



NIKE, Inc. (NYSE:NKE)
Recommendation: **SELL**

Kyle Adlaka and James Irwin



Investment Thesis

Recommendation:

NIKE, Inc. (NYSE:NKE), is a consistently strong position with substantial long-term upside; however, the wider market recognizes this and has already priced in their future growth. Therefore, we recommend a sell on the portfolio's current allocation, despite the brand's demonstrated strength and potential for growth.

Drivers of Growth:

Nike is already established as a leader in each of its product groups, and by capitalizing on current trends among people, economies, and technology, it can expand upon present growth and further its foothold among markets. We see the main growth drivers as:

- 1 Growth of Women's Segment and Athleisure
- 2 International and high-growth economies
- 3 E-commerce and innovation

Price Target: \$78.92

-6.57% downside to current price \$84.47

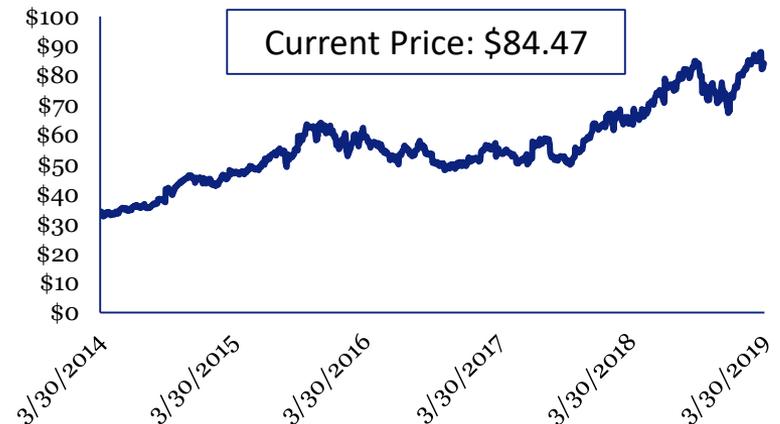


Company Overview

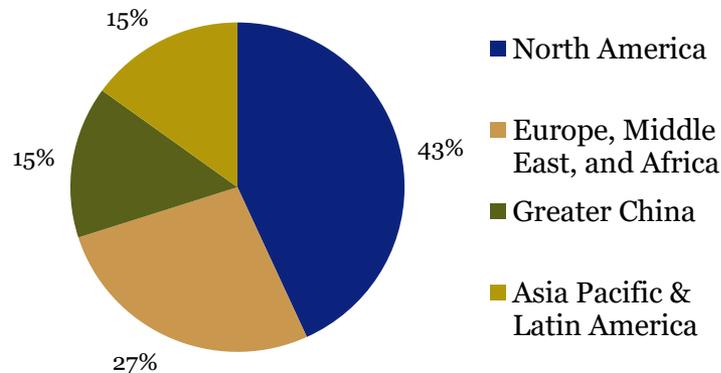
Company Profile

- NIKE, Inc. is the leading global footwear, athletic wear, and sporting equipment company
 - Subsidiaries and brands within Nike include Jordan, Converse, and Hurley International.
- Inventory production relies upon a variety of foreign manufacturing contractors
 - No more than 10% of its production is entrusted to a single contractor
- Nike spends has a portfolio of brand ambassadors across sports and borders

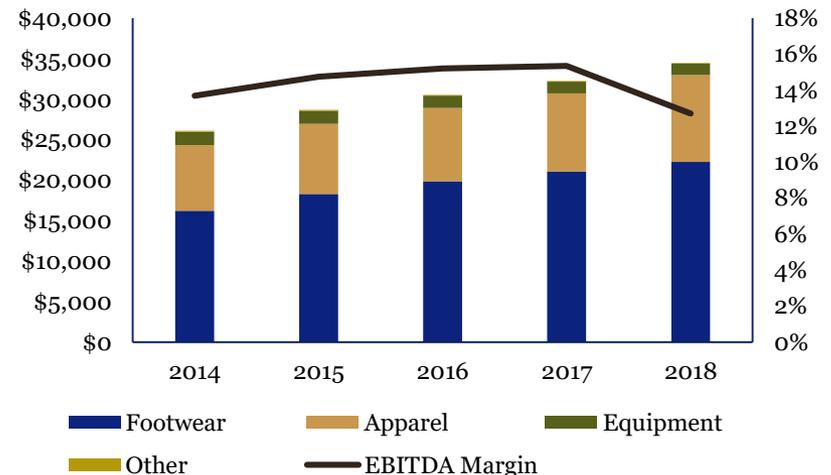
Five-Year Historic Stock Chart



2018 Revenue Breakdown by Region



Revenue By Segment (\$ in millions)



Industry Overview

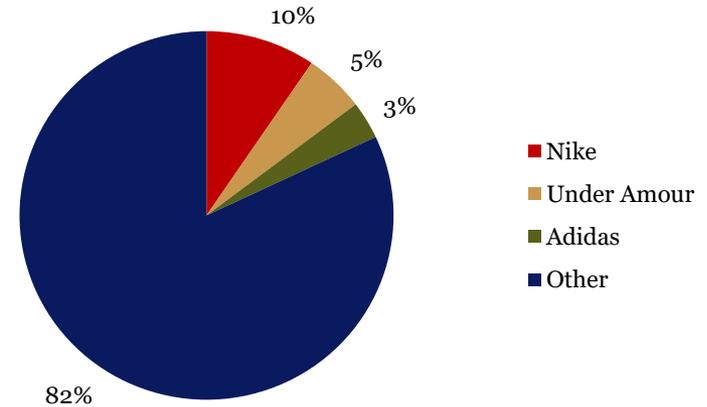
Industry Trends

- Nike has expanded from athletic footwear across markets to include clothing and sporting goods
- Rises in consumer health and wellness trends, combined with the contagious nature of fashion, have led to an explosion of athleisure as a day-to-day fashion.
 - Small companies, as well as traditionally non-athletic businesses, are competing in the market as well.
- Consumers are consistently showing a preference for e-commerce platforms

Macroeconomic Conditions

- Negotiations to resolve finally the U.S.-China trade
- The Mueller report on President Donald Trump was released without declaring any immediate charges
- Record lows in unemployment and high disposable income
- Growth in Europe is slowing, while China's economy has seen its slowest growth rate in twenty-eight years.

Market Share



Competitors





Volatility

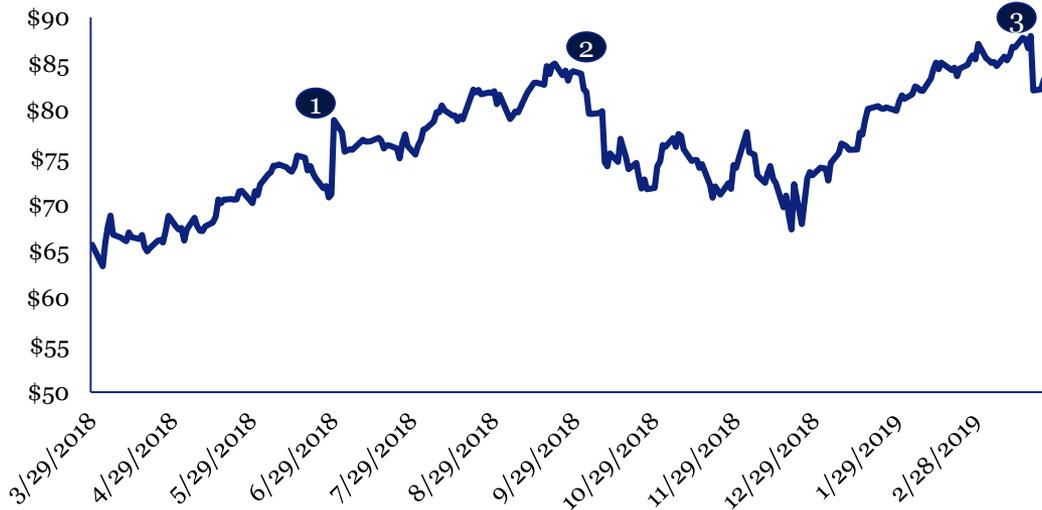
Third-Quarter (March) Earning Report: Effects

- Nike stock took a 6.61% hit – the largest drop since December
- The report was almost entirely positive; however, investors were startled when North American revenue grew only 7%
 - North America is Nike’s largest market by far
 - Growth was down from 9% in the previous quarter, and sales totaled \$3.81 billion, which was short of the \$3.85 billion average of estimates
- Meanwhile, growth far outpaced expectation in other markets: sales in Europe, the Middle East, and Africa grew 12% and sales in China expanded 24%

Third-Quarter (March) Earning Report: Takeaways

- Gross margin rose to 45.1% compared to 43.8% last year due to growth from digital channels
- In one quarter, SNKRS traffic and revenue surged by triple-digit rates, as 17 of the top 20 sneaker launches the app sold out
- First-ever \$1 billion quarter for digital sales
- Footwear sales rose from consistently single-digit rates to 13%, as investments in Nike’s supply chain have resulted in greater output
- Nike has announced an initiative to fast-track and focus on producing shoes below \$100

One-Year Historic Stock Chart



Headlines

- 3 February – March 2019: Nike’s stock took a 1.5% hit when Zion Williamson’s shoe broke during one of the biggest games of the year but stayed consistent after attorney Michael Avenatti tried to extort Nike for \$20m.
- 2 October – December 2018: Nike’s market value took a temporary hit as a market-wide sell-off dropped the S&P 578.57 points.
- 1 May – June 2018: Prices dipped after investigation in workplace behavior and harassment toward women resulted in the departure of eleven senior managers

Brand Image

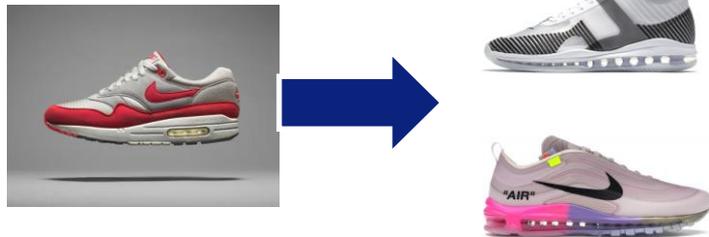
Celebrity, Team and League Endorsements

- Nike has put its logo on and connected itself with peoples' role models and favorite pastimes.
- Individual endorsements include LeBron James, Kevin Durant, and Serena Williams, as well as top rookie prospects Saquon Barkley and Baker Mayfield.



Partnerships and Innovation

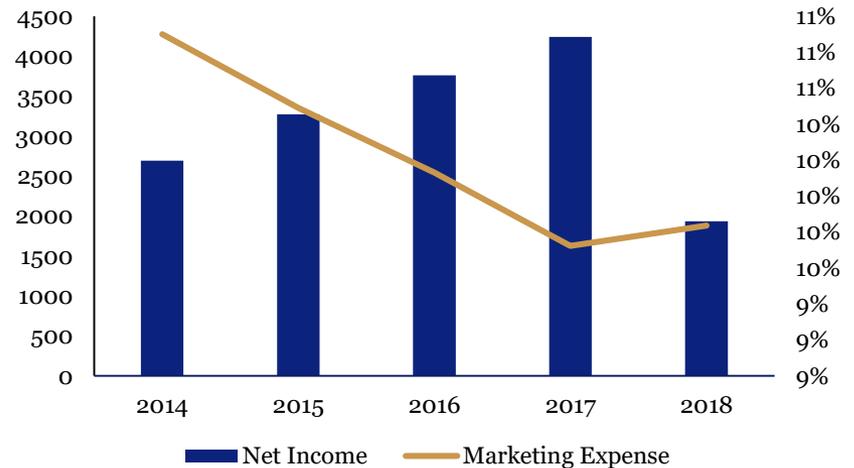
- Nike has set itself apart from its competitors by prioritizing research and development while also working with world class designers, thus earning a reputation for stylish technology and innovati



Marketing Dominance

- In endorsements alone, Nike spent \$9.4 billion in 2016, up from \$2.7 billion in 2007.
- Nike spent another \$3.58 billion on ads and promotion in 2018
- Nike advertisements often focus on telling or creating stories that inspire and connect with people, only secondarily displaying gear.
 - Founder Phil Knight is reported as saying that “he wasn’t in the shoe business; he was in the entertainment business.”

Net Income Growth and Marketing Expense



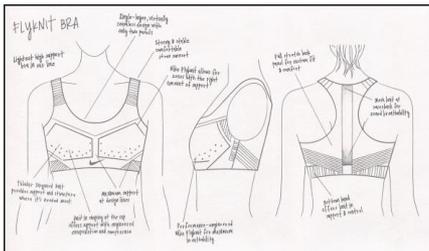
1 Growth Prospects Among Female Consumers

Uphill Climb in Women's Segment

- Nike finds itself in a highly competitive marketplace for women's athleticwear.
 - Unlike in their male segments, Nike faces fierce competition from both the large established manufacturers as well as many upstart brands.
- Largely ignored dedicating resources to and innovating with regards to their women's segments in the past.
- Women aren't as convinced by flashy ad campaigns and celebrity endorsements as males

Key Innovations

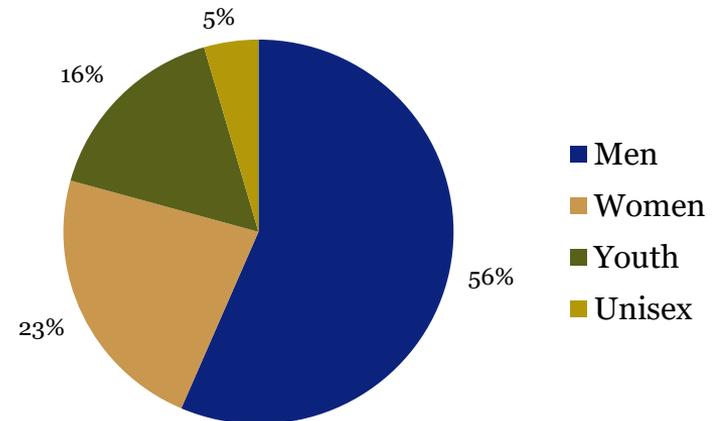
- Now pouring resources into R&D which in order to innovate in athleisure wear with a focus on women
- Key innovations include the sports bras utilizing Flyknit technology and their groundbreaking AeroReact fabric.



Nike's Focus on Womenswear

- CEO Mark Parker said that 2019 is "the year for women to break-out in sport." Nike has been pouring resources into R&D with a focus on women's needs.
 - The Motion Adapt Bra, one among 40 to release soon.
 - The Unlaced Project
- The recent "Dream Crazier" ad campaign addressing stereotypes of female athletes
- Avoiding pushing unrealistic body images for women

Nike 2018 Revenues by Gender



2 International and High-Growth Markets

Overview

- Over 55% of Nike's business and 75% of its growth comes from international markets.
- China is Nike's best performing geographical market, and it is also the largest footwear and apparel market in the world
 - There, Nike is sponsoring the Shanghai Marathon, partnerships with the China Super League, and working with the Ministry of Sport to expand physical education in schools
 - With Chinese digital commerce specifically up over 60%, Nike is taking initiatives to adapt to China's digital ecosystem

3 eCommerce and Innovation

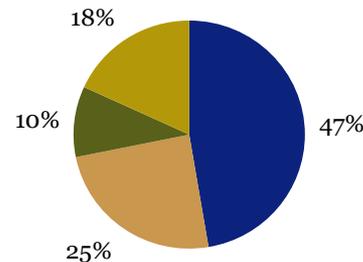
eCommerce Initiatives

- The acquisition of "exceptional analytics companies, Zodiac and Invertex," should give Nike an edge in eCommerce, marketing, innovation, and prioritization
 - These acquisitions are recent enough that their contributions have not yet influenced the bottom line or new product categories
- The Nike SNKRS app is already the largest footwear shopping app
- Omni-channel marketing

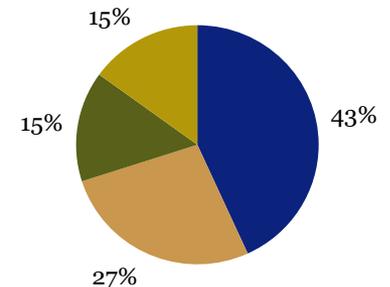
Revenue by Geography

- North America
- Europe, Middle East, and Africa
- Greater China
- Asia Pacific & Latin America

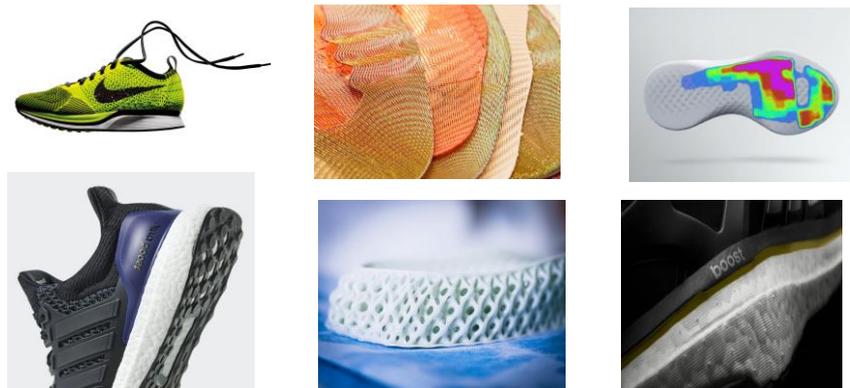
2014



2018



Innovation in Athletics



SWOT



Strengths

- One of the strongest, most trusted, and most valuable brands in the world
- Endorsements from most of the biggest names in sports, like LeBron James and Serena Williams, in addition to its “Dream Crazy” and “Dream Crazier” campaigns
- Little stock volatility

Opportunities

- Already launched several initiatives intended to service women, with many more to come
- Broken into international and emerging markets with tremendous success and potential
- Earned a reputation for its top-of-the-line innovation

Weaknesses

- Extraordinarily high expectations from investors
- Could see damaged reputation as a consequence of outsourcing
- Previous issues with company culture

Threats

- International lose value against the strength of the American dollar
- Volatile and unpredictable international relations and barriers
- Similar strategies from competitors



Developments

2014

- Nike was almost entirely a footwear brand with relatively underdeveloped technology
- Sales to wholesalers accounted for 79% of revenue
- Plans for expansion into China were initially becoming prioritized

2019

- The business portfolio and brand represents apparel, gear, fashion, and technology, in addition to simply footwear
- Direct-to-consumer channels now account for approximately 30% of sales and are seeing double-digit growth
 - SNKRS app and digital sales
 - Plans to double
- China is Nike's best performing geographical market

Key Risks

- ✗ Talks in U.S.-China trade war collapse, resulting in added tariffs and barriers
- ✗ Brexit leaves the UK economy in shambles, with ripple effects across Europe
- ✗ The harassment scandal of 2018 could continue to plague the company's reputation and culture
- ✗ In countries in which Nike's suppliers are located, wage increases could be an unexpected expense

Mitigants

- ✓ Downsizing from 3,000 manufacturers to 40 will simplify sales and cut costs as they rise
- ✓ Nike has proven itself to be stable, despite economic conditions, and markets itself as more than a luxury good
- ✓ Filling leadership with women could aid reformation and send a message to investors and consumers
- ✓ Those expenses would be felt by competitors across the industry, as well



Final Recommendation



Downside Case

Price Target: **\$73.70**
Downside: **-12.75%**

Base Case

Price Target: **\$78.92**
Downside: **-6.57%**

Upside Case

Price Target: **\$87.82**
Upside: **3.97%**

Recommendation:

NIKE, Inc. (NYSE:NKE) is currently overvalued in the market due to widespread positive sentiment around their future growth; therefore, we recommend a sell



Appendix



Valuation – Comparable Companies Analysis

Company	Ticker	Market Capitalization	Enterprise Value	EV / Revenue		EV / EBITDA		Price / Earnings	
				2017A	LTM	2017A	LTM	2017A	LTM
Lululemon Athletica Inc.	LULU	21,599	20,718	3.7x	6.3x	16.6x	25.1x	39.0x	46.0x
PUMA SE	DB: PUM	7,954	7,651	1.2x	1.6x	16.1x	18.3x	42.3x	42.4x
Under Armour, Inc.	NYSE: UAA	9,092	9,263	1.4x	1.8x	20.5x	25.7x	44.4x	NM
adidas AG	DB: ADS	44,378	43,268	1.7x	2.0x	14.6x	15.7x	26.3x	26.4x
NIKE, Inc.	NKE	\$132,939	\$132,380	2.6x	3.4x	16.2x	23.9x	27.1x	32.9x

25th Percentile	\$8,239	\$8,054	1.3x	1.7x	15.0x	16.3x	29.5x	26.4x
Mean	20,756	20,225	2.0x	2.9x	17.0x	21.2x	38.0x	38.3x
Median	15,345	14,990	1.5x	1.9x	16.3x	21.7x	40.7x	42.4x
75th Percentile	38,683	37,631	3.2x	5.2x	19.6x	25.5x	43.9x	46.0x

Operating Statistics

Company	Ticker	Revenue		Revenue Growth		EBITDA		EBITDA Margin	
		2017A	LTM	'16-'17A	LTM	2017A	LTM	2017A	LTM
Lululemon Athletica Inc.	LULU	2,344	3,288	13.8%	24.1%	517	827	22.1%	25.1%
PUMA SE	DB: PUM	4,136	4,648	14.0%	12.4%	314	418	7.6%	9.0%
Under Armour, Inc.	NYSE: UAA	4,989	5,193	3.2%	4.1%	331	361	6.6%	6.9%
adidas AG	DB: ADS	21,218	21,915	14.8%	3.3%	2,440	2,762	11.5%	12.6%
NIKE, Inc.	NKE	\$34,350	\$38,722	6.1%	9.7%	\$5,465	\$5,537	15.9%	14.3%

25th Percentile	\$2,792	\$3,628	5.9%	3.5%	\$318	\$375	6.9%	7.5%
Mean	8,172	8,761	11.5%	11.0%	901	1,092	11.9%	13.4%
Median	4,563	4,921	13.9%	8.2%	424	623	9.6%	10.8%
75th Percentile	17,161	17,735	14.6%	21.2%	\$1,959	\$2,278	19.4%	22.0%

Valuation – WACC



WACC Calculation

Capital Structure	
Debt-to-Total Capitalization	2.57%
Equity-to-Total Capitalization	97.43%

Cost of Debt	
Cost of Debt	3.11%
Tax Rate	24.00%
After-tax Cost of Debt	2.36%

Cost of Equity	
Risk-free Rate ⁽¹⁾	2.52%
Market Risk Premium ⁽²⁾	6.00%
Levered Beta	0.66
Cost of Equity	6.46%
WACC	6.35%



Valuation – DCF (Base)

(\$ in millions)	FYE December 31,				FYE December 31,						
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenue	\$30,683.0	\$32,462.0	\$34,275.0	\$36,371.0	\$38,514.5	\$40,772.6	\$43,359.0	\$46,115.8	\$48,279.1	\$50,102.1	\$51,532.1
Revenue Growth	--	5.8%	5.6%	6.1%	5.9%	5.9%	6.3%	6.4%	4.7%	3.8%	2.9%
Expenses											
COGS	16,534.0	17,405.0	19,038.0	20,441.0	21,645.7	22,914.7	24,368.4	25,917.7	27,133.5	28,158.1	28,961.7
Gross Profit	\$14,149.0	\$15,057.0	\$15,237.0	\$15,930.0	\$16,868.8	\$17,857.8	\$18,990.7	\$20,198.1	\$21,145.6	\$21,944.0	\$22,570.3
Gross Margin	46.1%	46.4%	44.5%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%
SG&A	9,892.0	10,469.0	10,563.0	11,511.0	12,189.4	12,904.0	13,722.6	14,595.1	15,279.8	15,856.7	16,309.3
Operating Expenses	9,892.0	10,469.0	10,563.0	11,511.0	12,189.4	12,904.0	13,722.6	14,595.1	15,279.8	15,856.7	16,309.3
Operating Income (EBIT)	\$4,257.0	\$4,588.0	\$4,674.0	\$4,419.0	\$4,679.4	\$4,953.8	\$5,268.0	\$5,603.0	\$5,865.8	\$6,087.3	\$6,261.0
EBIT Margin	13.9%	14.1%	13.6%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
Income Tax Expense (28%)	932.0	863.0	646.0	2,392.0	1,123.1	1,188.9	1,264.3	1,344.7	1,407.8	1,461.0	1,502.6
EBIAT	\$3,325.0	\$3,725.0	\$4,028.0	\$2,027.0	\$3,556.4	\$3,764.9	\$4,003.7	\$4,258.3	\$4,458.0	\$4,626.4	\$4,758.4
Cash Flow											
Plus: D&A	606.0	649.0	706.0	747.0	847.3	897.0	953.9	1,014.5	1,062.1	1,102.2	1,133.7
Discretionary Cash Flow	3,931.0	4,374.0	4,734.0	2,774.0	4,403.7	4,661.9	4,957.6	5,272.8	5,520.2	5,728.6	5,892.1
Less: Increase in NWC	0.0	(1,100.0)	(205.0)	559.0	(613.9)	(261.7)	(299.7)	(319.4)	(250.7)	(211.2)	(165.7)
Less: CapEx	(963.0)	(1,143.0)	(1,105.0)	(1,028.0)	(1,078.4)	(1,141.6)	(1,127.3)	(1,106.8)	(1,062.1)	(1,102.2)	(1,133.7)
Free Cash Flow	\$2,968.0	\$2,131.0	\$3,424.0	\$2,305.0	\$2,711.4	\$3,258.6	\$3,530.6	\$3,846.6	\$4,207.3	\$4,415.1	\$4,592.7
Free Cash Flow Growth	--	(28.2%)	60.7%	(32.7%)	17.6%	20.2%	8.3%	9.0%	9.4%	4.9%	4.0%
Unlevered Free Cash Flow											
WACC	6.35%										
Discount Period	0.5 1.5 2.5 3.5 4.5 5.5 6.5										
Discount Factor	0.97 0.91 0.86 0.81 0.76 0.71 0.67										
Present Value of Free Cash Flow	\$2,629.1 \$2,971.0 \$3,026.7 \$3,100.6 \$3,188.8 \$3,146.4 \$3,077.5										



Valuation – DCF (Base)

Enterprise Value	
Cumulative Present Value of FCF	\$21,140.2
Terminal Value	
Terminal Year EBITDA	\$7,394.7
Exit Multiple	21.7x
Terminal Value	\$160,293.7
Discount Factor	67.01%
Present Value of Terminal Value	\$107,409.6
<i>% of Enterprise Value</i>	83.6%
Enterprise Value	\$128,549.9

DCF Implied Equity Value and Share Price	
Enterprise Value	\$128,549.9
<i>Less: Total Debt</i>	\$3,500.0
<i>Plus: Cash & Cash Equivalents</i>	\$3,423.0
Implied Equity Value	\$128,472.9
Implied Share Price	\$81.63
Shares Outstanding	1,574

Comps Implied Equity Value and Share Price	
Enterprise Value	\$120,024.0
<i>Less: Total Debt</i>	\$3,500.0
<i>Plus: Cash & Cash Equivalents</i>	\$3,423.0
Implied Equity Value	\$119,947.0
Implied Share Price	\$76.21
Shares Outstanding	1,574

DCF Sensitivity Analysis

		WACC				
		4.4%	5.4%	6.4%	7.4%	8.4%
EV/EBITDA	19.7x	\$84.43	\$79.72	\$75.34	\$71.24	\$67.41
	20.7x	\$87.99	\$83.07	\$78.48	\$74.20	\$70.20
	21.7x	\$91.55	\$86.42	\$81.63	\$77.16	\$72.99
	22.7x	\$95.11	\$89.77	\$84.78	\$80.13	\$75.78
	23.7x	\$98.68	\$93.12	\$87.93	\$83.09	\$78.57

Method	Weight	Price
Comparable Companies	50%	\$76.2
DCF	50%	\$81.6
Fair Value Estimate		\$78.92



Valuation – DCF (Upside)

(\$ in millions)	FYE December 31,				FYE December 31,						
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenue	\$30,683.0	\$32,462.0	\$34,275.0	\$36,371.0	\$39,188.5	\$41,879.4	\$44,509.6	\$47,107.5	\$49,568.2	\$51,626.0	\$53,294.1
Revenue Growth	--	5.8%	5.6%	6.1%	7.7%	6.9%	6.3%	5.8%	5.2%	4.2%	3.2%
Expenses											
COGS	16,534.0	17,405.0	19,038.0	20,441.0	22,024.4	23,536.8	25,015.0	26,475.0	27,858.0	29,014.5	29,952.0
Gross Profit	\$14,149.0	\$15,057.0	\$15,237.0	\$15,930.0	\$17,164.0	\$18,342.6	\$19,494.6	\$20,632.4	\$21,710.2	\$22,611.5	\$23,342.1
Gross Margin	46.1%	46.4%	44.5%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%
SG&A	9,892.0	10,469.0	10,563.0	11,511.0	12,402.7	13,254.3	14,086.8	14,909.0	15,687.7	16,339.0	16,867.0
Operating Expenses	9,892.0	10,469.0	10,563.0	11,511.0	12,402.7	13,254.3	14,086.8	14,909.0	15,687.7	16,339.0	16,867.0
Operating Income (EBIT)	\$4,257.0	\$4,588.0	\$4,674.0	\$4,419.0	\$4,761.3	\$5,088.3	\$5,407.8	\$5,723.5	\$6,022.4	\$6,272.5	\$6,475.1
EBIT Margin	13.9%	14.1%	13.6%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
Income Tax Expense (28%)	932.0	863.0	646.0	2,392.0	1,142.7	1,221.2	1,297.9	1,373.6	1,445.4	1,505.4	1,554.0
EBIAT	\$3,325.0	\$3,725.0	\$4,028.0	\$2,027.0	\$3,618.6	\$3,867.1	\$4,109.9	\$4,349.8	\$4,577.0	\$4,767.1	\$4,921.1
Cash Flow											
Plus: D&A	606.0	649.0	706.0	747.0	862.1	921.3	979.2	1,036.4	1,090.5	1,135.8	1,172.5
Discretionary Cash Flow	3,931.0	4,374.0	4,734.0	2,774.0	4,480.7	4,788.4	5,089.2	5,386.2	5,667.5	5,902.8	6,093.6
Less: Increase in NWC	0.0	(1,100.0)	(205.0)	559.0	(613.6)	(306.4)	(299.5)	(295.8)	(280.2)	(234.3)	(190.0)
Less: CapEx	(963.0)	(1,143.0)	(1,105.0)	(1,028.0)	(1,097.3)	(1,172.6)	(1,157.3)	(1,130.6)	(1,090.5)	(1,135.8)	(1,172.5)
Free Cash Flow	\$2,968.0	\$2,131.0	\$3,424.0	\$2,305.0	\$2,769.8	\$3,309.4	\$3,632.4	\$3,959.8	\$4,296.8	\$4,532.7	\$4,731.1
Free Cash Flow Growth	--	(28.2%)	60.7%	(32.7%)	20.2%	19.5%	9.8%	9.0%	8.5%	5.5%	4.4%
Unlevered Free Cash Flow											
WACC	6.35%										
Discount Period					0.5	1.5	2.5	3.5	4.5	5.5	6.5
Discount Factor					0.97	0.91	0.86	0.81	0.76	0.71	0.67
Present Value of Free Cash Flow					\$2,685.8	\$3,017.3	\$3,114.0	\$3,191.9	\$3,256.7	\$3,230.2	\$3,170.2



Valuation – DCF (Upside)

Enterprise Value

Cumulative Present Value of FCF	\$21,666.2
Terminal Value	
Terminal Year EBITDA	\$7,647.6
Exit Multiple	23.9x
Terminal Value	\$182,840.2
Discount Factor	67.01%
Present Value of Terminal Value	\$122,517.6
<i>% of Enterprise Value</i>	85.0%
Enterprise Value	\$144,183.8

Implied Equity Value and Share Price

Enterprise Value	\$144,183.8
<i>Less: Total Debt</i>	\$3,500.0
<i>Plus: Cash & Cash Equivalents</i>	\$3,423.0
Implied Equity Value	\$144,106.8
Implied Share Price	\$91.57
Shares Outstanding	1,574

Comps Implied Equity Value and Share Price

Enterprise Value	\$132,379.7
<i>Less: Total Debt</i>	\$3,500.0
<i>Plus: Cash & Cash Equivalents</i>	\$3,423.0
Implied Equity Value	\$132,302.7
Implied Share Price	\$84.07
Shares Outstanding	1,574

DCF Sensitivity Analysis

		WACC				
		4.4%	5.4%	6.4%	7.4%	8.4%
EV/EBITDA	21.9x	\$95.41	\$90.05	\$85.05	\$80.39	\$76.04
	22.9x	\$99.09	\$93.51	\$88.31	\$83.45	\$78.92
	23.9x	\$102.77	\$96.97	\$91.57	\$86.52	\$81.80
	24.9x	\$106.46	\$100.44	\$94.82	\$89.58	\$84.69
	25.9x	\$110.14	\$103.90	\$98.08	\$92.65	\$87.57

Method	Weight	Price
Comparable Companies	50%	\$84.1
DCF	50%	\$91.6
Fair Value Estimate		\$87.82



Valuation – DCF (Downside)

(\$ in millions)	FYE December 31,				FYE December 31,						
	2015A	2016A	2017A	2018A	2019E	2020E	2021E	2022E	2023E	2024E	2025E
Total Revenue	\$30,683.0	\$32,462.0	\$34,275.0	\$36,371.0	\$37,714.4	\$39,023.3	\$40,166.0	\$41,245.0	\$42,357.6	\$43,259.1	\$44,183.0
Revenue Growth	--	5.8%	5.6%	6.1%	3.7%	3.5%	2.9%	2.7%	2.7%	2.1%	2.1%
Expenses											
COGS	16,534.0	17,405.0	19,038.0	20,441.0	21,196.0	21,931.6	22,573.9	23,180.2	23,805.5	24,312.2	24,831.5
Gross Profit	\$14,149.0	\$15,057.0	\$15,237.0	\$15,930.0	\$16,518.4	\$17,091.7	\$17,592.2	\$18,064.7	\$18,552.0	\$18,946.9	\$19,351.5
Gross Margin	46.1%	46.4%	44.5%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%	43.8%
SG&A	9,892.0	10,469.0	10,563.0	11,511.0	11,936.2	12,350.4	12,712.1	13,053.6	13,405.7	13,691.0	13,983.4
Operating Expenses	9,892.0	10,469.0	10,563.0	11,511.0	11,936.2	12,350.4	12,712.1	13,053.6	13,405.7	13,691.0	13,983.4
Operating Income (EBIT)	\$4,257.0	\$4,588.0	\$4,674.0	\$4,419.0	\$4,582.2	\$4,741.2	\$4,880.1	\$5,011.2	\$5,146.4	\$5,255.9	\$5,368.1
EBIT Margin	13.9%	14.1%	13.6%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
Income Tax Expense (28%)	932.0	863.0	646.0	2,392.0	1,099.7	1,137.9	1,171.2	1,202.7	1,235.1	1,261.4	1,288.4
EBIAT	\$3,325.0	\$3,725.0	\$4,028.0	\$2,027.0	\$3,482.5	\$3,603.3	\$3,708.9	\$3,808.5	\$3,911.2	\$3,994.5	\$4,079.8
Cash Flow											
Plus: D&A	606.0	649.0	706.0	747.0	829.7	858.5	883.7	907.4	931.9	951.7	972.0
Discretionary Cash Flow	3,931.0	4,374.0	4,734.0	2,774.0	4,312.2	4,461.9	4,592.5	4,715.9	4,843.1	4,946.2	5,051.8
Less: Increase in NWC	0.0	(1,100.0)	(205.0)	559.0	(257.2)	(142.5)	(124.4)	(117.5)	(121.1)	(98.2)	(100.6)
Less: CapEx	(963.0)	(1,143.0)	(1,105.0)	(1,028.0)	(1,056.0)	(1,092.7)	(1,044.3)	(989.9)	(931.9)	(951.7)	(972.0)
Free Cash Flow	\$2,968.0	\$2,131.0	\$3,424.0	\$2,305.0	\$2,999.0	\$3,226.7	\$3,423.8	\$3,608.5	\$3,790.1	\$3,896.3	\$3,979.2
Free Cash Flow Growth	--	(28.2%)	60.7%	(32.7%)	30.1%	7.6%	6.1%	5.4%	5.0%	2.8%	2.1%
Unlevered Free Cash Flow											
WACC	6.35%										
Discount Period					0.5	1.5	2.5	3.5	4.5	5.5	6.5
Discount Factor					0.97	0.91	0.86	0.81	0.76	0.71	0.67
Present Value of Free Cash Flow					\$2,908.0	\$2,941.9	\$2,935.2	\$2,908.8	\$2,872.6	\$2,776.7	\$2,666.4



Valuation – DCF (Downside)

Enterprise Value	
Cumulative Present Value of FCF	\$20,009.6
Terminal Value	
Terminal Year EBITDA	\$6,340.2
Exit Multiple	21.7x
Terminal Value	\$137,434.0
Discount Factor	67.01%
Present Value of Terminal Value	\$92,091.8
<i>% of Enterprise Value</i>	82.2%
Enterprise Value	\$112,101.4

Implied Equity Value and Share Price	
Enterprise Value	\$112,101.4
<i>Less: Total Debt</i>	<i>\$3,500.0</i>
<i>Plus: Cash & Cash Equivalents</i>	<i>\$3,423.0</i>
Implied Equity Value	\$112,024.4
Implied Share Price	\$71.18
Shares Outstanding	1,574

Comps Implied Equity Value and Share Price	
Enterprise Value	\$120,024.0
<i>Less: Total Debt</i>	<i>\$3,500.0</i>
<i>Plus: Cash & Cash Equivalents</i>	<i>\$3,423.0</i>
Implied Equity Value	\$119,947.0
Implied Share Price	\$76.21
Shares Outstanding	1,574

DCF Sensitivity Analysis

		WACC				
		4.4%	5.4%	6.4%	7.4%	8.4%
EV/EBITDA	19.7x	\$73.63	\$69.57	\$65.78	\$62.25	\$58.94
	20.7x	\$76.68	\$72.44	\$68.48	\$64.79	\$61.33
	21.7x	\$79.73	\$75.31	\$71.18	\$67.33	\$63.72
	22.7x	\$82.79	\$78.18	\$73.88	\$69.87	\$66.12
	23.7x	\$85.84	\$81.05	\$76.58	\$72.41	\$68.51

Method	Weight	Price
Comparable Companies	50%	\$76.2
DCF	50%	\$71.2
Fair Value Estimate		\$73.70