



## (NIKE) 3Q16 RESULTS: MISSES ON REVENUE, BEATS ON EPS, ORDERS UP 12%

- NIKE reported fiscal 3Q16 revenues of \$8.0 billion, up 7.7% year over year and up 14% on a currency-neutral basis but below the \$8.2 billion consensus estimate. EPS was \$0.55, beating the consensus estimate by \$0.06.
- Revenues for the NIKE Brand were \$7.6 billion, up 9.1% and up 15% on a currency-neutral basis, up in all geographies and key categories. Revenues for Converse were \$489 million, down 5% on a currency-neutral basis, owing to a new order system that pulled orders scheduled for 4Q15 back into 3Q15.
- At the end of the quarter, futures orders for delivery during March–July 2016 were up 12% year over year and 17% higher excluding currency changes.

Figure 1. Nike Key Metrics

|                      | 3Q16   | 3Q15   | YoY Change |
|----------------------|--------|--------|------------|
| Net Sales (USD Bil.) | \$8.0  | \$7.5  | 7.7%       |
| Gross Margin         | 45.9%  | 45.9%  | 0 b.p.     |
| SG&A/Sales           | 31.9%  | 31.9%  | 6 b.p.     |
| Operating Margin     | 14.0%  | 14.0%  | (5) b.p.   |
| EPS                  | \$0.55 | \$0.45 | 22.2%      |

Source: Company reports

Within the NIKE brand, sales of footwear were \$5.1 billion, up 11.1% year over year. Sales of apparel were \$2.1 billion, up 8.4%. Sales of equipment were \$352 million, down 7.6%. Sales from the Global Brand Divisions were \$17 million, down 41.4%.

On a geographic basis, sales in North America were \$3.7 billion, up 13.2% year over year. Sales in Western Europe were \$1.4 billion, up 2.1%. Sales in Greater China were \$982 million, up 22.6%. Sales in emerging markets were \$879 million, down 8.0%. Sales in Japan were \$205 million, up 23.5%. Sales in Central and Eastern Europe were \$359 million, up 11.8%.

Income before taxes was \$1.1 billion, up 8.5% year over year. The effective tax rate declined to 16.3% in fiscal 3Q16 from 24.4% in the year-ago quarter, due to an increase in the proportion of earnings from lower-tax regions, in addition to several tax credits and adjustments, some of which were retroactive. The share count decreased 1.7% year over year.

Inventories were \$4.6 billion, up 8.1% year over year, driven by a 4% percent increase in NIKE Brand inventories, growth in the direct-to-consumer business and increases in average cost per unit, partially offset by changes in the value of inventories due to exchange rates.

**OUTLOOK**

As of the end of the quarter, future orders for delivery during March–July 2016 were up 12% year over year and up 17% excluding currency changes.

Consensus estimates for fiscal 4Q16 are for revenues of \$8.5 billion, up 9.0% year over year, and EPS of \$0.55, compared to \$0.49 in the year-ago quarter.

Consensus estimates for FY2016 are for revenues of \$32.8 billion, up 7.3%, and EPS of \$2.15, compared to \$2.06 in FY2015.

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