

# Analysis of the Financial Statements of Nike and Adidas

<sup>1</sup>Sandra Kamupira, <sup>2</sup>Raymond Langson

Shanghai University

DOI: <https://doi.org/10.5281/zenodo.18108219>

Published Date: 31-December-2025

**Abstract:** Revenue generated by the global apparel market steadily increased over the course of the observed time period, up until 2020, when the corona virus (COVID-19) pandemic heavily impacted retail. In 2021, the revenue of this market was approximately 1.55 trillion U.S. dollars. According to the Consumer Market Outlook, this value will increase to almost 2 trillion U.S. dollars by 2026, and because it looks promising investors might be interested in investing in one of the big apparel companies.

The major purpose of our report is to conduct a financial analysis to determine whether Nike and Adidas are stable, solvent, liquid, and profitable enough to warrant a monetary investment. We will make suggestions for stock investors based on our comprehensive analysis, in which multiple methods are adopted to ensure the validity of the results. The main findings through our comparative and ratio analysis are presented in the tables below.

	MARKET ANALYSIS	ACCOUNTING ANALYSIS	PROFITABILITY ANALYSIS	RISK ANALYSIS	CASHFLOW ANALYSIS	INVESTMENT SELECTION
NIKE	1	0	1	1	1	0
ADIDAS	0	1	0	1	1	1

## 1. INTRODUCTION

Nike (NYSE: NKE) and Adidas (ETR: ADS) are the two most recognizable sports brands in the world. Their battle for supremacy has defined the modern era and looks set to continue for the next decade and more. While competitors such as Puma, Under Armor, and New Balance are well-established and growing, they have failed to break up this duopoly. From a financial perspective, Nike is much larger than Adidas but, in recent years, Adidas has accelerated its growth.

Making an investment choice between two similar companies is difficult for investors who are not familiarized with the characteristics of the Apparel industry, our aim is to help them make a reasonable investment choice between Nike and Adidas. In this report, we conducted a financial analysis to help investors to determine which apparel company is more worth investing in. Our analysis begins by examining Nike and Adidas’s footwear market analysis, followed by accounting policies, profitability, and liquidity analysis. We decided to answer the question “what stock should the investor buy and hold for the long term?”. In order to answer this question, an exhaustive comparative analysis is necessary. We analyzed the following aspects of both companies: Franchise strength, Total Revenues and growth rate, Margins and profitability, Assets and liabilities, Cash flow, Dividend, and Stock performance. Considering that stock performance is of utmost importance to investors, we compare the relevant key ratios in the last section.

The COVID-19 pandemic adversely affected many industries worldwide, and the apparel industry is one of them. With consumption at a standstill and stockpiles in warehouses, business objectives have shifted to liquidation tactics and inventory management while monitoring post-pandemic consumer behavior modifications. Moreover, formal wear and sportswear businesses took a hit as consumer behavior turned towards procuring essentials and avoiding discretionary spending due to higher unemployment rates and lower consumer needs. According to the McKinsey Global Fashion Index, sportswear sales fell by 40 % during 2020 and recovered to precovid level by mid-2021. This is why we choose to consider data from 2017 to 2021, a time before, during, and after Covid-19 to see how these two companies can perform under difficult circumstances and or how they recover after situations like Covid-19.

## 2. COMPANY PROFILE

### 2.1 NIKE

The world's largest athletic apparel company, Nike is best known for its footwear, apparel, and equipment. Founded in 1964 as Blue Ribbon Sports, the company became Nike in 1971 after the Greek goddess of victory. One of the most valuable brands among sports businesses, Nike employs over 76,000 people worldwide. It sells its apparel through the Nike brand, as well as its Jordan Brand and Converse subsidiaries. The company sponsors top athletes and sports teams around the world, including LeBron James, Serena Williams, Rafael Nadal, and Alex Morgan. In 2021 the company announced plans to begin refurbishing returned sneakers to sell at a lower price as part of an attempt to reduce consumer waste and combat climate change.

It operates through the following segments: North America, Europe, Middle East & Africa, Greater China, Asia Pacific & Latin America, Global Brand Divisions, Converse, and Corporate. North America, Europe, the Middle East & Africa, Greater China, and the Asia Pacific & Latin America segments refer to the design, development, marketing, and selling of athletic footwear, apparel, and equipment. The Global Brand Divisions represent its NIKE Brand licensing businesses. The Converse segment designs, markets, licenses, and sells casual sneakers, apparel, and accessories. The Corporate segment consists of allocated general and administrative expenses.

### 2.2 ADIDAS

Adidas AG (Adidas) designs, manufactures, and markets athletic and sports lifestyle products. The company's product portfolio includes footwear, apparel, and accessories such as bags, sunglasses, fitness equipment, and balls. The company distributes and sells products through own-branded stores, retail stores, wholesale stores, sporting goods chains, buying groups, department stores, lifestyle retail chains, retailers, and franchise stores. It also markets products through an e-commerce platform and mobile shopping apps. The company offers its products under the Adidas brand. It also undertakes various product franchises. The company's business operations span the Americas, Europe, Asia-Pacific, Africa, and the Middle East. Adidas is headquartered in Herzogenaurach, Germany.

Adidas is one of the most iconic sporting goods brands in the world. Its signature moniker, Adidas, is a household name.

On August 18, 1949, Dassler founded Adi Dassler Adidas Sportschuhfabrik in the small town of Herzogenaurach, Germany with just 47 employees. The signature three stripes decorated the soon-to-be-iconic shoe and within the next decade, Adidas shoes took off. In 1954, Adidas provided shoes with screw-in studs to the German national football team, leading them to win the 1954 World Cup final against Hungary. The shoe garnered global attention after that.

Today, the company is still headquartered in its hometown of Herzogenaurach, Germany, but it operates globally with over 62,000 employees. Adidas is an iconic brand alone, but in 2006, the company acquired fellow sports brand Reebok. The \$3.8 billion-dollar transaction bolstered the Adidas Group's dominance in the sportswear industry. Its success in the industry has not only come from strategic business moves like this but from the integrity and quality of its products.

## 3. MARKET ANALYSIS

The apparel industry comprises companies that operate by manufacturing, producing, and supplying apparel for various purposes. Consumer preferences and demand are the predominant drivers for the apparel industry, but manufacturing costs are also a factor. The profitability in this industry highly depends upon several factors such as the focus given to certain locations, the specialization of products, the efficiency of operations, and contracts with marketing professionals. As competition is steep, apparel companies often create alliances to present a stronger front. Successful advertising strategies, as well as a concentration in specialized markets, help in allowing apparel companies to generate increased revenue.

### 3.1 SWOT ANALYSIS NIKE

#### STRENGTH

Nike is a highly competitive company that sponsors top athletes and gains valuable coverage.

The company has a strong brand image. Nike is a global brand and is considered as number one brand in sports items. Nike is a very lean organization with no factories. It does not tie up cash in manufacturing workers. Rather it focuses on innovative

## International Journal of Novel Research in Interdisciplinary Studies

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

products through its strong R&D. Nike starts production of products when it is required and that too at the lowest possible cost. Therefore, if the prices of production increase and the company are able to produce it at low prices in some other area then it moves its production or manufacturing to that part.

### WEAKNESSES

The first and foremost weakness of the company is that it is highly dependent on the footwear market and does not have a diversified range of sports products that erode the market shares of the company.

Nike does not have its own retailers and retail is the most sensitive sector. This is decreasing the prices of Nike's products because retailers try to emphasize Nike's follow prices.

### OPPORTUNITIES

Nike considers it a sports brand and not meant for fashion purposes. But the development of the company's product can offer it many opportunities because consumers do not buy its products for sports. Nike has a very strong image and high-income groups like to purchase its product for the sake of prestige therefore Nike has the opportunity to make development in existing products like sports wears as well as to enter into new markets like jewelry and sunglasses. Nike should focus more on global expansion because even some emerging markets like China have richer consumers to spend lavishly on sports products.

### THREATS

The costs and profit margins of the company are unstable over the long run because of the company's exposure to international trade. This is a global issue that Nike being a multinational brand is facing and because of this, the company may be manufacturing and selling products at a loss. There is no sustainable competitive advantage in the industry because the market for sports apparel and shoes is highly competitive and competitors in any way want to take away Nike's market shares. The retail sector as we discussed above is highly competitive and people want to go for the best deal. Therefore, consumers make comparisons between prices before purchasing a product and this is another threat to Nike.

Market analysis of Adidas -Due to the presence of counterfeit products & the high bargaining power of customers it is very difficult for these players to sustain themselves in the market. Although the offerings are meant for sports persons but a major chunk of its buyers are normal people professionals, and young children who don't mind switching to other brands due to the changing competitive positioning worked upon by the players. The industry is growing due to changing lifestyle economics of the population & migration from Rural to urban areas but at the same time, demand-supply mismatch & idle inventory is resulting in shrinking margins of the players in this industry. Customer analysis in the Marketing strategy of Adidas-Adidas customers consists of upper & Upper-middle class social groups. To be successful across consumer segments, Adidas acknowledged that a strategy of mass production or mass marketing is no longer sufficient. Only by identifying and understanding consumers' motivations and goals for doing sport, their lifestyle, their fitness level, where they are doing sport and their buying habits will help them in creating meaningful products, services, and experiences that build a lasting impression and brand loyalty.

## 3.2 SWOT ANALYSIS OF ADIDAS

### STRENGTHS

#### POWERFUL BRAND

One of Adidas' biggest strengths is, without a doubt, its powerful brand. Alongside Nike and several others, Adidas is one of the premium sportswear brands recognized in every corner of the globe. Not only does the brand have widespread awareness, but it also has a positive brand image. Adidas products are associated with being fashionable and relatively high quality. All in all, Adidas' powerful brand is a key part of how it manages to capture such a large fraction of luxury sportswear sales.

#### DISTRIBUTION NETWORK

Aside from its excellent brand image, Adidas also has a well-developed distribution network. On a logistical level, the Adidas distribution network ships millions of goods across the globe in reasonable time frames. When products are ready

## International Journal of Novel Research in Interdisciplinary Studies

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

for retail, customers have plenty of choices in how and where they can purchase them. Adidas sells its products in brick-and-mortar stores across the world — some of them Adidas-branded stores and others in larger-scale sportswear retailers. Aside from physical sales, Adidas also has an established e Commerce presence. Products are available to purchase in thousands of internet stores, including Amazon and Adidas own.

### WEAKNESSES

#### OUTSOURCED MANUFACTURING

Adidas outsources the production of its products to Far Eastern manufacturers. While this strategy does allow the brand to cut costs, it's one of its major weaknesses. By outsourcing manufacturing processes to third-party suppliers working overseas, Adidas loses some control over how its products are made. This makes it extremely difficult for Adidas to ensure all of its products meet the same rigorous quality standards. Furthermore, by outsourcing the manufacture of its products, Adidas is put at the mercy of third-party suppliers. If the suppliers are, for example, unhappy with compensation, they can simply stop working. This can quickly cause issues for a company as big as Adidas.

### OPPORTUNITIES

#### GROWING INDUSTRY

The primary opportunity for Adidas may well be the growing sportswear industry. Health and fitness are hotter than ever, and there's no sign they'll be slowing down any time soon. This means there will be a consistent increase in the number of people practicing sports and thus needing appropriate sportswear. This is not an opportunity unique to Adidas, however. Other sportswear brands will be exposed to the same, growing industry, and it's up to Adidas to think of clever ways to outpace them.

### THREATS

#### COMPETITION

As with any company, the threat of competition is always present. Adidas is known for its fierce rivalry with Nike, and they really can't drop their guard in that battle. As it stands, consumers choose between Adidas and Nike on the basis of personal preference, since there's no major difference in the product lines or qualities. This is why it's incredibly important that Adidas continues to promote its brand image, hence the suggestion of celebrity endorsements discussed previously.

#### COUNTERFEIT PRODUCTS

The sportswear industry is ripe with counterfeit products. Given the hefty price tags of premium sports apparel brands such as Nike and Adidas, it should come as no surprise that many consumers want a cheaper alternative, but with the same powerful brand. Counterfeit products already exist for Adidas, but the company has done a good job of encouraging consumers to buy the real thing. However, if Adidas were to have a fallout with one of its overseas suppliers, the risk of a huge influx of counterfeit products is an extremely scary prospect.

### SUMMARY

Strategy is fundamental to the success and sustainability of any organization it helps the organizations to understand their core capabilities, identify and address weaknesses, mitigate risks and understand the trends going to impact their business and their industry, and how they are going to respond to them. It streamlines their business and ensures every dollar and minute they spend on the business is in the direction of their sustained success. Therefore, the success or failure of the organization depends on the strategies it follows. To survive in today's competitive business environment, it is a must to plan innovative and differentiation strategies.

Nike and Adidas's strategies helped them to survive and sustain their positions in the market. Both companies have quite similar strategies. Adidas always challenges the world market leader Nike in sports championships. Nike's strategies focus on design innovation and marketing, whereas Adidas's strategies focus on reducing production cost and time, expanding its market, enhance attractiveness in terms of sports shoes and equipment. Nike is the market leader in sports footwear and apparel.

#### 4. ACCOUNTING POLICY ANALYSIS

##### 4.1 ACCOUNTING ANALYSIS

###### 4.1.1 ACCOUNTING STANDARDS

An accounting standard is a common set of principles, standards, and procedures that define the basis of financial accounting policies and practices. This section's objective is to provide a brief comparison of the financial statements of Nike and Adidas, two of the biggest sportswear producers in the world. It should be emphasized that the most successful and well-known sports gear producers are without a doubt Adidas and Nike. The fact that Nike adheres to the Generally Accepted Accounting Principles (GAAP) accounting standards and practices established by the New York Stock Exchange is the cause of this divergence. Adidas, on the other hand, complies with the International Financial Reporting Standards because it is listed as a public company on the Frankfurt Stock Exchange (IFRS). While Adidas' fiscal year ends on December 31, Nike's fiscal year comes to a close on May 31.

###### 4.1.2 ACCOUNTING POLICIES:

When net operating loss carry forwards, similar tax losses, or tax credit carry forwards are present, an entity would settle any additional income taxes due at the reporting date as a result of the dis-allowance of a tax position in accordance with the accounting standards update released by the Financial Accounting Standards Board ("FASB") in July 2013. Nike adopted this guidance in June 2014, but so far it hasn't had a significant effect on the company's consolidated financial statements. The FASB released an accounting standard update in July 2012 that gives entities the option to conduct a qualitative assessment to determine whether additional impairment testing is required. This update is meant to streamline how entity tests indefinite-lived intangible assets other than goodwill for impairment. Both Nike's consolidated financial situation and operational results were unaffected by the adoption of this standard. .

###### 4.1.3 ACCOUNTING SYSTEM:

Nike produces shoes, clothing, accessories, and other items using a job-order costing approach, where each production run is treated as a separate job. When using task-order costing, you would allocate these costs to the goods after taking into account the actual materials and labor used on the job. After that, you would divide up the production costs, which don't include materials or labor, among each batch. Nike's numerous production lines make it likely that they are best equipped for the project. To better comprehend Nike's accounting system, we will now go through each line item in its account independently.

###### 4.1.3.1 REVENUE RECOGNITION:

NIKE records wholesale revenues when the title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title passes generally upon shipment or upon receipt by the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale. In

In some instances, they ship the product directly from the supplier to the customer and recognize revenue when the product is delivered to and accepted by the customer. As part of the revenue recognition policy, they record estimated sales returns, discounts, and miscellaneous claims from customers as reductions to revenues at the time revenues are recorded. Nike bases estimates on historical rates of product returns, discounts, and claims, specific identification of outstanding claims and outstanding returns not yet received from customers, and estimated returns, discounts, and claims expected but not yet finalized with our customers. Actual returns, discounts, and claims in any future period are inherently uncertain and thus may differ from estimates. If actual or expected future returns, discounts, and claims were significantly greater or lower than the reserves they had established, they would record a reduction or increase to net revenues in the period in which they made such determination. However, companies should pay attention to the levels and accuracy of their reserves in order not to influence their financial significantly. Higher reserves would decrease significantly reported revenues thus influencing income, which furthermore influences the tax base and level of tax expenditures.

ADIDAS revenue derived from the sale of goods is recognized when Adidas has satisfied the respective performance obligation by transferring the promised goods to the customer. The goods are transferred at the point in time when the customer obtains control of the respective goods. The timing of the transfer of control depends on the individual terms of

**International Journal of Novel Research in Interdisciplinary Studies**

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

the sales agreement (terms of delivery). The amount of recognizable revenue is measured at the fair value of the consideration received or receivable, net of returns, early payment discounts, and rebates.

**4.1.3.2 ACCOUNTS RECEIVABLE****NIKE**

They continuously estimate their capacity to collect accounts receivable and maintain a reserve for any losses brought on by customers' failure to make required payments. Nike bases its assessments of the creditworthiness of large customers on ongoing credit evaluations and takes prior levels of credit losses into account when setting the tolerance amount. Actual future losses from noncollectable accounts may differ from estimates since they cannot predict changes in customers' financial health in the future. A higher allowance might be needed if clients' financial situations deteriorated and they became unable to make payments. They would record a credit or a charge to Operating overhead expense in the period in which such a decision was made if they decide that a lesser or higher allowance is appropriate.

**ADIDAS**

Accounts receivable are recognized at the transaction price, which represents the amount of consideration to which the company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. Subsequently, these are measured at amortized cost.

**4.1.3.3 INVENTORY**

Based on predictions about future demand and market conditions, Nike also continuously develops estimations regarding the net realizable worth of its stocks. They record a reserve equal to the discrepancy between the cost of the inventory and the anticipated net realizable value if they believe that the net realizable value of the inventory is less than the cost of the inventory as it is recorded on the books. A charge to the cost of sales is made for this reserve. They would increase their reserve in the period in which they made this assessment and record a charge to the Cost of sales if changes in the market led to reductions in the anticipated net realizable value of their inventory below their previous estimate.

For Adidas, finished goods and merchandise are valued at the lower of cost or net realizable value, which is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Costs are determined using a standard valuation method, the 'average cost method'. Costs of finished goods include the cost of raw materials, direct labor, and the components of the manufacturing overheads which can be reasonably attributed to finished goods. The allocation of overheads is based on the planned average utilization. The net realizable value allowances are computed consistently throughout the company based on the age and expected future sales of the items on hand.

**4.1.3.4 FIXED ASSETS****NIKE**

Property, plant, and equipment, including buildings, equipment, and computer hardware and software are recorded at cost (including, in some cases, the cost of internal labor) and are depreciated over the estimated useful life. Changes in circumstances (such as technological advances or changes to business operations) can result in differences between the actual and estimated useful lives. In those cases where they determine that the useful life of a long-lived

**ADIDAS**

Property, plant, and equipment are measured at amortized cost. This comprises all costs directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by Management less any accumulated depreciation and accumulated impairment losses. Depreciation is recognized for those assets, except land and construction in progress, over the estimated useful life utilizing the 'straight-line method' and taking into account any potential residual value, except where the 'declining-balance method' is more appropriate in light of the actual utilization pattern. Parts of an item of property, plant, and equipment with a cost that is significant about the total cost of the item are depreciated separately.

## International Journal of Novel Research in Interdisciplinary Studies

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

### 4.2 GOODWILL

When events or circumstances arise that would, more likely than not, lower the fair value of a reporting unit or an intangible asset with an indefinite life below its carrying value, Nike performs annual impairment tests on goodwill and intangible assets with indefinite lives in the fourth quarter of each fiscal year.

For Adidas goodwill is an asset representing the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized. This results when the purchase cost exceeds the fair value of acquired identifiable assets, liabilities, and contingent liabilities. Goodwill arising from the acquisition of a foreign entity and any fair value adjustments to the carrying amounts of assets received, liabilities, and contingent liabilities are treated as assets, liabilities, and contingent liabilities of the respective reporting entity, and are translated at exchange rates prevailing at the date of the initial consolidation.

Goodwill is carried in the functional currency of the acquired foreign entity.

## 5. PROFITABILITY ANALYSIS

Profitability refers to the ability of an enterprise to make profits. If the firm does not have good profitability, the investors are not likely to continue to invest in it and withdraw the money, which will result in the enterprise being in a financial crisis. Through comparative analysis of these enterprises to weigh their profitability, a reasonable assessment of the enterprise's profitability could be made and corresponding measures and suggestions to the enterprise could be provided.

### 5.1 FRANCHISE STRENGTH

#### 5.1.0. NIKE: “JUST DO IT”

In addition to marketing hundreds of products under its name, the company owns a plethora of other well-known brands, including but not limited to Air Jordan, Air Force 1, Air Max, Nike Skateboarding, Nike CR7, Converse, and Hurley International. Nike is synonymous with elite athletics as they sponsor hundreds of high-profile athletes and sports teams around the world.

In sum: Nike's moat is constituted of its scale (over \$34 billion in annual sales), brand intangible asset (the company controls 50% of the American market and 19% of the Chinese market), key sponsorship, and pricing power (through premium innovation).

#### 5.1.1. ADIDAS: “IMPOSSIBLE IS NOTHING”

In addition to its namesake brand, the company also owns Reebok, 8.33% of the Bayern Munich football team, and Australian fitness technology company Runtastic. The company also operates its stores, supplies millions of merchants worldwide, and sponsors top athletes and sports teams.

In sum: Adidas' moat is constituted by its deep branded portfolio, intangible assets (long history of product innovation), and key sponsorship (Adidas recently pried James Harden away from Nike).

VERDICT: While Adidas has a long history of innovation, boasts a portfolio of popular brands, and has developed key sponsorships with some of the world's top athletes, Nike's economic moat is wider and the brand has more appeal. WINNER: NIKE.

### 5.2 REVENUES

Nike and Adidas are two of the largest footwear companies in the world. Effective marketing strategies and innovative products have helped these companies outperform the broader apparel industry over the last couple of years.

Despite being the undisputed market leader, Nike's yearly sales are still growing at an impressive rate:

2019 Total Revenue is \$39 billion, up 20.8% since 2016. Since 2016, Revenues are increasing without dipping. 2019 EBITDA is \$5.49 billion, up 6.3% since 2016. Since 2016, EBITDA is consistently above \$5 billion. Nike's EBITDA represents 14% of Revenues. 2019 Net Income is \$4 billion, up 7% since 2016. Since 2016, Net Income is consistently above \$3.7 billion but dipped below \$3 billion in 2018. Net Income represents 10% of Revenues.

Table 5.1

	TTM	5/31/2019	5/31/2018	5/31/2017	5/31/2016
TOTAL REVENUE	39,829,000	39,117,000	36,397,000	34,350,000	32,376,000
GROSS PROFIT	17,948,000	17,474,000	15,956,000	15,312,000	14,971,000
NET INCOME	4,304,000	4,029,000	1,933,000	4,240,000	3,760,000
EBITDA		5,492,000	5,219,000	5,465,000	5,164,000
		NIKE REVENUES			

Adidas's strong growth over recent years can be attributed at least partially to its increased marketing spending. Adidas has been more aggressive in marketing its products. As of 2018, Adidas' marketing expenditure stood at \$3.5 billion—representing roughly 14% of total revenues. On the other hand, Nike's marketing expenditure of \$3.8 billion was higher than that of Adidas but represented less than 10% of Nike's total revenues. This growth has been led by the apparel and footwear segment which has continued to achieve robust growth in the last couple of years by driving continued global trends such as increasing penetration of sportswear, rising sports participation rate, and increasing health awareness.

**VERDICT:** Nike is the larger company but Adidas is growing at a rapid pace. **WINNER: TIE.**

Table 5.2

	TTM	5/31/2019	5/31/2018	5/31/2017	5/31/2016
TOTAL REVENUE	22,498,000	23,640,000	21,915,000	21,218,000	19,291,000
GROSS PROFIT	11,873,000	12,293,000	11,363,000	10,703,000	9,379,000
NET INCOME	1,929,000	1,976,000	1,702,000	1,097,000	1,017,000
EBITDA		3,932,000	2,910,000	2,569,000	1,911,000
		ADIDAS REVENUES			

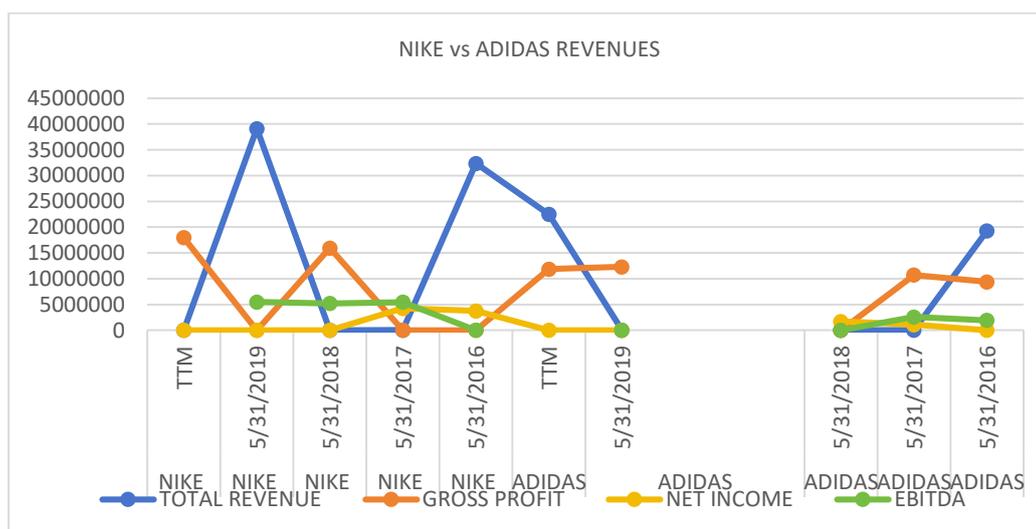
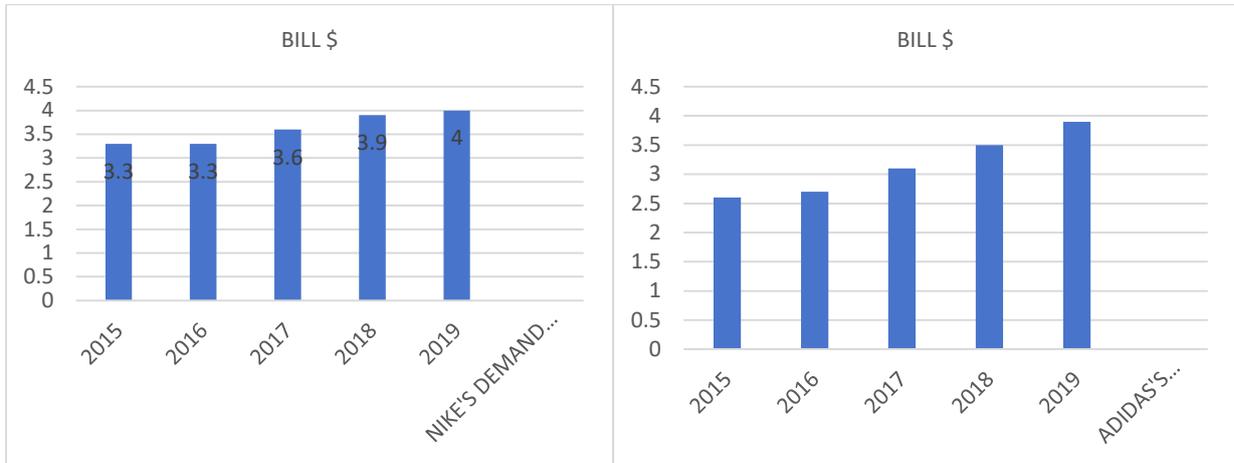


Figure 5.1

As shown in table 3.1, Nike's total revenue in 2019 of \$39,117,000 was much higher than that of Adidas with total revenue of \$23,640,000. As for the company's net income, Nike's net profit of \$4,029,000 exceeds Adidas's net profit of \$1,976,000. This extensive difference is due to Nike's efficiency and The American giant provides more value to investors than its German peer.

Table 5.3: Nike's Demand Creation Expense vs ADIDAS' Marketing Expense



Although Nike and Adidas have added roughly \$7 billion to the total since 2015, Adidas's growth has come at a 70% faster rate than Nike's. Adidas's growth has been led by its footwear segment which has continued to achieve double-digit growth driven by sales increases in sports-inspired and sport-performance products. However, both these apparel companies have continued to outperform the industry. Athletic footwear has continued to be a strong driver for these companies, led by higher demand for various casual and running styles.

Moreover, the global e-commerce business has been the fastest-growing business for the companies, with both of them achieving more than 35% growth in their digital business in 2018. Adidas footwear has added \$5.8 billion to total revenues since 2015, growing at an average annual rate of 17.6%. while Nike could only add \$4.3 billion at an average rate of 6.8%. Adidas has comfortably outpaced Nike's growth in the last couple of years, with Adidas' offerings such as Adidas Neo and Originals receiving positive customer response. Moreover, Adidas has been able to adapt itself better to the changing customer tastes and preferences. However, still there is a huge gap between Nike's footwear and Adidas' footwear revenues. As of 2018, Nike's footwear revenue of \$36 billion was roughly 60% more than that of Adidas' \$21.9 billion.

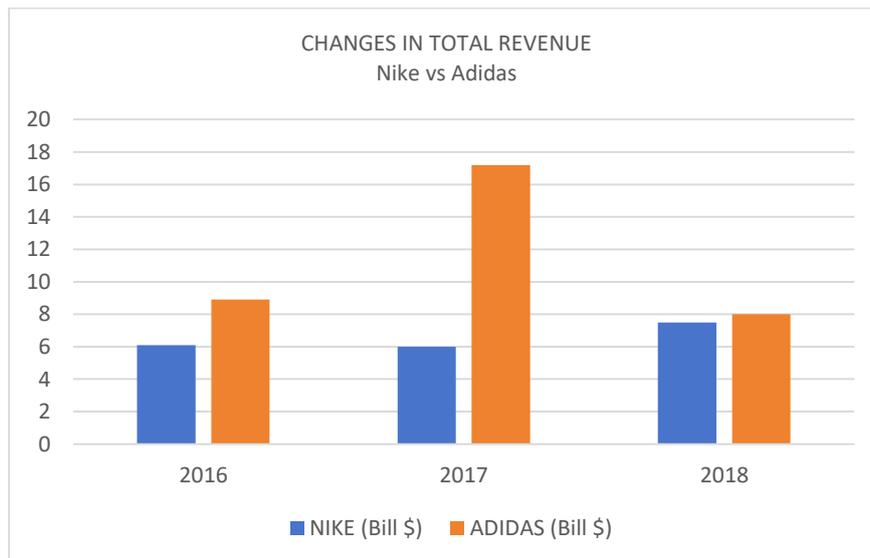


Figure 5.3

**How does Nike's Profitability compare to that of Adidas?**

As of 2021, Nike's net income of \$4 billion was almost double to Adidas' \$2 billion. Moreover, Nike's net income margin of 10.3% was roughly 30% more than Adidas's margin of 7.8%. However, since 2018, Nike's net income margin has declined while Adidas, led by strong revenue growth has been able to steadily increase margins.

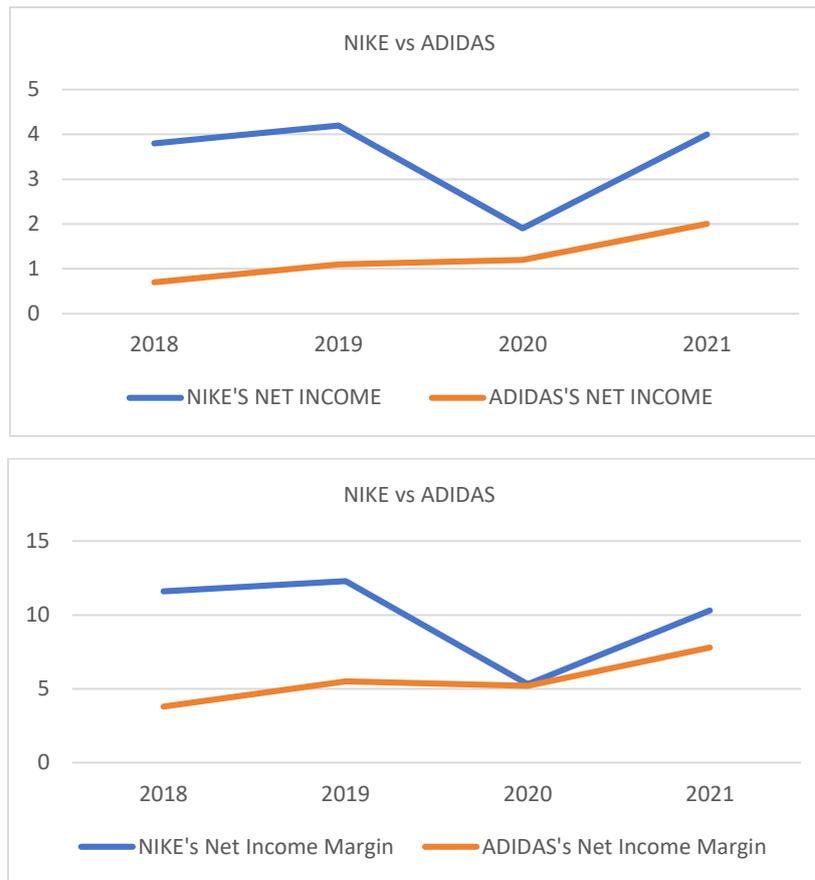


Figure 5.5

### 5.3 MARGINS & PROFITABILITY

Undeniably, Nike’s margins are robust: 5-year average annual Gross Margin is 45%. This is slightly superior to the industry average of 44.69%. 5-year average annual Net Profit Margin is 11.15%. This is superior to the industry average of 9.86%.

Table 5.7

	ADIDAS	INDUSTRY	NIKE	INDUSTRY
Gross margin ttm	52.82	47.76	44.87%	46.14%
Gross margin 5ya	49.71	48.01	45%	44.69%
Operating margin ttm	11.04	6.14	12.55%	13.64%
Operating margin 5ya	8.51	6.5	13.10%	13.08%
Net profit margin ttm	7,94	4.07	10.46%	11.43%
Net profit margin 5ya	5.8	4.13	11.15%	9.86%

Evidently, Nike’s management is very competent at generating returns: 5-year average annual Return on Equity is 33.73%. This is significantly superior to the industry average of 23.43%. 5-year average annual Return on Assets is 17.53%. This is superior to the industry average of 14.79%. 5-year average annual Return on Investment is 24%. This is significantly superior to the industry average of 19.84%.

International Journal of Novel Research in Interdisciplinary Studies

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

Table 5.8

	NIKE		ADIDAS	
	TTM (%)	5YEAR AVG(%)	TTM(%)	5YEAR AVG(%)
Return on Equity TTM	47.96%	29.40%	26.86	11.09
Return on Equity 5YA	33.73%	23.43%	18.08	10.72
Return on Assets TTM	17.57%	17.60%	10.27	5.25
Return on Assets 5YA	17.53%	14.79%	7.87	5.18
Return on Investments TTM	25.72%	23.58%	17.29	8.42
Return on Investments 5YA	24%	19.87%	13.47	8.25

Adidas’s margins are also robust, although net margins are quite low: 5-year average annual Gross Margin is 49.71% (vs Nike’s 45%). This is slightly superior to the industry average of 48.01%. 5-year average annual Net Margin is 5.8% (vs Nike’s 11.15%). This is slightly superior to the industry average of 4.13%. Adidas’ returns are good but significantly lower than Nike’s: 5-year average annual ROE is 18.08% (vs Nike’s 33.73%). This is significantly superior to the industry average of 10.72%. 5-year average annual ROA is 10.27% (vs Nike’s 17.53%). This is superior to the industry average of 5.25%. 5-year average annual ROI is 13.47% (vs Nike’s 24%). This is significantly superior to the industry average of 8.25%.

**VERDICT:** Both companies are outperforming relative to their industry average. However, while Adidas’ gross margin is better than Nike’s, Nike’s net profit margin is much higher. Furthermore, Nike’s returns are significantly higher than Adidas’.

**WINNER: NIKE.**

5.4 RETURN ON ASSETS

A ratio that measures the dollars in net profit a business generates per dollar of assets it owns.

Table 5.9

YEAR	NIKE(%)	ADIDAS(%)
2017	19	7.5
2018	8.4	11.5
2019	17.4	10.9
2020	9.2	2.1
2021	16.6	10

This section summarizes insights on Adidas’s and Nike’s Return on Assets.

Performance Summary

Adidas’s return on assets in 2021 was 10.0% while that for Nike was 16.6%. Adidas’ return on assets for fiscal years ending December 2017 to 2021 averaged 8.4% and Nike's return on assets for fiscal years ending May 2017 to 2021 averaged 14.12%. Adidas operated at the median return on assets of 10.0% from the fiscal years ending December 2017 to 2021. Nike's operated at the median return on assets of 16.6% from the fiscal years ending May 2017 to 2021.

Looking back at the last five years, Adidas’s return on assets peaked in December 2018 at 11.5%, and Nike’s return on assets peaked in May 2019 at 17.4%. Adidas’ return on assets hit its five-year low in December 2020 of 2.1%, and Nike's return on assets hit its five-year low in May 2018 of 8.4%. Adidas' return on assets decreased in 2019 (10.9%, -5.3%) and 2020 (2.1%, -80.5%) and increased in 2017 (7.5%, +5.4%), 2018 (11.5%, +52.7%) and 2021 (10.0%, +370.7%). Nike's return on assets decreased in 2018 (8.4%, -55.6%), 2020 (9.2%, -47.1%), and 2022 (15.5%, -6.6%) and increased in 2019 (17.4%, +106.4%) and 2021 (16.6%, +79.8%).

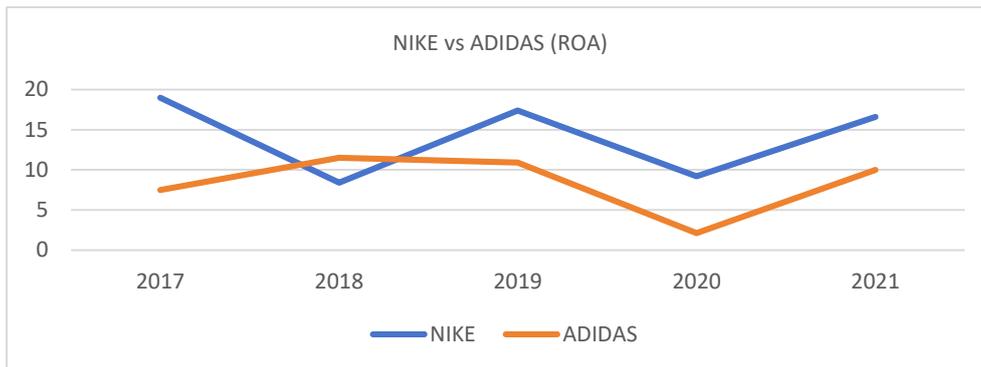


Figure 5.6

Return on assets represents the dollars in earnings or Net Income a company generates per dollar of assets. ROA is typically used to gauge the efficiency of the company and its management in deploying capital to generate income for shareholders. The net income used in the numerator is often adjusted for one-time and non-recurring items to present a clearer view of future earnings. Since income is earned over the course of a year, we average Total Assets at the start and end of the year for the denominator. In general, a higher return on assets suggests management is utilizing the asset base efficiently.

Table 5.1.1 Adidas

Fiscal Year	Net Income	Avg Assets	Return On Assets
2017/12/31	Ft341.8 B	Ft4,535.8 B	7.50%
2018/12/31	Ft547.4 B	Ft4,756.4 B	11.50%
2019/12/31	Ft654.4 B	Ft6,003.8 B	10.90%
2020/12/31	Ft160.6 B	Ft7,566.6 B	2.10%
2021/12/31	Ft797.6 B	Ft7,981.7 B	10.00%

How do Adidas and Nike’s Return on Assets benchmark against competitors?

We've identified the following companies as similar to Adidas AG because they operate in a related industry or sector. We also considered size, growth, and various financial metrics to narrow down the list to the ones listed below.

Table 5.1.2 Adidas

Adidas Return on Assets Benchmarks		
Name	Ticker	Return on Assets
<b>TOD'S S.p.A.</b>	<b>DB:TOB</b>	<b>0.80%</b>
<b>Consumer Discretionary</b>	<b>SECTOR:DSCY.DE</b>	<b>3.90%</b>
<b>PUMA SE</b>	<b>XTRA:PUM</b>	<b>7.10%</b>
<b>Ralph Lauren Corporation</b>	<b>MUN:PRL</b>	<b>7.50%</b>
Hugo Boss AG	XTRA:BOSS	7.90%
adidas AG	BUSE:ADIDAS	9.20%
GERRY WEBER International AG	XTRA:GW12	9.60%
Burberry Group plc	DB:BB2	11.00%
LVMH Moët Hennessy - Louis Vuitton, Société Européenne	XTRA:MOH	11.30%
New Wave Group AB (publ)	DB:NWG	11.80%
Steven Madden, Ltd.	DB:SJM	20.60%
Hermès International Société en commandite par actions	DB:HMI	21.70%

Table 5.1.3 Nike

NIKE Return on Assets Benchmarks		
Name	Ticker	Return on Assets
Hanesbrands Inc.	NYSE:HBI	5.90%
Consumer Discretionary	SECTOR:DSCY.US	6.60%
Under Armour, Inc.	NYSE:UAA	7.20%
V.F. Corporation	NYSE:VFC	7.50%
Tapestry, Inc.	NYSE:TPR	10.90%
Columbia Sportswear Company	NASDAQGS:COLM	11.90%
Skechers U.S.A., Inc.	NYSE:SKX	12.60%
NIKE, Inc.	NYSE:NKE	14.30%
Oxford Industries, Inc.	NYSE:OXM	17.50%
Crocs, Inc.	NASDAQGS:CROX	17.80%
Deckers Outdoor Corporation	NYSE:DECK	18.70%
Steven Madden, Ltd.	NASDAQGS:SHOO	20.60%

### 5.5 RETURN ON EQUITY (ROE)

Return on Equity (ROE) measures the rate of return on the ownership interest (shareholder's equity) of the common stock owners. It measures a firm's efficiency in generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). ROE shows how well a company uses investment funds to generate earnings growth. Usually, ROEs between 15% and 20% are considered desirable. ROEs of these two companies are shown in the following figure.

Evidently, Nike's management is very competent at generating returns its 5-year average annual Return on Equity is 34.96%. This is significantly superior to the industry average of 23.43%. Adidas' returns are good but significantly lower than Nike's. Its 5-year average annual ROE is 21.17% (vs Nike's 34.96%. This is significantly superior to the industry average of 10.72%

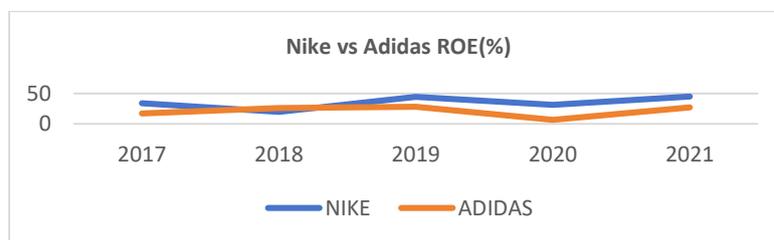


Figure 5.7

### 5.6 OPERATING PERFORMANCE

#### 5.6.1 GROSS PROFIT MARGIN

Gross Margin is the percentage of gross profit out of sales or revenue. Firms with excellent long-term economics tend to have consistently higher margins. The gross profits (%) of these two companies are in the following figure.



Figure 5.8

**International Journal of Novel Research in Interdisciplinary Studies**

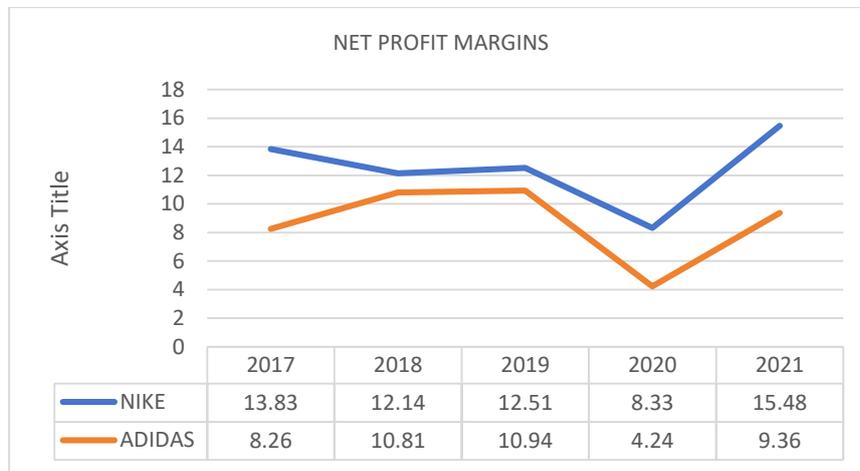
Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

The gross profit margins for Nike and Adidas did not fluctuate much in the past 5 years, they show similar trends from 2019 to 2021. Though the gross profit margins for Adidas are slightly higher than that of Nike. Nike’s gross profit margin average (44.27) is also below that of Adidas (50.93).

**5.6.2 NET PROFIT MARGIN**

Net margin measures how successful a company has been at the business of marking a profit on each dollar sold. It is one of the most essential financial ratios. Net margin includes all the factors that influence profitability whether under management control or not. The higher the ratio, the more effective a company is at cost control. Compared with the industry average, it tells investors how well the management and operations of a company are performing against its competitors.

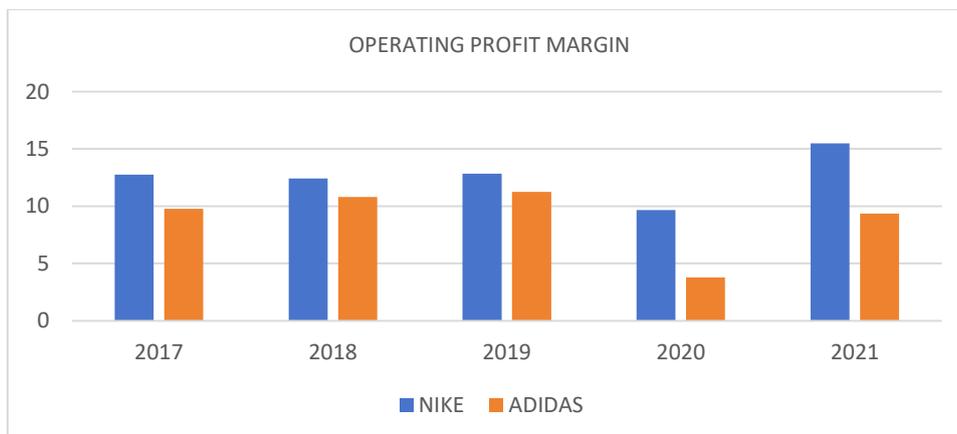
The net profit margins for Nike and Adidas for the past 5 years are shown in the table below. Over the past five years, their margins fluctuated significantly showing a similar trend from 2019 to 2021, because Nike has had greater volumes of goods sold over the years, and Adidas has had higher costs of labor for the past five years.



**Figure 5.9**

Overall Nike is more efficient at converting sales into actual profit compared to Adidas.

**5.6.3 OPERATING PROFIT MARGIN**



**Figure 5.10**

An operating margin is an important measurement of how much profit a company makes after deducting variable costs of production, such as raw materials or wages. A company needs a healthy operating margin in order to pay for its fixed costs, such as interest on debt or taxes. Nike has high operating margins which is a good indicator that this company is being well managed and is potentially less of a risk than Adidas with a lower operating margin.

5.6.4 ASSET TURNOVER



Figure 5.11

The ratio measures the efficiency of how well a company uses assets to produce sales. A higher ratio by Nike is favorable, as it indicates a more efficient use of assets. Conversely, a lower ratio by Adidas indicates the company is not using its assets as efficiently. This might be due to excess production capacity, poor collection methods, or poor inventory management. The figure 9 indicate that the asset turnover for both companies were stable from 2017 to 2019.

6. LIQUIDITY

6.1.1 WORKING CAPITAL ANALYSIS

Table 6.1

	WORKING CAPITAL BILL(\$)				
COMPANY	2017	2018	2019	2020	2021
NIKE	9.1	8.7	12.3	16.6	19.1
ADIDAS	2.45	3.52	3.29	1.98	5.89

Nike and Adidas Working Capital historical data analysis aim to capture in quantitative terms the overall pattern of either growth or decline in Nike's overall financial position and show how it may be relating to other accounts over time. Nike and Adidas have positive working capital when it currently has more current assets than current liabilities. This is a sign of financial health since it means the companies will be able to fully cover their short-term obligations as they come due over the next year. It's possible to have too much of a good thing.

Nike's Working Capital is increasing over the years with slightly volatile fluctuation. In general terms, these companies have a lot of working capital and they will experience more growth in the near future since they can expand and improve their operations using existing resources.

6.1.2 CURRENT RATIO

Table 6.1

	CURRENT RATIO				
	2017	2018	2019	2020	2021
NIKE	2.93	2.51	2.1	2.48	2.72
ADIDAS	1.33	1.44	1.37	1.2	1.54

The current ratio can give a sense of the efficiency of a company's operating cycle or its ability to turn its product into cash. Companies that have trouble getting paid on their receivables or have long inventory turnover can run into liquidity problems because they are unable to alleviate their obligations. Because business operations differ in each industry, it is always more useful to compare companies within the same industry, the above companies are in the same industry as Nike and Adidas.

The higher the current ratio, the more capable the company is of paying its obligations. A ratio under 1 suggests that the

company would be unable to pay off its obligations if they came due at that point. While this shows the company is not in good financial health, it does not necessarily mean that it will go bankrupt - as there are many ways to access financing - but it is definitely not a good sign. Since Nike and Adidas’s current ratios are above one, this means they’re financially healthy.

A creditor expecting payment within the next 12 months would, if all other factors were equal, prefer a company with a high current ratio to one with a low one since a higher current ratio indicates that the company is more likely to pay its debts that are due within the next 12 months. A corporation is better able to meet its obligations because it has a bigger percentage of short-term assets compared to short-term liabilities when its current ratio is higher. However, while a high ratio—say, greater than 3—may mean that the company can cover its current liabilities three times over, it could also mean that it is not using its present assets effectively, making it difficult to obtain financing, however, while a high ratio—say, let's greater than 3—may show that the business can pay its current liabilities three times over, it could also show that it is not effectively utilizing its current assets, obtaining financing, or managing its working capital.

**6.1.3 DEBT TO EQUITY RATIO**

Debt-to-equity (D/E) ratio is used to evaluate a company’s financial leverage and is calculated by dividing a company’s total liabilities by its shareholder equity. It is a measure of the degree to which a company is financing its operations with debt rather than its own resources. The bale 6.1 above shows the change in the two company’s reliance on debt over time. A higher D/E ratio for Nike and Adidas in 2020 suggests more risk, while a particularly low one by Adidas and Nike in 2017 may indicate that a business is not taking advantage of debt financing to expand. As investors, we modify the D/E ratio to consider only long-term debt because it carries more risk than short-term obligations.

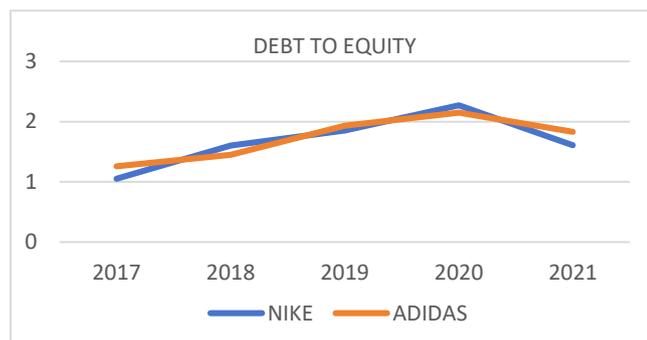


Figure 10

**Does the company have a medium or low-risk profile?**

Yes. Nike operates in a cyclical and low-barrier-to-entry sector that is wholly dependent on customer preference -- an inherent risk for the company. However, Nike has consistently strong top-line growth with little debt and is not overdependent on any customer or supplier. This puts the company firmly in the medium-risk category. Changes in long-term debt and assets tend to affect the D/E ratio the most because the numbers involved tend to be larger than for short-term debt and short-term assets. For us to evaluate a company’s short-term leverage and its ability to meet debt obligations that must be paid over a year or less, we then use other ratios.

**6.1.4 QUICK RATIO**

The quick ratio, also known as the acid test ratio, measures the ability of the company to repay short-term debts with the help of the most liquid assets. It is calculated by adding total cash and equivalents, accounts receivable, and the marketable investments of the company and then dividing it by its total current liabilities.

Table 6.2

COMPANY	2017	2018	2019	2020	2021
NIKE	1.67	1.4	1.23	1.98	2.33
ADIDAS	0.79	0.93	0.78	0.88	1.11

In this case, the quick ratio is one of the major tools for decision-making. It previews the ability of the company to make a settlement of its quick liabilities in a very short notice period. This ratio eliminates the closing stock from the calculation,

**International Journal of Novel Research in Interdisciplinary Studies**

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

which may not always be necessary to be taken as a liquid, thereby giving a more suitable profile of the company’s liquidity position. Adidas' current ratio was healthy at 1.44 in 2017. However, its quick ratio is 0.93. It implies that many of Adidas’s current assets are stuck in lesser liquid assets like inventory or prepaid expenses, compared to that of Nike. An acid ratio higher than the industry average may be advised that the company is investing too many resources in the business's working capital, which may more profitably be used elsewhere. From the above-calculated data, we analyzed that the quick ratio has risen from 1.67 in 2017 to 2.33 in 2021 and 0.79 in 2017 to 1.11 in 2021. It must mean that most of the current assets are not locked up in stocks over time for Nike and Adidas respectively. The ideal standard quick ratio is 1: 1, which means that the company is not in a position to meet its immediate current liabilities; it may lead to technical solvency. Hence, one should take steps to reduce the investment in the inventory and see that the ratio is above level 1: 1.

**6.1.5 DEBT TO ASSET RATIO**

The debt-to-asset ratio is a leverage ratio that measures the number of total assets that are financed by creditors instead of investors. In other words, it shows what percentage of assets is funded by borrowing compared with the percentage of resources that are funded by the investors. Basically, it illustrates how a company has grown and acquired its assets over time.

**Table 6.3**

	<b>DEBT TO ASSET RATIO</b>				
<b>COMPANY</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>NIKE</b>	0.28	0.17	0.15	0.42	0.31
<b>ADIDAS</b>	0.07	0.11	0.19	0.22	0.21

We use this ratio to evaluate the overall risk of a company. Companies with a higher figure are considered riskier to invest in and loan to because they are more leveraged. This means that a company with a higher measurement will have to pay out a greater percentage of its profits in principal and interest payments than a company of the same size with a lower ratio. Thus, lower is always better. In the table above we see that both Adidas and Nike have very low debt-to-equity ratios which shows that they’re very low-risk to invest in. Both Nike and Adidas with a DTA of less than 1 show that they have more assets than liabilities and could pay off their obligations by selling their assets if they needed to. If the debt to assets equals 1, it means the company has the same amount of liabilities as it has assets.

**6.2 SOLVENCY**

When comparing Nike and Adidas to see which stock is a better investment, we calculated the solvency ratios. The ratio we went with is the debt ratio. When talking about the debt ratio, both companies are mid-level leveraged. Nike in 2018 had a 0.17 debt ratio and Adidas in 2018 had a 0.11 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 took a big hit in their net income in 2018 causing their ratio to go down severely. This won't look great to creditors and is not a good look for potential investors. Table 5.1.0

**6.2.1 CAPITAL STRUCTURE**

The capital structure shows the extent to which the firm depends on the non-owners’ funds to operate the firm. In other words, Capital structure refers to a company's mix of capital—its debt and equity. In this case, the Important ratios used to analyze capital structure include the debt ratio and the debt-to-equity ratio.

**Table 6.4**

		<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>
<b>NIKE</b>	TOTAL LIABILITIES	10.852	12.724	14.677	23.287	24.973
	TOATAL EQUITY	12.407	9.812	9.04	8.055	12.767
<b>ADIDAS</b>	TOTAL LIABILITIES	9.141	10.922	15.257	16.406	16.917
	TOATAL EQUITY	7.273	7.516	7.905	7.643	9.272

A company's capital structure can affect the amount of revenue received by the organization's shareholders in every financial year. It also assists in determining the likelihood of whether a company is capable of surviving in an economic downturn or depression (McKinnon,2014). The capital structure of a firm is made up of debt capital and equity capital. Equity capital is

**International Journal of Novel Research in Interdisciplinary Studies**

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

the amount of cash given by the shareholders while debt capital is the funding that is offered through borrowing. To establish the capital structure of a company, one has first to determine their total debts and assets. In 2017, the following was the report from the Nike

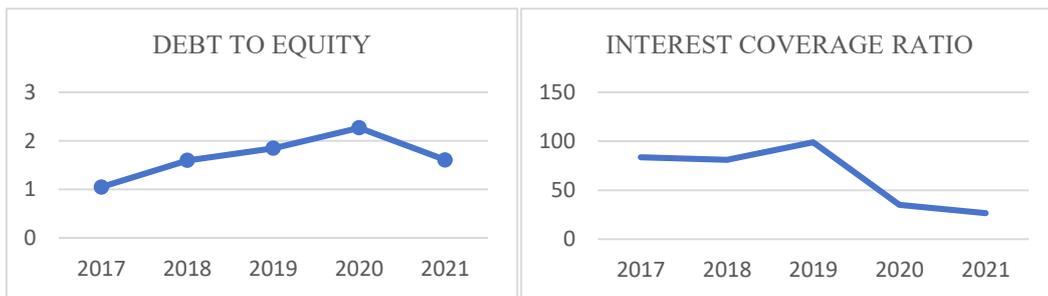
Company: total liability - 10.852 and total equity – 12.407, and Adidas registered 9.141 total liabilities and 7.273 total equity in the same year. From the above information we see that Nike was better off in 2017 with more equity capital than liabilities, but that’s not the case with the following years there is a significant decrease in capital equity from 2018. Also, Adidas’s capital equity has always been below its Total Liabilities, which means Adidas is more likely to suffer regarding financial risk.

**6.3 LEVERAGE**

The leverage ratios are used to assess the company's ability to meet the debt obligations it has. The debt-to-equity ratio measures the total debt over the shareholder's equity (Robinson, 2012). It is used to describe the capital structure of the firm. The interest coverage ratio is used to measure how many times the profit before interest and tax can cover the interest expense.

**Analysis of Nike Leverage Ratios.**

The debt-to-equity ratio continued to increase every year. The trend is upwards. This can be attributed to an increase in long-term finance as equity shareholdings rarely change.



**Figure 12**

However, the data suggest that long-term debt is quite stable. On the other hand, a shareholder's equity is changing. This might be due to the levels of retained earnings changing. Retained earnings are dependent on the earnings and the dividend paid. The company should try to maintain the debt-to-equity ratio as for future borrowings it can cause problems as banks often use this ratio for extending loans (Statista, 2020). The Interest coverage ratio had its peak in the previous year 2018 at 244.3 and after that, it reduced almost 3 times and had been quite the same in 2018 with a sudden increase in 2019. The Interest coverage has improved as the expense decreased in 2019. Operating income had been stable for the past 4 years. Therefore, the fluctuations are majorly due to interest expenses.

**Analysis of Adidas Leverage Ratios**



**Figure 13**

The debt-to-equity ratio was increasing in the past years but saw a decrease in the year 2019. This ratio reached its peak in 2018 but in 2019 it started decreasing again which is a good thing, however it is still not even close to the 2016 and 2017 levels. The main reason for the increase in long-term debt instead of equity. If this keeps on increasing it can be problematic for the company as its finance costs will increase too (Kusay, 2014). Also, banks will hesitate to provide loans to the company. However, this ratio is still better than that of Nike but care should be taken to keep the debt-to-equity mix at an optimal level. The interest coverage ratio was improving in recent years with its peak in 2018 but it dropped dramatically in 2019. This is quite an area of concern because not only this ratio is quite low as compared to Nike but the decline is too sharp that it even surpasses the 2016-17 level. This is majorly due to the interest expense level that has been increased due to an increase in the debt level. Although the operating income has increased the interest expense has increased quite dramatically (Matovic, 2019). This can be attributable to the increased debt levels or changes in interest rates for variable-rate debts.

### 7. RECOMMENDATIONS

**Nike:**

The company needs to keep in check the debt-to-equity ratio as it is increasing every year. The major reason for it is a decreased equity base instead of an increased debt base. The company should maintain an optimal balance of both debt and equity as this ratio.

**Adidas:**

Adidas needs to improve its interest coverage ratio. As its interest coverage ratio is declining due to high-interest expense, it should try to reduce the level of borrowing, hedge the increased interest rate or take fixed interest rate loans.

**Efficiency Ratios (Nike)**

The assets turnover ratio measures the efficiency of the company by which it is deploying its assets to generate revenue.

The asset turnover ratio is small, however, quite stable in past years. The stability can be owed to both stable revenue and total assets base

**Efficiency Ratios( Adidas)**

The asset turnover ratio was quite stable till 2018 but decreased slightly in 2019. The reason for this fall is increased total assets rather than a decrease in revenue. The company needs to match its revenue to its asset base to improve this ratio. This ratio is quite similar to Nike (Statista, 2020)

**Recommendations**

Both of these companies need to have a better asset turnover ratio. The asset turnover ratio should be improved by increasing sales. Sales can be increased by short-term measures like advertisements and discounts. Or can be increased through further expansion into different markets.

### 8. INVESTMENT SELECTION

**8.1 ANALYSIS OF EPS & P/E RATIO**

This section compares Nike stock to Adidas stock as an investment opportunity and explains why long-term investors would be better suited to make an investment in Adidas stock.



Figure 8.1

**International Journal of Novel Research in Interdisciplinary Studies**

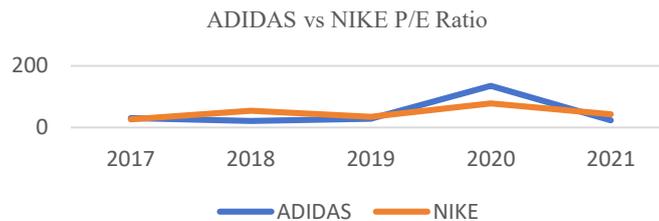
Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

Earnings per share (EPS) is a company's net profit divided by the number of common shares it has outstanding. EPS indicates how much money a company makes for each share of its stock and is a widely used metric for estimating corporate value. A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. From figure 8.1 above we see that Adidas exhibits a greater value than Nike over the past 5 years with an exception of 2020 when it dropped from \$5.6 to \$1.6 below that of Nike. The growth trends shown by Adidas show how profitable it is going to be in the future, this means to make a step forward on which company to invest in Adidas is promising a better future compared to Nike because the higher the earnings per share ratio, the higher the payment. A high earnings-per-share ratio number means that the company is profitable and can provide a better payout to shareholders.

**8.2 PRICE TO EARNING RATIO**

The Price/Earnings ratio measures the relationship between a company's stock price and its earnings per share. A low but positive P/E ratio stands for a company that is generating high earnings compared to its current valuation and might be undervalued. A company with a high negative (near 0) P/E ratio stands for a company that is generating heavy losses compared to its current valuation. Companies with a P/E ratio over 30 or a negative one is generally seen as "growth stocks" meaning that investors typically expect the company to grow or to become profitable in the future.

Companies with a positive P/E ratio below 10 are generally seen as "value stocks" meaning that the company is already very profitable and unlikely to have strong growth in the future.



**Figure 8.2**

**TABLE 8.3**

P/E ratio for similar companies or competitors		
	P/E ratio	Difference %
UNDER ARMOUR	20	-14.83
STEVE MADDEN	8.74	-62.81
CROCS	8.11	-65.51
SKETCHERS	7.75	-67.03
PUMA	12.7	-45.79
DECKERS BRANDS	21.5	-8.44

As the ratio relates the company's share price to its earnings per share, it shows how much money an investor needs to pay as a share price for each dollar of revenue generated by the company. From figure 8.2 above it is clear that Adidas's stock price was very high in 2020 almost double that of Nike because looking at Adidas's cash flow we see that the company had a more negative cash flow from investing activities from 2020 to 2021, which might be the reason for a high P/E ratio as shown on figure 8.2. This occurs because many investors are willing to buy the stock at higher and higher share prices in expectation of a future payoff from the company's investment. According to the data presented in chapter 6 section 6.1.5, Nike had a higher debt-to-asset ratio from 2017 to 2018 which also affected its P/E ratio from 2017 to 2019 to decrease because many investors are concerned that the costs of higher debt will negatively impact the company's future earnings sell their shares in response, causing share prices to decline.

Further, from a debt perspective, both balance sheets look strong. In addition to debt obligations, Nike also has \$9.3 billion to pay in endorsement contracts for a total of \$34 billion in future debt obligations. \$34 billion in debt is approximately 10 years of earnings which tells us how Nike is continuing to play it risky on the financial engineering side. Interest rates seem low, but if the return on that capital isn't higher all the time, the financial engineering will backfire.

### 8.3 ADIDAS VS NIKE STOCK INVESTMENT COMPARISON

As both companies are keeping their market share stable while growing in line with market growth, we would say Adidas is the better investment for the long-term because it has a lower PE ratio, has much lower debt levels, and is involved in much less financial engineering. However, in the near run, Nike's stock may outperform Adidas stock due to buybacks, dividends, tremendous liquidity, and a growth-at-all-costs mentality, but investors must be ready to exit in good time before debt, sluggish growth, and social media trends become a burden for Nike. It is reasonable to debate whether it is beneficial for a business to take on as much debt as possible (\$9 billion at the moment) to manipulate stock prices and improve fundamentals. When times are good, such efforts typically work quite well, but they can also backfire, as they did in the case of Lehman Brothers. As long as the market is happy with that and is willing to lend money to Nike at a 2.35% interest rate, Nike will keep benefiting from the engineering but keep in mind such games usually come to an abrupt end. When? I wish I knew!

The PE ratio for Adidas is 29, which translates into a company yield of about 4%. The 4% return plus the anticipated rise of roughly 5% per year over the following ten years results in a pleasant 9% return. Given the higher valuation, Nike's stock return should be 200 basis points lower if the market for both businesses increases at a 5% annual rate.

#### INVESTMENT COMPARISON

*Adidas- P/E ratio:  $29! 100/23.2 = 4.31\%$*

*Nike – P/E ratio:  $42.7! 100/42.7 = 2.34\%$*

*Assuming Equal Growth of 5%*

*Returns are 9.31% & 7.34%*

***Long-term Adidas wins.***

The basis of the expected returns for both Nike and Adidas is growth. That is what makes these risky stocks in our opinion because as we have seen in the Delta of the delta growth stock analysis article by Sven Carlin, small changes in growth rates can have huge impacts on stock prices. All in all, Adidas stock continues to be the better, safer investment when compared to Nike stock. In conclusion, valuation measurements don't mean anything in the short run because we live in a world of never-ending financial engineering. Given that a 0.45% dividend yield is still better than the 0% that many of us receive from banks, Nike's 0.9% dividend looks like an incredible investment and the stock may even double if interest rates stay low.

#### REFERENCES

- [1] Brigham, E. F., & Houston, J. F. (2021). *Fundamentals of Financial Management* (16th ed.). Cengage Learning. Link: Cengage Product Page(<https://www.cengage.com/c/fundamentals-of-financial-management-16e-brigham/>)
- [2] Damodaran, A. (2012). *Investment Valuation: Tools and Techniques for Determining the Value of Any Asset* (3rd ed.). John Wiley & Sons. Link: Wiley Online Library(<https://onlinelibrary.wiley.com/doi/book/10.1002/9781119208870>)
- [3] Gibson, C. H. (2013). *Financial Reporting and Analysis: Using Financial Accounting Information* (13th ed.). South-Western Cengage Learning. Link: Cengage Product Page(<https://www.cengage.com/c/financial-reporting-and-analysis-13e-gibson/>)
- [4] Kieso, D. E., Weygandt, J. J., & Warfield, T. D. (2020). *Intermediate Accounting* (17th ed.). John Wiley & Sons. Link: Wiley Product Page(<https://www.wiley.com/en-us/Intermediate+Accounting%2C+17th+Edition-p-9781119578326>)
- [5] McKinsey & Company. (2021). *The State of Fashion 2021*. Link: McKinsey Article: The State of Fashion 2021(<https://www.mckinsey.com/industries/retail/our-insights/state-of-fashion>)
- [6] Parker, L. M. (2017). The Impact of Celebrity Endorsement on Brand Image: A Case Study of Nike. *Journal of Marketing Communications*, 23(5), 432-449. Link: Taylor & Francis Online(<https://www.tandfonline.com/doi/abs/10.1080/13527266.2016.1234007>)
- [7] Penman, S. H. (2013). *Financial Statement Analysis and Security Valuation* (5th ed.). McGraw-Hill/Irwin.

**International Journal of Novel Research in Interdisciplinary Studies**

Vol. 12, Issue 6, pp: (29-50), Month: November – December 2025, Available at: [www.noveltyjournals.com](http://www.noveltyjournals.com)

Link: McGraw-Hill Page (<https://www.mhprofessional.com/financial-statement-analysis-and-security-valuation-9780078025310-usa>)

- [8] Porter, M. E. (2008). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Free Press. Link: Simon & Schuster Page(<https://www.simonandschuster.com/books/Competitive-Strategy/Michael-E-Porter/9780684841489>)
- [9] PWC. (2024). *IFRS and US GAAP: Similarities and Differences*. Link: PWC: IFRS and US GAAP – A comparison(<https://www.pwc.com/gx/en/audit-services/ifrs-reporting/publications/ifrs-and-us-gaap-similarities-and-differences.html>)
- [10] Porter, M. E. (2008). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. Free Press.