

Finance 301

Sec. 101

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Group 8

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Introduction:

Blue Ribbon Sports is an American multinational company, founded in 1964, is now the brand that we all know as Nike Inc. (O'Reilly, 2014). Nike is said to be the world's leading athletic company. Their products range from sports apparel, to footwear, to equipment. Nike Inc. is made up of five popular brands such as: NIKE, Converse Inc., Hurley, Jordan, and NIKE Golf (Nike CR Report). Nike is a very successful company that is well known around the world for its products and performance within the industry. With the enhancements of Nike and its brand to the world many professional organizations use Nike for their likings. The organizations that are sponsored by Nike range from both sides of the sports spectrum including football, basketball, baseball, golf, tennis, and the list continues. Nike contributed massively to the world with their stunning advancements on sport gear and continue to do so today.

Nike's counterpart, Adidas, which is a German multinational company was founded in 1949. Adidas also sells athletic footwear, apparel, and equipment and brought many unique advancements to the sports world. Adidas also has branches of brands such as Reebok, and Taylor-Made ("Adidas Group"). Adidas is a very successful company that competes with Nike in the same industry which makes them essentially rivals. Along with Nike, Adidas also brought many enhancements to the world and are sponsored by various professional organizations. These include: football, archery, gymnastics, basketball, baseball, etc. Both of these companies are successful in the sports industry and are fit to be called rivals, however from our research we will be able to show who tops the ranking to be named the "king" of athletic attire.

	Nike	Adidas
Short term solvency or Liquidity ratios		
1. Current Ratio	2.72 times	1.68 times
2. Quick Ratio	1.71 times	1.10 times
3. Cash Ratio	1.07 times	0.38 times
4. NWC to Total Assets	0.466	0.24
5. Interval Measure	1358.43 days	3038.24 days
Long Term Solvency Ratios		
1. Total Debt Ratio	42%	55%
2. Debt/Equity	0.72 times	1.21 times
3. Long Term Debt Ratio	10%	21.97%
4. Times Interest Earned	93.18 times	13.47 times
5. Cash Coverage	N/A	19.63 times
Asset Management or Turnover Ratios		
1. Inventory Turnover	3.89 times	2.95 times
2. Days' Sales in Inventory	93 days	123 days
3. Receivable Turnover	8.10 times	7.13 times
4. Days' Sales in Receivable	45 days	51 days
5. NWC Turnover	3.21 times	4.90 times
6. Fixed Asset Turnover	9.81 times	2.87 times
7. Total Asset Turnover	1.50 times	1.17 times
Profitability Ratios		
1. Profit Margin	9.69%	3.29%
2. Return on Assets (ROA)	14.48%	5.85%
3. Return on Equity (ROE)	24.88%	11.02%
Computing Market Value Measures		
1. PE Ratio	25.81	24.78
2. Market-To-Book Ratio	8.139 times	3.69 times
3. Enterprise Value	80.24 Billion	14.67 Billion
4. EBITDA Ratio	17.42 times	8.45 times

Detailed Discussion:

Short-term solvency is divided into two categories: current ratio and quick ratio. These ratios help the companies determine their financial health. The current ratio can be quickly defined by taking the firm's assets and dividing them by their liabilities. Nike's current ratio is 2.72; almost twice as much of Adidas. The quick ratio works almost the same except that in addition, inventories must be subtracted from the current assets. In this ratio, we determined that Adidas has a larger overstock of products that aren't selling as quick as Nike.

Long-term solvency refers to the long-term benefits of a company. Firms invest their markets in hope to gain high return rates and therefore increase the value of stock and profitability. These ratios are broken down to 5 categories: total debt ratio, debt vs equity, long-term debt ratios, times interest earned, and cash coverage. After determining these ratios, it is clear to define which company has more potential to gain leadership within its market. The total debt ratio explains how much total liabilities against total assets a company has. For instance, Nike is more likely to pay off all of its debts because the total debt ratio equals to only 42 percent while Adidas is falling behind with 55 percent. This means that Adidas has 1.21 times more total liabilities than total assets. Nike's times interest earned ratio is 93.18 which means that, when dividing income by interest expense, they have enough income to pay off the interest 6.92 times more than Adidas. Although cash coverage could not be calculated for Nike, we can assume that it, as well, could be several times more than Adidas's.

To determine the turnover ratios within a company, a few things must be clear: the inventory turnover, days' sales in inventory, the receivable turnover, days' sales in receivable, the NWC turnover, the fixed asset turnover, and the total asset turnover. The inventory turnover

simply measures sales against inventory. Nike's 3.89 times inventory ratio tells us that they can sell all of their inventory in only 93 days, where Adidas needs 30 more days to do the same process. Nike also has a receivable turnover of 8.1 times, when Adidas 7.13. This ratio defines how many accounts receivable a company collects each year. These ratios all add up when we can determine how many days it takes to collect the payments. Nike's days' sales in receivable is 45 days vs the competition with about 51 days. Next, we need to determine both companies' NWC turnover. In order to define this, we need to subtract the liabilities that each has from their current assets; this is called the working capital. Once that is measurable, we can take the company's' sales and divide them by the working capital which ideally should provide us with the working capital turnover. This leaves us with 3.21 times for Nike and 4.90 times for Adidas. We can define the fixed asset turnover by taking net sales of each competitor and dividing that by their assets such as: property and equipment. The higher the number, the better because you want to pay off the equipment and property and generate only profit. Of course, as we assumed, Nike's turnover is 9.81 times while Adidas' is only 2.87 times. Finally, we need to determine the total asset turnover. We simply divided sales by the total assets. The turnover ratio for Nike was 1.5 times and 1.17 times for Adidas.

Profitability ratios are the best way to see how the company is doing so far. For instance, if we take the profit margin (Net Income / Net Sales), we can determine how good a company is doing and then decide if our investment will be valuable and hold a high return. Nike generates a margin of 9.69 percent, while Adidas has a margin of only 3.29 percent.

Last but not least, we calculate the market value measures. These measures can be broken down to different ways of calculations such as the PE ratio. To define the price-earnings ratio,

we take the market value per share and divide that by the earning per share. In the end, we determined that both companies are quite close to competition as competition goes. Nike with a ratio of 25.81 and Adidas following closely behind with 24.78.

Strengths & Weakness:

With the information present, we can notice that there are many strengths and weaknesses pertaining to the two organizations. If we look at Nike first, you can see they have many strengths over Adidas, if we just look at the data provided at the chart. If we look at the liquidity ratios provided, we can see that Nike exceeds Adidas drastically. Nike has the ability to cover their current liabilities 2.72 times, meaning their assets are greater than their liabilities. Nike has the ability to liquidate their inventory to pay off and also have enough cash to pay off their liabilities which is critical for the company. When it comes to their financial leverage ratios, Nike also has a strengthened advantage over Adidas. Having a lower total debt ratio and debt equity (42% and 0.72 times respectively), shows us that Nike does not use the majority of their assets to finance their debts in the long term. They are able to use the majority of their assets to further enhance the company as a whole and still have enough to pay back their creditors..Nike's strength in speed allows them to sell more inventory in a shorter period of time and in return generate more profit. By looking at the data, we can confirm that Adidas primarily is weaker in all the regions dealing with profitability, turnover, and the market value of the companies.

In essence, Nike has multiple strengths in all of their ratios compared to Adidas, which concludes that Nike is outdoing Adidas when it comes to paying off its debt, paying back their stockholders, and generating profits for the company. Adidas has the interest of investors which

is significant for their future growth, however Nike exceeds in all spectrums compared to Adidas and that ultimately shows the ability of the company to dominate the market.

Conclusion:

After analyzing the financial ratios of both Nike Inc. and Adidas, we have found that Nike Inc. has performed better in 2014. Without the use of financial information, most consumers would agree that Nike Inc. is the more successful company. Financial ratios are a great way to determine what companies are performing better by using their financial information. These ratios are especially important for companies within the same industry. The comparison of the ratios between two competing companies can be a great tool for companies to use when determining what areas they need to improve on. In conclusion, Adidas is not far behind in competition since it does have a promising future in terms of growth, however Nike clearly has the upper hand in this industry and will continue to do so if they continue to perform at this rate.

Adidas: Income Statement & Balance Sheet

Income Statement

Get Income Statement for: View: **Annual Data** | Quarterly Data

All numbers in thousands

Period Ending	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Total Revenue	18,375,000	17,587,000	19,571,000
Cost of Revenue	9,503,000	9,209,000	9,924,000
Gross Profit	8,873,000	8,378,000	9,647,000
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	7,684,000	7,216,000	7,948,000
Non Recurring	37,000	94,000	72,000
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	1,150,000	1,068,000	1,627,000
Income from Continuing Operations			
Total Other Income/Expenses Net	50,000	23,000	36,000
Earnings Before Interest And Taxes	1,202,000	1,091,000	1,664,000
Interest Expense	73,000	81,000	130,000
Income Before Tax	1,129,000	1,010,000	1,534,000
Income Tax Expense	383,000	328,000	469,000
Minority Interest	-	-	-
Net Income From Continuing Ops	745,000	682,000	1,065,000
Non-recurring Events			
Discontinued Operations	(50,000)	(82,000)	23,000
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	695,000	600,000	1,089,000
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	695,000	600,000	1,089,000

Balance Sheet

 Get Balance Sheet for:

 View: [Annual Data](#) | [Quarterly Data](#)

All numbers in thousands

Period Ending	Dec 31, 2015	Dec 31, 2014	Dec 31, 2013
Assets			
Current Assets			
Cash And Cash Equivalents	1,483,000	2,037,000	2,187,000
Short Term Investments	-	-	-
Net Receivables	2,331,000	2,466,000	2,611,000
Inventory	3,382,000	3,057,000	3,630,000
Other Current Assets	948,000	1,331,000	1,021,000
Total Current Assets	8,144,000	8,890,000	9,449,000
Long Term Investments	260,000	207,000	207,000
Property Plant and Equipment	1,779,000	1,759,000	1,706,000
Goodwill	1,512,000	1,415,000	1,659,000
Intangible Assets	1,973,000	1,928,000	2,181,000
Accumulated Amortization	-	-	-
Other Assets	135,000	127,000	112,000
Deferred Long Term Asset Charges	692,000	698,000	670,000
Total Assets	14,495,000	15,025,000	15,983,000
Liabilities			
Current Liabilities			
Accounts Payable	4,418,000	3,866,000	4,426,000
Short/Current Long Term Debt	398,000	348,000	938,000
Other Current Liabilities	1,010,000	1,082,000	1,156,000
Total Current Liabilities	5,827,000	5,298,000	6,521,000
Long Term Debt	1,589,000	1,917,000	900,000
Other Liabilities	544,000	541,000	544,000
Deferred Long Term Liability Charges	400,000	472,000	466,000
Minority Interest	(20,000)	(8,000)	(11,000)
Negative Goodwill	-	-	-
Total Liabilities	8,360,000	8,228,000	8,430,000
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	217,000	247,000	288,000
Retained Earnings	5,295,000	5,855,000	6,833,000
Treasury Stock	-	-	-
Capital Surplus	-	-	-
Other Stockholder Equity	643,000	703,000	442,000
Total Stockholder Equity	6,155,000	6,805,000	7,564,000
Net Tangible Assets	2,670,000	3,462,000	3,724,000

Nike: Income Statement & Balance Sheet

Income Statement

Get Income Statement for: View: **Annual Data** | Quarterly Data

All numbers in thousands

Period Ending	May 31, 2015	May 31, 2014	May 31, 2013
Total Revenue	30,601,000	27,799,000	25,313,000
Cost of Revenue	16,534,000	15,353,000	14,279,000
Gross Profit	14,067,000	12,446,000	11,034,000
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	9,892,000	8,766,000	7,796,000
Non Recurring	-	-	-
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	4,175,000	3,680,000	3,238,000
Income from Continuing Operations			
Total Other Income/Expenses Net	58,000	(103,000)	15,000
Earnings Before Interest And Taxes	4,205,000	3,544,000	3,256,000
Interest Expense	-	-	-
Income Before Tax	4,205,000	3,544,000	3,256,000
Income Tax Expense	932,000	851,000	805,000
Minority Interest	-	-	-
Net Income From Continuing Ops	3,273,000	2,693,000	2,451,000
Non-recurring Events			
Discontinued Operations	-	-	21,000
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	-	-
Other Items	-	-	-
Net Income	3,273,000	2,693,000	2,472,000
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	3,273,000	2,693,000	2,472,000

Balance Sheet

Get Balance Sheet for:

View: **Annual Data** | Quarterly Data

All numbers in thousands

Period Ending	May 31, 2015	May 31, 2014	May 31, 2013
Assets			
Current Assets			
Cash And Cash Equivalents	3,852,000	2,220,000	3,337,000
Short Term Investments	2,072,000	2,922,000	2,628,000
Net Receivables	3,747,000	3,789,000	3,425,000
Inventory	4,337,000	3,947,000	3,484,000
Other Current Assets	1,968,000	818,000	756,000
Total Current Assets	15,976,000	13,696,000	13,630,000
Long Term Investments	-	-	-
Property Plant and Equipment	3,011,000	2,834,000	2,452,000
Goodwill	131,000	131,000	131,000
Intangible Assets	281,000	282,000	289,000
Accumulated Amortization	-	-	-
Other Assets	-	-	-
Deferred Long Term Asset Charges	2,201,000	1,651,000	1,043,000
Total Assets	21,600,000	18,594,000	17,545,000
Liabilities			
Current Liabilities			
Accounts Payable	6,153,000	4,853,000	3,789,000
Short/Current Long Term Debt	181,000	174,000	155,000
Other Current Liabilities	-	-	18,000
Total Current Liabilities	6,334,000	5,027,000	3,962,000
Long Term Debt	1,079,000	1,199,000	1,210,000
Other Liabilities	-	-	-
Deferred Long Term Liability Charges	1,480,000	1,544,000	1,292,000
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	8,893,000	7,770,000	6,464,000
Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	3,000	3,000	3,000
Retained Earnings	4,685,000	4,871,000	5,620,000
Treasury Stock	-	-	-
Capital Surplus	6,773,000	5,865,000	5,184,000
Other Stockholder Equity	1,246,000	85,000	274,000
Total Stockholder Equity	12,707,000	10,824,000	11,081,000
Net Tangible Assets	12,295,000	10,411,000	10,661,000