The Sport Industry Study with the Example of Nike and Anta

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Abstract. Nike was the giant conglomerate in the sport industry. With the transformation of the trading commerce and the businesses, the corporation not only face the continually competitions from Adidas and Puma, but also is under the pressures from the new-emerging companies. Anta is one of the new emerging companies built up in China. Anta was the original equipment manufacturer (OEM) from China Fujian family business and now becomes the listed company with HK.02020 in Hongkong exchange. The paper would analyze both companies combining the industrial analysis to compare the two companies. China's market is too huge to ignore, in Anta's decision to establish the independent brand and enter Chinese market, it has been lasting for three decades. The paper collected the data and information first and compare the financial performance of both companies. In addition, the paper also focuses on the sustainability and innovation of both companies. From the comparison, the paper finds that Anta's stability, growth, and development have excelled than Nike. Anta aims not only to convey success stories but also to provide affordable but advanced sport wearing products to the customers.

Keywords: Sportswear industry; Profitability; Liquidity; Solvency; Sustainability.

1. Introduction

1.1 Introduction

According to Statistic's data, China sportwear market demand in 2022 could reach to USD 325.57billion and the consumer spending in China of 2020 was about USD 563.83billion, which was about 55% higher than the spending in United States [1]. In 2021, Anta's online sales relying on the development of Chinese E-commerce platform, has beaten Nike and Adidas [2]. Moreover, Anta first half year of 2022 has reached revenue of CNY 26billion, which is approximately of USD 3.8million exceeded Nike's revenue of USD 3.7miion in China. The breaking news had pushed Anta's share price higher about 8.2% [3]. Anta has attracted the attention from the global investors.

Nike and Anta are both listed companies and have been the key companies in the sportwear industry. Nike has a long history from 1964 and is the master of the supply chain. Compared to Nike, Anta is relatively young. However, Anta's development and innovation support Anta to grow rapidly. Anta Group is also full of ambitious and focuses on the digital improvement in next 24 months [4]. The paper will analyze both companies' current performance from different perspectives and reach the conclusion regarding to the excellent performance of Anta.

1.2 Related research

Covid-19 seriously influenced the economy during last two years. Nike's revenue was USD 37.403billion with only USD 2.539billion profits. McKinsey's industrial analysis shows that the sport goods industry suffered significant losses during the Covid-19. It pointes that the overall market was recession due to less outdoor activities and demands. However, during Covid-19, although China adopts the stricter home quarantine policies, Chinese market still outperforms others and shows the bigger potentials. Compared to the other segments in the appearance industry, the sportswear companies show more resilient the outperforms. Although the outdoor activities have been reduced, people still focus on the indoor activities, such as running, yoga, and Pilates. McKinsey's industrial analysis shows that the future of the sport wear industry will focus on three perspectives: consumer shifts, digital leap, and industry disruption [5]. The Covid-19 not only brings material risks to the retailing industry, but also shift people's lifestyle. This is the key to prompt the sport goods. The second is the digital leap that means to fully use the e-commerce and the digital movements, including the influencer and fitness community. Chen and Xu also dig in the digital movements for the sport industry. They believe that the deep learning with big data would help people to form the exercise habits and cultivate the patterns to purchase the sports products and sportswear. The third part is industry disruption. McKinsey's research believes that the pressures on the physical stores had already heavy before the Covid-19. The e-commerce has already shocked the physical business. Long's article corresponds to the conclusion. The new innovation and new Tech will be the core competition edge for the sportswear businesses [6]. Fortunately, as the changes due to the circumstance and the changes of lifestyle, the overall demands of sportswear are increasing. According to the research of Global Industry Analysts, Inc., the overall demands for Sports & Fitness Clothing in worldwide will be USD 221.3 billion by 2026 [7]. Compared to the 2022 revenue of Nike, which is only USD 47 billion, there are still many opportunities in the market.

Besides the digital development and the innovation. The traditional supply chain would be very critical for the sportswear. The big sport ceremony and events could enhance the branding for sportswear companies. With the host of Olympic Games, the World Cup, and other sport events, people pay attention to the brands of those sports goods and sportswear [8]. Nike and Adidas both own famous brands and set up their factories in China and southern Asia, such as Vietnam. The branding reputation has strong relationship with those original equipment manufacturer (OEM) factories. On the one hand, the rising prices of raw materials influence the manufacturers in China. Besides, the global labor costs have increased due to the equity in the employees' payment. China was the main country in South Asia to supply the global footwear businesses. The increasing China's labor costs also seriously influences the manufacturers and supply chain of the sportswear businesses [9]. On the other hand, Covid-19 and the trading war broke the original supply chains. The serious virus and the unfair tariff would influence the overall export in Asia. Moreover, the manufacturing process cannot maintain under the Covid-19 circumstance in South Asia. Nike and Adidas have adopted the oversea manufacturing model for years, the closure of factories in southern Asia would devastate the supply chain of those famous brands [10].

The third factor in the sportswear industry is the competition. Nike had the competitors of Adidas, Under Armour, and Puma for years. Those three brands' focus on the Chinese market and correspondingly, the Chinese market has seriously influenced the operations of those brands. According to CNN business, Nike, Under Armour, and Adidas suffered losses due to the shrinkage of Chinese market. The losses further influence the investment of Wall Street and the confidence of investors [11] The demands of the Chinese market undoubtfully evoke fiercer competitions. The raising prices of the sports products manufacturing in China would find the other method to fight for the market. The local brands in China become stronger. Anta and Lining are the Chinese domestic brands and aim at the Chinese market. Nike felt the pressures during last several years. The competition edges of those companies as they have cheaper prices and cultural design for their products [12].

1.3 Objective

This paper focuses on the rapid growth of Anta. Its excellent performance would be a strong competitor to Nike. The paper would focus on the financial and non-financial measurements to evaluate both companies and compare the companies' performance. The paper would prove that although Anta starts relatively late. However, the brand fully understands Chinese market and know the potentials of the consumption power. Anta would be a rising star beaten Nike from various perspectives.

2. Method and Data

2.1 Method

This paper adopts the method of fundamental analysis to evaluate the investment value related to Nike and Anta. The method in this paper includes the financial ratio analysis. The growth rate is using the current year dividing the previous year. Gross profit percentage is gross profits dividing the revenue. The net profit percentage uses net profits dividing the revenue. The current ratio uses the current assets dividing current liabilities. The quick ratio uses the quick assets dividing current liabilities. The interest coverage ratio is EBIT dividing Interest Expense. The debt to assets ratio is borrowings dividing assets and the equity ratio is equities dividing assets.

2.2 Profitability

The profits are the other direct returns to the investors besides the dividends. The losses would result in the panic within the investors and the drops in the stock prices. Therefore, a sportswear company should prove its profitability with growing revenues, relatively high return rates, and the high turnover rates.

2.3 Liquidity

The liquidity reflects the going concern and the healthy level of the cash flows. The ratios related to the liquidity will be calculated and analyzed. In addition, the dividend trends will be analyzed. The dividend index is one of the most important returns to the investors. The cash dividends are the direct cash distributions to the investors. Therefore, the regular and stable cash dividends would enhance the confidence of investors and would benefit the stock prices. Moreover, as the innovation and new technologies are critical to the companies, the company with sufficient cash flows to invest in Research and Development would have greater potentials in the competition.

2.4 Solvency

The liquidity represents the shot-term cash flow situation. However, the companies may need to invest in the heavy assets, long-term development programs, and the branding and trademarks investment. The solvency ratios would reflect the long-term operation abilities. With healthy solvency ability, companies could maintain smooth operations and achieve advanced technology to maintain the competition edges.

2.5 Sustainability

Besides the three financial factors, this report will compare the sustainability to process the investment analysis. On the one hand, the corporation should maintain the strong sustainable leadership to keep the sustainability as the standard and policy within the corporation. The sustainable leadership would influence the daily operation and corporation culture [13]. Moreover, the clothing industry would impact the environment and the governance. Nike was accused to use the “sweatshop labour” for decade [14]. The transformation to get rid of the “capitalist” will be costly. As the introduction of supply chain in the sportswear industry, to maintain the sustainable outsourcing in the supply chain is very critical for the sportswear companies. The facilities and the system should be established and maintained sustainably. Moreover, the resources and materials should be sustainable and reused. The project should be the core for the development for those companies [15]. From this point, the sustainable reports of the companies will be review and the sustainable measurements will be evaluated.

Regarding to the sustainability of both countries, the paper compares the sustainability of Nike and Anta from the supply Chain perspective.

Table 1. Supply Chain analysis of Nike & Anta.

Supply chain	Nike	Anta
1. Model	Oversea OEM model	Domestic OEM model and self-owned factories
2. Management	Indirect model, the owners of factories organize and manage labors directly. Nike would not involve in the management	most of suppliers of Anta is from mainland, China. Anta could involve in the management of its suppliers with the equal standards of its self-owned factories
3. Materials	Directly place the order with quality requirements, but without daily supervision	direct quality control or spot check

3. Results and Discussion

Nike's Year end is May 31 and Anta's Year End is December 31. Although there are four months difference, the fiscal years for both companies last 12 months. The comparison will compare Nike's 2021 and 2022 results and Anta's 2020 and 2021 results, respectively. The comparison focuses on three measurements, the liquidity, solvency, and profitability.

3.1 Profitability

At first, the profitability analysis would review the growth of each company. As shown in Table 1, the slope shows the increase growth of each company. Nike's growth was relatively flat while Anta has achieved improvements. The Gross Profit% of Nike has improved 1.2pts and Anta's Gross Profit% has improved 3.5pts. moreover, Net Income% of Nike has increased only 0.1pts while Anta has improved 1pts. It could conclude that Anta has achieved rapid growth in 2021.

Table 2. Profit analysis of Nike & Anta.

	Nike			Anta		
in USD Million	2022	2021	Growth	2021	2020	Growth
Revenue	46,710	44,538	5%	7,760	5,587	39%
Gross Profit	21,479	19,962	8%	4,783	3,249	47%
Gross Profit%	46%	45%	1.2pts	62%	58%	3.5pts
Net Income	6,046	5,727	6%	1,293	876	48%
Net Income%	13%	13%	0.1pts	3%	2%	0.2pts

3.2 Liquidity

The liquidity ratios of both companies are relatively healthy. From below table, both companies' current ratios are higher than 2. That means their current assets are double to their current liabilities. The liquidity is quick loose. By selecting the quick assets, which are cash and cash equivalents, short-term investments, and accounts receivable, both companies' quick ratios are still higher than 1. However, the comparison on year-on-year basis (YoY) shows that both companies' liquidity has been decreased. Anta's current ratio decreased 10% and the quick ratio decrease 14%. However, from the management of capitals, the trend shows positive signals. That represents that both companies could improve the efficiency of the cashes on accounts. More importantly, Anta even has the "fixed deposits held at banks with maturity over three months". The relatively high liquidity ratio may mean that the companies have excess cash balance.

Table 3. Liquidity analysis of Nike & Anta.

in USD Million	Nike		Anta	
Current Ratio	2022	2021	2022	2021
Total current assets	28,213	26,291	6,277	5,147
Total current liabilities	10,730	9,674	2,508	1,843
Current Ratio	2.63	2.72	2.50	2.79
Quick Ratio	2022	2021	2022	2021
Quick Assets	17664	17939	4,505	3,830
Total current liabilities	10,730	9,674	2,508	1,843
Quick Ratio	1.65	1.85	1.80	2.08

3.3 Solvency

There are three ratios have been calculated to view the situations of both companies: Interest Coverage Ratio, Debt-to-Assets Ratio (D/A), and Equity Ratio as Table 4. Nike's interest coverage ratio has improved. The company's net interest expenses have decreased 22% while the EBIT slightly decreased about 0.97%. Anta's net interest turned to the income. Anta doesn't have the pressures to cover the interests' expenses. The D/A ratio evaluates whether the company has issued too much debts to acquire the assets. Both companies' D/A ratios were approximate 22%. In addition, the ratio has decreased for Nike and Anta of -1.6pts and -6.8pts respectively. The decrease in the D/A ratio of Anta also reflects from the positive net interests' incomes. The last ratio is the Equity ratio. The Equity represents the capitals and ownership of shareholders. The higher equity ratios would be better as the retained earnings are the key part of equity. Nike's equity ratios have increased about 4.1pts while Anta's ratios have decreased about -0.1pts. however, Anta's total assets have increased about 21%. The increases in assets influenced the Equity ratio. Therefore, both companies' solvency ratios are healthy.

Table 4. Solvency analysis of Nike & Anta.

in USD Million	Nike		Anta	
Interest Coverage Ratio	2022	2021	2021	2020
Income before income taxes	6,651	6,661	11,240	8,089
Interest expense (income), net	205	262	-332	462
EBIT	6,856	6,923	10,908	8,551
Interest Coverage Ratio	33.4439	26.42366	Nil	18.51
Debt-to-Assets Ratio	2022	2021	2021	2020
Borrowing	9,420	9,413	13,173	14,424
Total Assets	40,321	37,740	62,668	51,867
Debt-to-Assets Ratio	23%	25%	21%	28%
Equity Ratio	2022	2021	2021	2020
Total Equity	15,281	12,767	28,923	24,013
Total Assets	40,321	37,740	62,668	51,867
Debt-to-Assets Ratio	38%	34%	46%	46%

4. Conclusion

This paper has found that both companies have achieved excellent consequences for the last fiscal year. Both companies have maintained solid and safe liquidity and solvency. Moreover, the profitability of both companies is strong and growing. However, the paper finds that Anta as a relatively young company has faster growth than Nike from the revenue and profits perspectives. Moreover, its leverage is relatively lower than Nike. That means that it has less financial burden related to the defaults risk. The low default risk and high profitability would leave Anta more reverse for reinvestment in the future. therefore, it may create higher value for the investors in the futures. In brief, both companies are the good investment targets. However, considering the Chinese Sportwear market and the development of the domestic brand, Anta would be a stronger target at this moment for the public investors.

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