region—posted a 3% gain in revenues and an 8.5% increase in EBIT (earnings before interest and taxes). Results reflected strength in footwear and apparel along with margin gains.
- Western Europe posted a 4% revenue gain on a reported basis, or 10% on a currency-neutral basis. Foreign currency headwinds and higher product costs contributed to a 13% drop in reported EBIT, however.
- Central & Eastern Europe posted a 1% revenue increase on an as-reported basis and a 3% gain on a currency-neutral basis. Foreign currency translation contributed to a reported 17% decline in EBIT.
- Greater China had a 9.5% increase in reported revenues, a 15% increase in revenues on a currency-neutral basis, and a 6% gain in EBIT.
- Japan showed improvement with a 15% gain in reported revenues and a 36% gain in EBIT, though based on relatively small figures.
- The Emerging Markets segment posted an 8% increase in reported revenues and a 4.5% drop in EBIT.
- Converse revenues were up 2%, yet profits were down 14%.
- Total company EBIT rose 18% with a 172 basis point improvement, mostly due to the operating margin gain that came from lower demand creation expenses compared to one year ago.

Futures. The company no longer includes “futures” figures in its earnings releases due to the declining correlation between these statistics and overall reported sales. Factors include shipment timing, changes in levels of futures vs. at-once orders, and a growing portion of the company’s business that is not reflected in the futures figures at all (such as close-out orders, equipment sales, direct-to-consumer and online sales, and all sales from the Converse, Nike Golf and Hurley brands).

Still, futures were below our and street consensus expectations. While currency-adjusted figures were mostly solid in international markets, the 9% drop for North America was concerning. We believe a key contributing factor here is the battle for market share, including a seemingly strong presence from rival Adidas. Global markets reported more encouraging futures figures, in our view. The company’s second-largest segment—Western Europe—had a 5% constant dollar gain. Greater China had a 3% increase, while Japan rose 2% and the Emerging Markets segment rose 14%.

Financial condition. At February 28, 2017, cash and short-term investments were \$6.160 billion, \$1.054 billion above the year ago figure due in part to a capital raise in 2Q (see below). Cash uses included share repurchases, higher dividends, and investments in infrastructure, among other uses. Inventories were up a reasonable 7%. The current ratio at 2Q period end was 3.1-to-1. Total debt was \$3.501 billion, or 22% of total capitalization. Shareholders’ equity at the end of the period was \$12.722 billion.

In October 2016, Nike completed a public offering of \$1.0 billion aggregate principal amount of 2.375% notes due 2026 and \$500 million aggregate principal amount of 3.375% notes due 2046. Proceeds were intended for general corporate purposes. We expect some portion to be used for continued investments in infrastructure and share repurchases.

Share repurchases and dividends. During the 3Q period, Nike repurchased 8.9 million shares for \$475 million, representing an average cost of roughly \$53 per share. The company has about \$8.4 billion remaining on an existing repurchase authorization that went into effect in late 2015. We expect buybacks to remain a use of cash flow each year, particularly in the near term given the current share price.

OUTLOOK

Our revised annual outlook reflects recent 3Q results and reductions to our 4Q projections (see quarterly revenue and EPS figures on cover page). Key factors include the competitive environment in North America and continued foreign currency headwinds. We now estimate annual revenue growth at 6.1% rather than our previous figure of 6.5%. We assume gross margin contraction of 139 basis points rather than our previous estimate of a 114 basis points drop. Our projection of total SG&A expenses has come down due mainly to the YTD trend. We project EPS growth of about 13% to \$2.43, up \$0.09 from our previous estimate.

We expect current factors to impact results in 1H FY18 as well, thus our lowered revenue and EPS estimates for the fiscal year. Our FY18 annual outlook has been updated with estimate reductions for revenues and gross margin compared to our previous assumption. This results in a \$0.09 decrease to our EPS estimate to \$2.55, representing growth of 5% from our FY17 projection.

In FY19, we believe a more normalized competitive environment and more favorable foreign currency translation could contribute to EPS growth near 20% from a challenged FY18. Longer-term, we believe a reasonable EPS growth target is in the low double-digit percentages.

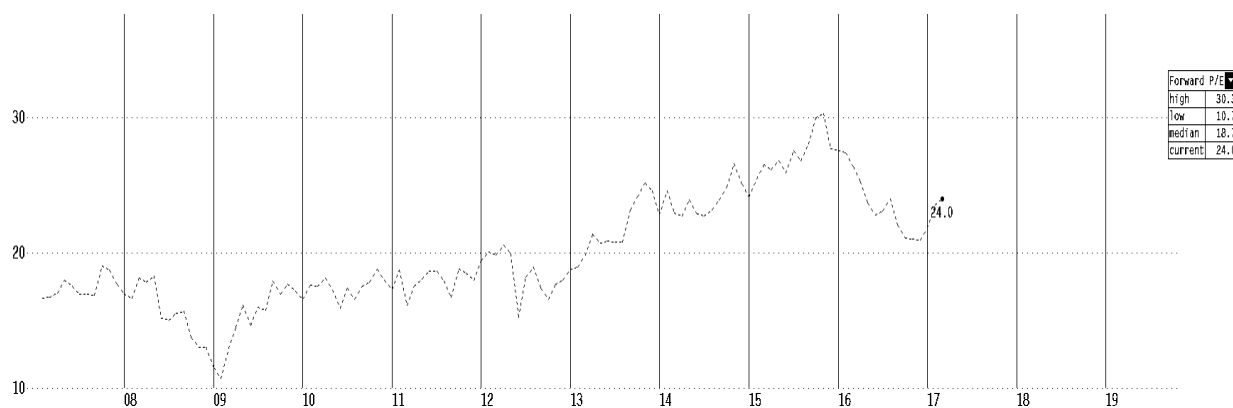
Longer term. Our longer term outlook for Nike remains relatively bright. We like the global growth opportunities, seasoned management team, and strong financial condition. We believe growth opportunities exist in all geographic markets and product categories, including deeper penetration in developed markets and aggressive expansion in developing markets. Also, Nike plans to continue investing in its growing and higher margin direct-to-consumer business.

A strong financial condition, the recent capital raise, and a penchant to remain in a growth mode could lead to acquisitions, in our view. However, we have assumed none in our financial projections and investment thesis.

VALUATION & OPINION

NKE shares are currently trading at about 23x our estimate of forward twelve-month EPS. This is down from levels in the past year or so, but above a recent historical median. As seen in Exhibit 3 on the following page, NKE's median forward multiple over the past ten years is about 19x.

Exhibit 3
Historical Forward Price/Earnings Multiples (based on expected twelve-month forward earnings)

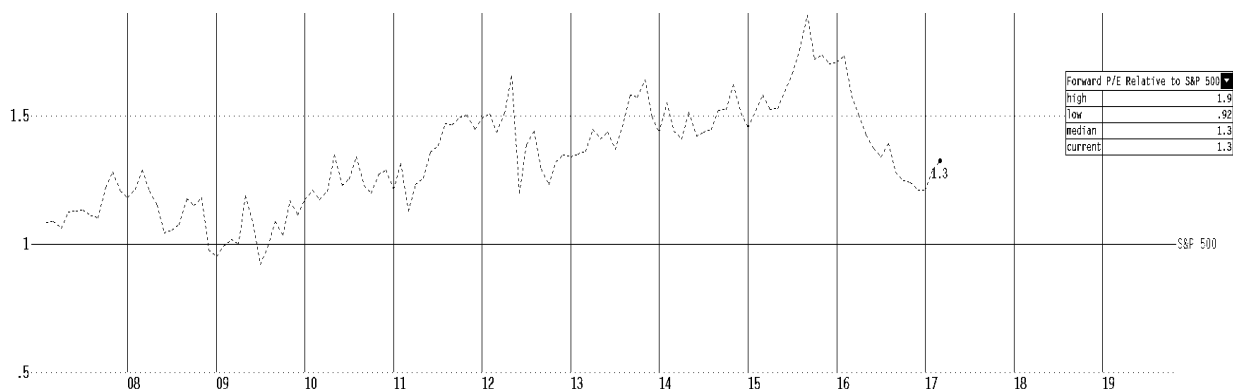


Source: Baseline

Note: May fiscal year

As for relative valuation, Exhibit 4 below shows that the stock's forward price/earnings multiple versus the S&P 500 forward multiple is currently 1.3x, equal to the ten-year historical median figure but below the high mark of 1.9x set in calendar 2015.

Exhibit 4
Historical Relative Price/Earnings Multiples (relative to forward multiple for S&P 500 Index)



Source: Baseline

Note: May fiscal year

In our view, NKE's current valuation reflects solid company fundamentals and above-average long-term earnings growth, but also reflects near-term challenges such as foreign exchange headwinds and competitive issues. Recent share price weakness has led to our overall more favorable view of the stock, yet we feel much of the decline has been warranted.

We believe revenues, earnings, cash flow, and dividends are apt to increase each year. Although we do not require a P/E multiple at the historical mean level, we do prefer a valuation lower than the current level, a favorable company development, or greater confidence in our projected outlook for a purchase recommendation. We consider Nike a high quality, well-managed company with global growth opportunities. We will continue to monitor the stock and business conditions closely, with a particular focus on the risk/reward profile.

SUITABILITY AND RISKS

Suitability. Our Suitability rating on NKE is 1 on a 1-to-4 scale (1=most conservative, 4=most aggressive). This view is based on factors such as the company's favorable earnings history, large market capitalization, and strong financial condition. We also consider the company's global market share positions and growth opportunities. As such, we believe NKE shares could be suitable for a wide variety of investors and risk tolerance levels.

Risks & considerations. Our positive long-term view of the company is based on factors such as growth opportunities in key markets, enviable market share positions, and product innovation. Also, we like the company's considerable free-cash flow generation and its excellent balance sheet. This is weighed against risk factors such as worldwide economic concerns, inflationary effects, and cyclical factors. Other risks to owning NKE include disruptions with key retail accounts or distribution channels, rising cost of sales due to higher input costs, currency fluctuations, ongoing fashion and brand preference risk, and the competitive environment.

Exhibit 5**Consolidated Statements of Income** (figures in millions except percentages and per share data)

	<u>FY18E</u>	<u>FY17E</u>	<u>FY16</u>	<u>FY15</u>	<u>FY14</u>
Revenues	\$36,500	\$34,360	\$32,376	\$30,601	\$27,799
Cost of Sales	<u>20,130</u>	<u>18,950</u>	<u>17,405</u>	<u>16,534</u>	<u>15,353</u>
Gross Profit	16,370	15,410	14,971	14,067	12,446
Total Selling & Admin. Exp.	11,420	10,695	10,469	9,892	8,766
Interest Expense (Income)	51	53	19	28	33
Other Expense (Income)	<u>(150)</u>	<u>(175)</u>	<u>(140)</u>	<u>(58)</u>	<u>103</u>
Income Before Taxes	5,049	4,837	4,623	4,205	3,544
Income Taxes	<u>884</u>	<u>738</u>	<u>863</u>	<u>932</u>	<u>851</u>
Net Income	<u>\$4,165</u>	<u>\$4,099</u>	<u>\$3,760</u>	<u>\$3,273</u>	<u>\$2,693</u>
Diluted Earnings Per Share	<u>\$2.55</u>	<u>\$2.43</u>	<u>\$2.16</u>	<u>\$1.85</u>	<u>\$1.49</u>
Avg. # of Dil. Shares Outst.	1,631	1,689	1,743	1,769	1,812
Year Over Year % chg.					
Revenues	6.23%	6.13%	5.80%	10.08%	9.82%
Gross Profit	6.23%	2.93%	6.43%	13.02%	12.80%
Total Selling & Admin. Exp.	6.78%	2.16%	5.83%	12.85%	12.67%
Income Before Taxes	4.38%	4.63%	9.94%	18.65%	8.31%
Net Income	1.61%	9.03%	14.88%	21.54%	9.29%
As a % of Revenues:					
Gross Profit	44.85%	44.85%	46.24%	45.97%	44.77%
Total Selling & Admin. Exp.	31.29%	31.13%	32.34%	32.33%	31.53%
Income Before Taxes	13.83%	14.08%	14.28%	13.74%	12.75%
Net Income	11.41%	11.93%	11.61%	10.70%	9.69%
Tax Rate	17.50%	15.25%	18.67%	22.16%	24.01%

Note: Income statement figures exclude nonrecurring items such as restructuring charges, impairment charges, and one-time tax benefits.

Source: Nike, Inc. and Hilliard Lyons estimates

Note: May fiscal year

Additional information is available upon request.

Prices of stocks mentioned: Adidas AG - ADDYY - \$97.32

Analyst Certification

I, Jeffrey S. Thomison, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2–3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

<u>Rating</u>	<u>Hilliard Lyons Recommended Issues</u>		<u>Investment Banking Provided in Past 12 Mo.</u>	
	<u># of Stocks Covered</u>	<u>% of Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Buy	35	29%	14%	86%
Hold/Neutral	71	59%	6%	94%
Sell	15	12%	7%	93%

As of 8 March 2017



Note: Price targets accompanying Buy ratings reflect a one year time period while price targets accompanying Long-term Buy ratings reflect a two to three year time period.

Other Disclosures

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