

Financial analysis and comparison of nike and adidas stock

[Business](#), [Company](#)



The Characteristics of Nike

Nike, Inc. was incorporated in Beaverton, Oregon during 1967. Nike is in many industries, some of which include, apparel, footwear, equipment, accessories, and services. Primarily Nike is identified as a shoe and retail apparel company, which will be the industry averages that are used to compare financial ratios. According to Nike's 10K, " Nike is the largest seller of athletic footwear and apparel in the world." Their target market for footwear is every person that wears shoes. For Nike's athletic apparel and equipment, they target sports programs, varying from children's athletics programs, to professional sports programs. The company has been operating since 1967, which totals 52 years in business. The company does have close competitors, New Balance, Puma, and most of all, Adidas. Mark Parker has been Nike's CEO since 2006, which was the companies third CEO in total.

The Characteristics of Adidas

Adidas was incorporated in 1949 as " Adi Dassler Adidas Sportschukfabrik" in Herzogenaurach, Germany. The company stylized their logo as Adidas in 1949 also. Adidas has established an American headquarters located in Portland, Oregon since 1993. Adidas is also identified similarly to Nike as a shoe and retail apparel company. Adidas does have many other ventures, however, the industry averages that are compared to Adidas' financials will be from the shoes and retail apparel industry. Adidas' target market according to their financial report, is to primarily target sports participants, including those at the highest level of their sport, as well as non-athletes who are inspired by or love sports. On August 19th, 2019, Adidas will have

been in operation for 70 years. Adidas has 3 main competitors in the shoes and retail apparel industry, Nike, Puma, and Under Armour. The company has had Kasper Rørsted as CEO since 2016, in which time they have seen tremendous growth and brand loyalty.

The Role of Nike and Adidas in My Life

The shoes and apparel industry has been very important in my life growing up. I have a personal connection to both of these companies. When I was young, I was a giant Nike fan. When they came out with their Nike Shox shoes in 2000, I thought those were the most modern shoes, almost future like. Then my parents got me into Air Jordans when I was playing basketball. I would get the EastBay Magazine that had all different types of shoes and I would circle all the pairs that I wanted. I went crazy even more when the Nike Roshe came out in 2012. I had probably 5 pairs of Roshes in all different patterns.

Adidas has also played a big role in my life when I was playing sports. I exclusively only used Adidas baseball cleats and catchers gear the entire time I played baseball as a kid and into high school. It was not until high school that I got my first pair of casual Adidas sneakers which were Stan Smiths. They were a collaboration with the tennis legend Stan Smith and it was originally his shoe that he wore playing tennis. After that shoe, the floodgates were open to me and I started getting Adidas casual sneakers regularly. I then went to the Adidas NMDs which had the amazing Boost technology. Before Boost technology, New Balances or Nike Roshes were the most comfortable running shoe. At the moment, the Adidas Ultra Boosts are

by far my favorite pair of shoes to wear. They are easily the most comfortable shoe I have ever worn in my entire life. There are also many different patterns to the Adidas Ultra Boost, so there is always a pair of shoes that someone will like.

The Trajectories of the Companies

When comparing the two companies, Nike and Adidas seem to have become the unanimous top two in shoes and retail apparel. However, the companies are on two different trajectories when it comes to their business. Nike has been seeing a decline in brand loyalty and for good reasons. It is the result of their technology in the shoes not improving unlike other brands such as Adidas. Also, the style of the shoes has remained stagnant and there has not been any new release that their customers are hyped about. I do not think Nike is a good investment at this time and would sell my shares in the company if I was previously invested.

Adidas has been on the exact opposite trajectory as Nike. I think Adidas is a great company to invest in at this time. There has been clear continual growth year over year the past 3 years and Adidas has grown in brand loyalty as well during this time. They are releasing new shoe models and new collaborations that have customers continually buying their shoes. A big indicator of how successful Adidas shoes have been compared to Nike is in their 3rd party reselling. Very sought after Adidas shoes are very common and can go for 100-200% retail price. This compared to Nike shoes that have few heavily sought after pairs and when they do release, they are only going for 50% more than retail. Adidas is vastly superior to Nike in the shoe tech

category as well. Adidas started with Ultra Boost Technology back in 2015 and has seen extensive growth in their running shoe sales. This has led them to invest in 3-D printing technology, which introduced the release of the Adidas 4D series of shoes. These are shoes that are made via 3-D printing technology and will lead to a future where everyone will be able to have a shoe that is made exactly for their foot. Nike has been investing in 3-D printing companies but has released nothing, and has no other additional technology to speak about or compare with Adidas.

The Profit Margin Ratio and the Rate of Return on Total Assets

Nike and Adidas are great stocks to compare if you are trying to invest in the shoe and retail apparel industry. To decide which stock is the better of the two to invest in, I looked at both financial reports and calculated ratios that would help make my decision. In order to see the profitability of the two companies, I calculated the Profit margin ratio and the Rate of return on total assets.

The profit margin ratio shows how hard Nike was hit by the US-China Trade war. Nike went from earning around 29 cents per dollar of inventory sold to 12 cents per dollar. Meanwhile, Adidas who was also affected by the trade war, still saw growth, going from 13 cents per dollar to 16 cents per dollar. Both companies have higher than average ratios compared to the industry average of 5 cents per dollar. This is mostly due to the two companies owning their supply chains so there isn't any extra cost that smaller companies in the industry face. Even though the two companies have similar

ratios in 2018, Adidas is on track to continue to grow whereas Nike is experiencing slow or flat growth. This is in part due to brand loyalty dwindling for Nike as other companies such as Adidas are stealing their market share with a better line of quality products available to their customers. I also calculated the Rate of return on total assets for the two companies. For Nike, I calculated that in 2018 they are receiving an 8.9% return on their assets. This is down from 19.40% in 2017. Adidas who in 2017 had a ROA (Return on Assets) of 9.88% and in 2018 showed growth again to have an 11.86% ROA. Compare those numbers to the industry average of 5.25% and you'll see that they are above average for their industry. Adidas, in particular, has such a high ROA because the company strategically hypes their new products and collabs with very influential people which nets a result that the shoe is almost always sold out when it is released. Their investments in their assets have been showing great growth. Calculating the two companies solvency ratios are next.

The Solvency Ratios

When comparing Nike and Adidas to see which stock is a better investment, I calculated the solvency ratios. The two ratios I went with are the debt ratio and the times-interest-earned ratio. When talking about the debt ratio, both companies are mid-level leveraged. Nike in 2018 had a 0.565 debt ratio and Adidas in 2018 had a 0.5926 debt ratio. Both companies are having to increase leverage as costs increase to continue showing growth. Although there isn't the highest amount of risk investing in them, it shows that the stocks have a higher chance to swing to a higher price or lower price. Nike is

in the trajectory of going to a lower price and Adidas is on the path of going to a higher price. Then I looked at the times-interest-earned ratio for Nike and Adidas. In 2018 Nike had a times-interest-earned ratio of 23.10. Adidas in 2018 had a ratio of 51.62. This compared to the industry average of 25.69. Nike took a big hit in their net income in 2018 which caused their ratio to go down severely. This won't look great to creditors and is not a good look for potential investors. Adidas, on the other hand, has more than doubled their times-interest-earned ratio from 22.71 to 51.62 in 2017 and 2018. This is a great ratio to see from Adidas when looking to invest in the company because this means that they will be able to get larger loans to fund more expansion of the company.

Liquidity

Liquidity is an important factor when comparing two stocks such as Nike and Adidas. I calculated the current ratio and cash ratio to determine which stock is better to invest. The current ratio for Nike was 2.5 in 2018 and 2.94 in 2017. For Adidas, the current ratio was 1.4 in 2017 and 1.33 in 2018. The industry average current ratio was 1.6, which means that Nike has an above-average ratio while Adidas has a slightly below average ratio. This is the one ratio that I calculate where Adidas was lower than Nike. Nike can pay off all its current liabilities over 2 times, showing that it doesn't have a debt burden. In 2018, the cash ratio for Nike was 0.70 and in 2017 it was 0.69. For Adidas, the cash ratio was 0.42 and 0.28 in 2018 and 2017. The industry average is 0.50. Both companies have more liabilities than cash reserves meaning that if all their liabilities needed to be paid right now, they

would have to sell off other fixed assets. This is a result of investing all their cash instead of holding it in reserves in the effort for greater expansion of their companies.

The Market Prospects

The market prospects for Nike and Adidas are important to see when looking at investing in the industry. The investor will want to know how much the stock has made investors per share in the past with the earnings per share ratio, and how much dividends are dispersed each year per share. Price-earnings ratio also helps investors see how much a stock is worth and allows them to make a more educated decision on which stock to put money into.

Nike and Adidas are both stocks that have their value mainly in stock appreciation rather than dividends. Nike investors earn 1.21% per share in 2018 and 1.43% in 2017. Adidas' dividend yield was 1.34% in 2018 and 1.18% in 2017. The industry dividend yield is 1.42 so it can be concluded that the shoe and retail apparel industry is primarily a stock appreciation industry and not one that relies on dividends in order to attract investors. The dividend payout ratio for Nike was 215% for 2018 and 41.3% in 2017.

Adidas had a dividend payout ratio of 56% in 2018 and 52%. The industry average for dividend payout ratio was 35.93. Besides Nike's outlier year in 2018, most shoe and retail apparel companies are not dividend stocks. The price-earnings ratio for Nike in 2018 was 177.46 and 28.79 in 2017. For Adidas, the price-earnings ratio was 41.87 in 2018 and 44.35 in 2017. The industry average for the price-earnings ratio was 40.43. Nike has a severe outlier year in 2018 where the ratio says it will have extensive future growth,

but analysts and other ratios show the exact opposite. Adidas is growing at a steady rate and the price-earnings ratio shows exactly that.

The Common-Size Income Statement

The Common-Size Income Statement shows that the two companies are relatively the same. The main difference that I noticed first is that Nike pays double what Adidas pays in Taxes. This lowers their overall net income. I also notice that although Adidas has higher total operating expenses, they are still able to make a higher profit than Nike which shows just how much more they are selling. When comparing the two stock market prices I see Nike at \$72.76 and Adidas at \$112.64. These two prices don't affect my decision in deciding which stock to invest in since they aren't dividend stocks.

Conclusion

After going over the ratios and comparing the two companies, I would invest in Adidas stock. The company is showing great steady growth year to year and outshines Nike in almost every category. Adidas is also a smaller company with more room to grow before they hit a ceiling like Nike has. Nike has continually disappointed its customers and has not improved its shoe technology, nor have they released new product models that have had widespread adoption. Adidas with their Boost technology and 4D shoe models that are made from 3D printing continue to push the boundaries and deliver what customers want. All of this paired with strong financial records confirms that Adidas is the choice of stock.