Using the dividend payments and annual report of Nike to analysis the overall situation of Nike since the beginning of Covid-19

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Abstract. During the pandemic period basically all of the offline store has shut down, causing companies lose profit. Nike is one of the companies that got influenced. The following essay will be analyzing how did Nike operate under pandemic. Did they make a loss or a gain. The following article will explain this question by looking at DDM, and the annual report. A SWOT analysis will be used to help to explain Nike's performance. After analyzing Nike's performance by looking at annual report and dividend payment we conclude that Nike has a relatively well performance during pandemic.

Keywords: Dividend Payment, Stock Rights, The Dividend Discount Model, E-commerce

1. Introduction

US sportswear giant Nike has posted its first quarterly loss in two years, hit by the double whammy of the coronavirus pandemic and campaign to combat it across the US. The aim of this essay is to seek Nike's operation situation under Covid-19. During the pandemic period basically all of the offline store has shut down, causing companies lose profit. Nike is one of the companies that got influenced. This research uses the Annual Report and Dividend Payments of Nike to analyze the general performance of Nike, a large-scale entity company, in COVID-19. It also analyzes the operational difficulties and choices of real companies in COVID-19 to reduce the impact of similar situations in the future, reduce cost consumption and improve risk tolerance of real companies.

1.1 Dividend Payment

Dividend payment is to pay dividends to shareholders. The company's dividend payment must comply with relevant requirements and be carried out according to the schedule. Under normal circumstances, the board of directors first put forward the distribution plan, and then submitted to the shareholders' meeting resolution for approval before the distribution. After the resolution of the shareholders' general meeting passes the distribution plan, the plan of dividend payment shall be announced to the shareholders, and the date of equity registration, ex-dividend date and dividend payment date shall be determined.

1.1.1 Forms

(1) Cash

A cash dividend is the most popular form of dividend payment. In addition to enough retained earnings, companies should also have enough cash to pay cash dividends, and often become the main constraint factor for companies to pay this.

(2) Property

Property dividend is a dividend paid on assets, mainly on securities, such as bonds, stocks, etc., paid to shareholders as dividends

(3) Debt

A liability dividend is a dividend paid on a liability basis, usually in the form of a company's notes payable to shareholders, and sometimes in the form of corporate bonds.

(4) Stock rights

It is the dividend paid by issuing additional stock, which is also commonly called "red stock" in Chinese practice. For the firms, stock dividend does not leave the company, nor will it lead to the reduction of the company's property. However, stock rights rises the number of shares and reduce the value of each share [1].

1.2 Dividend Discount Model

Dividend discount model is such a model used for quantifying the prediction of price of stock of a firm, which is depended on the current fair price of a stock that equals the sum of all the company's future dividends back to their value on present day. If the obtained value from the dividend discount model is higher than the trading price, then the stock loses it's value and qualifies for a buy, and vice versa. The dividend discount model was based on the intrinsic value, which reflects the present value of all future cash flows that are generated by securities. The intrinsic value of the enterprise is the present value of the expected future cash flow, all in accordance with the appropriate discount rate discount. Unlike view comparable relative valuations of companies, intrinsic valuation only focus on the inherent value of enterprise itself. Accurately predicting all variables is almost impossible. Thus, in many cases, the theoretical fair share price is far from realistic. Dividends, meanwhile, are essentially positive cash flows. However, the model relies on several assumptions that are not easy to predict [2].

1.2.1 Formula

(1) Gordon Growth Model

The Gordon Growth Model (GGM)is one of the most common variants. The model is named by American economist Myron J. Gordon, who came up with this variant. GGM according to the constant growth rate of potential dividends to help investors evaluate the stock's intrinsic value [3]. GGM relies on the assumption that the future dividend stream will be a constant speed in infinite time growth. The model helps the value of stable firms with stronger cash flows can be entered and steady dividend growth. It generally assumes that the evaluated firm has a constant and stable business model and that firm's growth rate remains constant over time. Company growing at a constant rate hypothesis is a main problem of the Gordon Growth Model. In fact, the company is unlikely to increase dividends at a constant speed [4].

(2) One-Period Dividend Discount Model

Compared with the Gordon Growth Model, the use of single phase of the dividend discount model frequency is much lower. When investors want to make sure he or she will be in a period of time sold within the internal price of the stock, will be applicable to the former. It generally represents that the investor is prepared to hold the stock for only one year [5].

(3) Multi-Period Dividend Discount Model

The multi-period stock discount model is an extension of the single-period stock discount model, where investors want to hold stocks for multiple periods [6]. The main challenge with changes in multi-period models is the need to forecast dividend payments over different periods. In a multi-period DDM, the investor wants to hold the stock that he or she buys for multiple periods. Therefore, the expected future cash flow will include the payment of a substantial dividend, as well as the estimated selling price of the stock at the end of the holding period.

2. Analysis

By looking at the annual overall revenue of Nike in 2020 which is 37.403 billion and comparing it with the overall income in 2019 which is $39.122 billion [7]. We can see that there are around 4% decline in revenue, no doubt this is because of the pandemic. On the report of quarter 4 financial year Nike's operating revenue reached $6.313 billion, lower than the expected $7.38 billion, down 38.14%

year-on-year, and its quarterly net loss was $790 million. Nike responded that a decline in financial performances is due to large number of offline shops closed and the product shipments of wholesale customers decreased by 50% [8].

We looked at Nike's dividend payment of 1.5 billion yuan in 2020, In 2022, when the pandemic was relatively slow, the dividend payment was 1.7 billion yuan, which is almost 10 percent less than the 2022 dividend payment [9]. And Dividend Payments are a big part of a company's earnings. Therefore, under the condition of unchanged dividend payout ratio, this set of data shows the operating difficulties of Nike company in the severe epidemic period. This means that companies like Nike that work in the real economy will struggle to make money or even lose money. In the midst of the pandemic, companies have to maintain production even as logistics struggle to operate, leading to further expansion of spending. In the face of reduced earnings and increased spending, companies will reduce spending in some ways, such as layoffs [10]. This has led to high unemployment in China. Less and less money is flowing in the market, leading to great financial pressure on the world's enterprises. The global financial markets took a big hit.

Nike's stock price has risen sharply in the past 12 months, soaring from $140 at the beginning of 2021 to $173.85 on August 5. November 5th set a record of $177.51 in 2021.The sharp rise in Nike's stock price began in June after Nike released a very strong financial report on June 14, with earnings per share 82.7% higher than analysts expected. By mid-September, Nike’s share price fell sharply from the peak from the beginning of the year to the present, but then on September 23rd, Nike’s earnings exceeded expectations again (albeit modest), which prompted its stock price to reach the 2021 high at the close of trading. Since the beginning of this year, the company's stock price has fallen by 11.8%. In many ways, Nike is unique, so it is difficult to compare with the same industry. Although the stock price is expensive, the price-earnings ratio is far below the high in recent years.

Looking to the future, Nike is paying more and more attention to the value of its design attributes rather than the practical footwear business. The general rating of Wall Street analysts is bullish, with a 12-month target stock price 25% higher than the current stock price. The option market is slightly optimistic about the medium-term outlook for 2022, but it is slightly bearish throughout the year, with an expected volatility of about 32%.

Strengths:

Technology. Nike took advantage of E-commerce. China is a place with very developed E-commerce system. In 2020 where there is severe pandemic, basically all of the people in China turned their shopping online. “In the end of December 2020, the number of online shopping users in China had reached 780 million. In China 99.77% of the people that uses mobile phones, enjoys the benefit of online shopping. [https://www.huaon.com/channel/trend/689421.html] Which expanded Nike’s customer in no time, leading to sales even increased instead of decreasing. In 3 months, Greater China contributed $1.7 billion in revenue and $700 million in profit.

Weaknesses:

Factories. In order to seek lower production costs, Nike has set up most of its factories mainly out of US. Most of Nike’s factories are set in Asian, especially China and Vietnam. OEM of Nike might treat workers unethically or labor unfriendly situations might happen leading to the image of Nike being damage. In order to prevent this Nike has to consult with the OEM to set certain policies or identical with Nike’s own factory. Over depending on the US market: 39% of the revenue is accounted by the US market, this is a sign of over dependence. 14.6 billion of the revenue are generated in the US. Nike should diversify markets. This is also the reason why Nike made a huge loss, because there are more shops closed in US than any other countries of Nike’s market. Which will lead to a much more loss than other markets because Nike mainly operates in US.

Opportunities:

commerce in America. E-commerce in America Nike have the opportunity to cope with Amazon or E-bay to sell their products online. After all, the United States is Nike's main market. Nike can vigorously promote online shopping during the Covid-19 period. With the large amount of customer

loyalty and brand recognition in US, Nike could easily sell their latest products and reduce the loss caused by Covid-19.

Expanding in Greater China. Expanding in Greater China: According to statistics "Nike brand's Greater China revenue increased by 1% in the fourth quarter. The revenue from the Nike brand from North America, EMEA, and APLA fell by 46%, 44%, and 39%, respectively."(COVID-19 Drags Nike into a Loss in Q4, Stock Falls (marketrealist.com) Which shows that the only market that increases revenue under pandemic is Greater China. Nike's retail price in Greater China region is about 20%-30% expensive than retailers or wholesalers do. Chinese people will rather buy in a cheaper price from retailers or wholesalers, instead from Nike official shop. As a result, Nike could set different segments and provide different methods to different segments. Nike could use different material in Greater China, lowering the cost, lowering the price. Also, Nike should even push more towards direct customer sales.

Threats:

Fakeries. Nike has a large customer base, many of the good-looking Nike sneakers are limited edition. These limited editions are very hard to get and second handed sneakers are very expensive. Many fakeries producer is aiming at this point, producing identical fake sneaker to customers that didn't get the limited edition one. This has become a very big threat for Nike. The existence of fakeries will not only affect the brand image of Nike, but also eroded Nike's market, taking some of the customer away. Although some of the fakeries are easy to be identified but it still effects Nike's sales and revenues.

3. Conclusion

So, how can this article improve Nike's performance even better in 2019. Looking at SWOT analysis, Nike's weaknesses if factories. Nike should consult with OEM to ensure that different factories share the same polices, by doing this Nike has a greater chance to avoid worker ethical problem. Also, Nike is over depending on the US Market. Nike should put in more budget on Asian market which is making more profit under pandemic than the US market. In order to achieve this Nike can spend less money on advertisement because Nike already has a relatively high fame around the world. One opportunity which is also mentioned in the article is E-commerce in America Nike have the opportunity to cope with Amazon or E-bay to sell their products online. Last but not least, threats. Factories as mentioned, but factories are not only a disadvantage it also brings fame to Nike. Nike can use this chance to decrease some budget on advertising and spend more money on expanding new markets. Dividend payment ability is one of the important basis for judging a company's earnings ability. This paper investigated Nike's dividend payment status before and during COVID-19 in detail. It was found that Nike, as one of the representatives of the real economy, had a significant decline in dividend payment during COVID-19. From this data, it can be concluded that the real economy is facing great difficulties in business management and the choice of business policies in COVID-19. COVID-19 has caused economic losses to a large number of multinational companies, and Nike is one of the most severely damaged enterprises. This paper focuses on Nike's annual report, and through the traditional economic knowledge - dividend discount model, comprehensively analyzes Nike's situation from the aspects of annual income, stock market situation and foreign trade. By looking at Nike's stock market situation, calculating the expected stock market price with the dividend discount model and comparing it with the actual price, it was found that the actual price was more than half higher than the expected price. Although the price of the stock market is very expensive, the price earning ratio is much lower than in previous years.

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