

THE SWOOSH, *UNWOUND.*

How the world's largest sportswear brand lost 80% of its market value in five years - a first-principles look at the channel bet, the inventory glut, the running boom it missed and the rivals that moved in.



EXECUTIVE SUMMARY

FROM \$178 TO \$36: FIVE YEARS OF UNFORCED ERRORS.

On 25 September 2026, Nike’s shares closed at **\$35.75**, roughly **80% below** their November 2021 closing high of \$177.51. That is their lowest level since 2014, and the stock is down about 44% in 2026 alone. More than \$220 billion of market value has been erased, and on 21 September Nike was dropped from the S&P 100 after 18 years. Strikingly, sales did not collapse: FY26 revenue of **\$46.4 billion** was almost exactly FY22’s. What collapsed was **profitability**, and with it investors’ **confidence** in Nike’s future. Earnings per share fell from \$3.75 to \$2.10, and the price the market will pay for each dollar of those earnings roughly halved.

The fall traces back to five linked decisions and blind spots. Nike **over-rotated to direct-to-consumer (D2C)** selling, pulling product from the retailers that had made it ubiquitous. It then **flooded the market** with a few ageing franchises (Air Force 1, Dunk, Jordan 1), turning scarcity into markdowns. **Competitors** such as On, HOKA, Asics and adidas moved into the shelves and categories Nike had vacated, and a **running boom**, in the very sport Nike was founded on, largely passed it by. In China, **domestic brands** led by Anta now generate nearly twice Nike’s regional revenue. Tariffs, a weaker consumer and a sector-wide sell-off in 2026 deepened the damage, but peers like Asics and Deckers, whose shares are up since 2021, show the decline was not inevitable.

-80% Share price vs the Nov 2021 closing high (\$177.51 to \$35.75)	\$46.4B FY26 revenue: flat against FY22's \$46.7B	40.8% FY26 underlying gross margin, vs 46.0% in FY22	\$2.10 FY26 diluted EPS, down from \$3.75 in FY22
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01 D2C OVERREACH Shelf space and reach ceded to rivals in exchange for margin and data.	02 MARKET FLOODING Classic franchises over-supplied, then discounted to clear.	03 WEAK POINTS ATTACKED Rivals won on cushioning, value and specialty channels.	04 RUNNING BOOM MISSED Specialists captured a generation of new runners.	05 CHINA'S CHALLENGERS Anta, Li-Ning, Xtep and 361° took share at home.
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/01 - INTRODUCTION & CONTEXT

A SHARE PRICE IS A FORECAST. NIKE'S FORECAST *KEPT SHRINKING.*

Nike's shares peaked on **5 November 2021**, lifted by pandemic demand, booming online sales and a record gross margin. The descent that followed was not one crash but a staircase: nearly every leg down was an earnings release that exposed a new problem or cut the outlook (Figure 1). The steepest step came on **28 June 2024**, when Nike forecast falling sales and the stock lost 20%, its worst day on record. Elliott Hill became CEO that October with a turnaround plan. 2026 still brought a fresh leg lower as China weakened, tariffs bit and the turnaround proved slower than hoped.

FIGURE 1 - NKE WEEKLY CLOSE, 2016-2026 · SIX WORST ONE-DAY REACTIONS MARKED



Source: Yahoo Finance daily and weekly closes to 25 Sep 2026; Nike earnings releases; press coverage of each event.

FIRST PRINCIPLES - WHAT A STOCK PRICE MEASURES

A share is a claim on a company's future cash. Its price is the market's estimate of all the profit the business will earn in the years ahead, discounted for time and risk. Three levers move that estimate: how fast **revenue grows**; how much of each sales dollar becomes profit, measured by **gross margin** (sales minus the cost of making the goods) and **operating margin** (what is left after marketing, stores and overhead); and **durability**, meaning how confident investors are that growth and margins will last. A useful shorthand is **price = earnings per share (EPS) × the P/E multiple**. EPS captures today's profit, while the price-to-earnings multiple captures what investors believe about tomorrow. When management issues **guidance** (its own forecast) below expectations, both terms tend to fall together.

GROWTH

How fast do sales rise?

Revenue flat since FY22:
\$46.7B to \$46.4B

×

MARGIN

Profit per dollar of sales?

Gross margin 46.0% to
40.8% (underlying)

×

DURABILITY

Will it last?

Share lost in running, China
and at retail

=

VALUE

Market capitalisation

~\$280B to ~\$53B



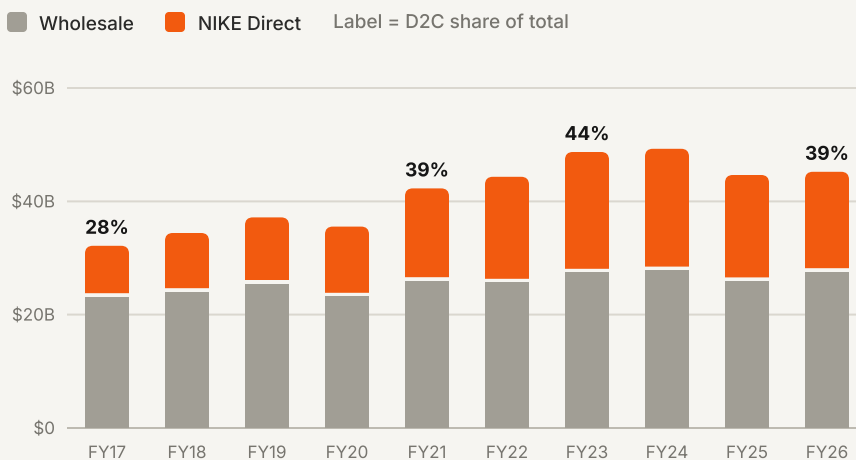
/02 - BUSINESS MODEL & THE D2C BET

NIKE TRIED TO OWN THE CUSTOMER AND **GAVE AWAY THE SHELF.**

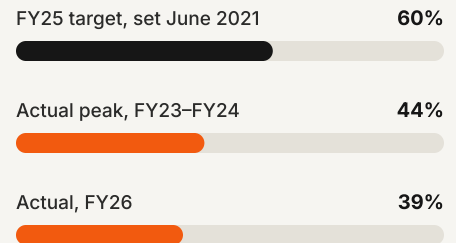
For most of its history Nike ran a simple model. It designed and marketed the product, contract factories made it, and **wholesale** partners (Foot Locker, Dick's, JD Sports and thousands of independents) bought in bulk at roughly half the retail price, carried the inventory and put Nike in front of shoppers everywhere. **Direct-to-consumer** selling through Nike stores, Nike.com and its apps lets Nike keep the full retail price and the customer data. The catch is that Nike then pays for everything a retailer used to absorb: rent, staff, fulfilment, returns, technology, and the advertising needed to pull shoppers into its own channels.

From 2017 Nike bet heavily on the second model. Its "Consumer Direct Offense" narrowed focus to about 40 strategic partners out of more than 30,000 accounts. It left Amazon in 2019 and later cut ties with retailers including Zappos, Dillard's and Belk. The pandemic made the bet look brilliant, and in June 2021 Nike told investors that NIKE Direct would reach about **60%** of the business by FY25. It peaked at **44%**.

FIGURE 2 - NIKE BRAND REVENUE BY CHANNEL - \$B, FISCAL YEARS



THE 60% PLAN VS REALITY



NIKE Direct as a share of NIKE Brand revenue.
Fiscal years end 31 May.

Source: Nike Q4 earnings releases (Form 8-K), FY17-FY26; Q4 FY21 earnings call. Excludes Converse.

WHAT IT COST

Three things went wrong. First, **retailers refilled the shelf**. Foot Locker said Nike would make up no more than 60% of its 2022 purchases, down from 75% in 2020, and filled the space with brands such as On, HOKA, New Balance and adidas, which is where many new customers discovered them. Second, **cost and complexity rose**. Once pandemic demand faded, Nike had to buy its own traffic, and its website leaned on discounts to hit targets. NIKE Digital sales fell 20% in FY25 and another 12% in FY26 as those promotions were pulled back. Third, **growth stalled**, because D2C never scaled enough to replace the reach Nike had given up. The reversal is now explicit. In FY26 wholesale grew 6% while NIKE Direct fell 6%, Nike refreshed more than 15,000 spaces in partner stores, and its sales through Foot Locker grew for the first time in four years.

DISTRIBUTION IS A SHELF YOU RENT. VACATE IT, AND A COMPETITOR MOVES IN WITHIN A SEASON.

FIRST-PRINCIPLES TAKEAWAY



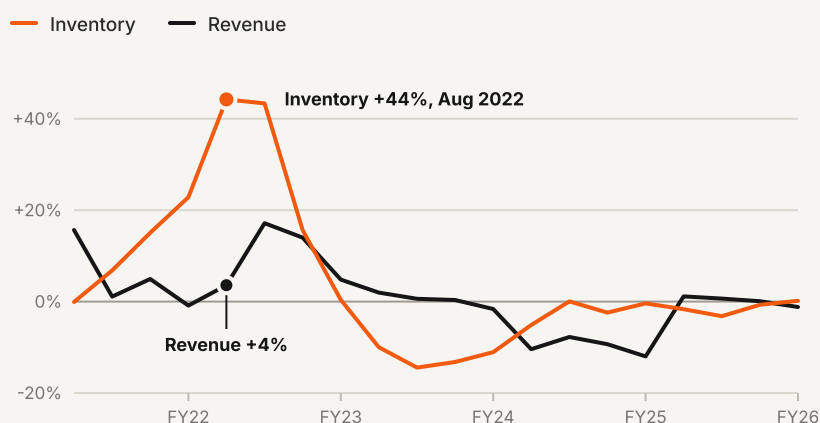
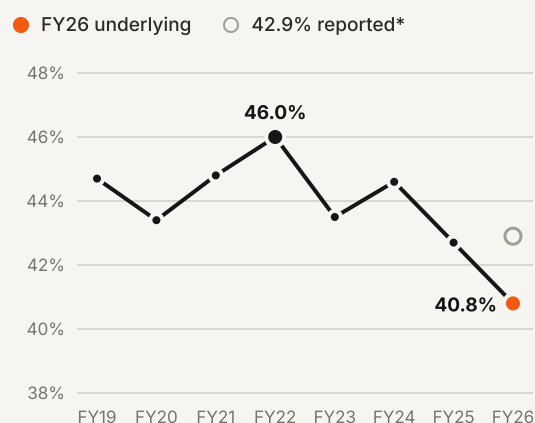
/03 - INVENTORY, PRODUCT & MARKET FLOODING

SCARCITY WAS THE PRODUCT. NIKE *SOLD IT OFF BY THE PAIR.*

Price settles where supply meets demand. For a fashion-led sneaker, perceived **scarcity** is part of what the buyer pays for. A Dunk that is hard to get is worth far more than its materials, while the same shoe stacked on every clearance rack is worth less. Supply beyond demand forces **markdowns**. Markdowns teach shoppers to wait for the next sale, and the full-price business, which is where the profit is, shrinks.

Nike hit this wall twice. The first time was operational. Pandemic shipping delays meant product arrived late, just as demand cooled: inventory reached **\$9.7 billion in August 2022, up 44%** on the year, while quarterly revenue rose just 4%. Clearing it cost margin. Gross margin fell from 46.0% in FY22 to 43.5% in FY23, and the stock dropped 12.8% the day the numbers came out.

The second time was strategic. With fewer sport-specific teams and a data-driven focus on what was already selling, Nike leaned on a handful of franchises (Air Force 1, Dunk, Jordan 1) and pushed them hard through its own channels. Heat became ubiquity, and ubiquity became discounting. By FY25 Nike's own digital store was functioning partly as a clearance outlet. Gross margin slid to 42.7%, and fourth-quarter EPS fell 86% to \$0.14.

FIGURE 3A - YEAR-ON-YEAR GROWTH, BY QUARTER

FIGURE 3B - GROSS MARGIN


Source: Nike Forms 10-K/10-Q and 8-K (SEC XBRL data), quarters ending Aug 2021 – May 2026. *Reported FY26 margin includes a one-off tariff refund; underlying figure per Nike's Q4 FY26 call.

THE CLEAN-UP

Under Hill, Nike took more than **\$2 billion** of classic-franchise product out of the market in FY26. It cut off-price sales in EMEA by over 50% in the fourth quarter, lifting full-price realisation by 15 points, and reduced China inventory by double digits. Converse revenue fell 31%. Inventory is back to \$7.5 billion, but the margin has not come back: excluding a one-off tariff refund, FY26 gross margin was **40.8%**, about five points below FY22. On \$46 billion of sales, each point is worth roughly \$460 million of gross profit a year. Sportswear and Jordan streetwear, about half of revenue, are still shrinking, and their new styles only arrive in the second half of FY27.



/04 - COMPETITIVE LANDSCAPE

RIVALS DIDN'T OUT-NIKE NIKE. THEY WENT *WHERE NIKE WASN'T.*

Few competitors attacked Nike head-on. They targeted the gaps its strategy left: specialty running stores it had deprioritised, comfort and cushioning it had under-invested in, value price points, and markets where local speed beats global scale.

THE RUNNING BOOM IT MISSED

Running became the defining participation sport of the post-pandemic years; Strava reports that running clubs on its platform grew 3.5× in 2025 alone. Specialists built their businesses on it. **On** grew sales from CHF 725 million in 2021 to CHF 3.0 billion in 2025 at a 62.8% gross margin, more than 20 points above Nike's. **HOKA** grew from \$571 million to \$2.6 billion, and **Asics** doubled sales while its shares rose almost six-fold. Nike, a company founded on running, saw its own running revenue fall from \$4.5 billion in FY19 to \$4.0 billion in FY21 (wholesale-equivalent basis), just as the boom began. A 2020 reorganisation around "men, women and kids" rather than sports had diluted the specialist know-how the category rewards. The recovery suggests the problem was execution rather than the brand: since re-centring on sport, Nike Running has grown double digits for five straight quarters, adding about \$1 billion. The challengers are now moving beyond running. On 18 September 2026, Kylian Mbappé left Nike after nearly 20 years to front On's push into football.

FIGURE 4 - REVENUE GROWTH SINCE 2021 · × 2021 LEVEL

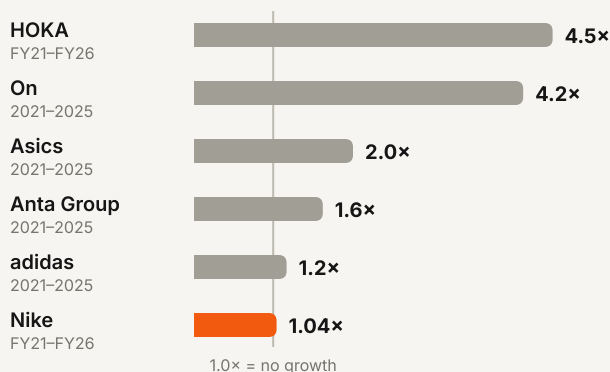
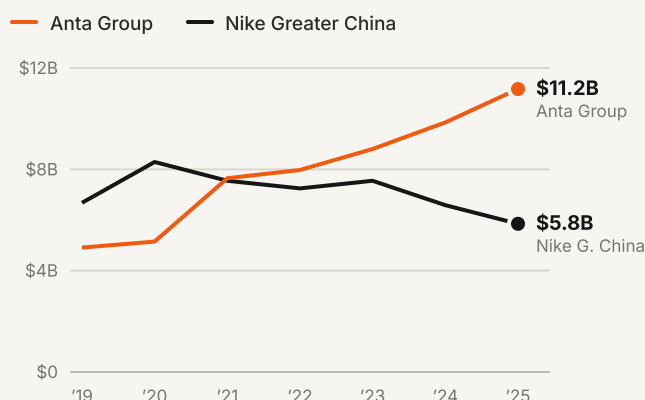


FIGURE 5 - CHINA: NIKE VS ANTA · REVENUE, \$B



Sources: company annual results (Deckers, On, Asics, Anta, adidas, Nike); Figure 4 in local currency. Nike fiscal years end in May, so FY26 is plotted as 2025; Anta converted at average annual CNY/USD rates.

THE CHINA SQUEEZE

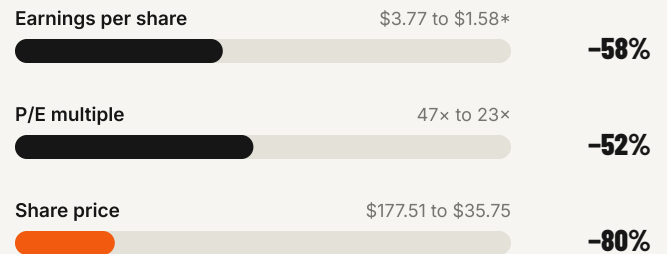
Greater China was Nike's growth engine. Revenue there peaked at \$8.3 billion in FY21 and has since fallen 29% to \$5.8 billion, with the fourth quarter of FY26 down 17%. Domestic brands have taken the ground. **Anta Group**, which also owns FILA China and Descente and holds a stake in Amer Sports (Arc'teryx, Salomon), grew revenue 13% to RMB 80.2 billion (about \$11 billion) in 2025, with an estimated 21.8% market share and a 23.8% operating margin. **Li-Ning** (RMB 29.6 billion), **Xtep** (RMB 14.2 billion) and **361°** (RMB 11.2 billion) compete on credible performance technology at lower prices. Faster, locally designed product cycles help them, as does "guochao", the wave of national-brand pride that accelerated after the 2021 Xinjiang cotton boycott.



/05 - FINANCIAL & MARKET IMPACT

BOTH HALVES OF THE EQUATION **BROKE.**

Between FY22 and FY26 revenue was flat, but almost every profit line shrank. Underlying gross margin fell from 46.0% to 40.8%, operating (EBIT) margin from 14.7% to about 6%, and underlying EPS from \$3.75 to \$1.58. Guidance compounded the damage. Nike repeatedly forecast below expectations, and in June 2026 said revenue would fall again in the first half of FY27. When earnings shrink and management cannot say when they will recover, investors cut the multiple they will pay. That is the durability lever at work, and it multiplied the earnings decline (Figure 6).

FIGURE 6 - PRICE = EPS × P/E · NOV 2021 VS SEP 2026


*Trailing EPS excluding a one-off \$986M tariff refund (\$2.10 reported). $0.42 \times 0.48 = 0.20$.

/06 - FIRST-PRINCIPLES DIAGNOSIS & LESSONS

EACH MOVE LOOKED RATIONAL. TOGETHER, THEY WEREN'T.

Nike's edge rested on three things: product innovation, demand creation, and presence on every relevant shelf. The 2017–2023 strategy traded the third for margin and data, starved the first by harvesting old franchises, and assumed marketing muscle would cover for both. Each decision looked sensible on a dashboard. Together they removed the slack a brand needs when tastes turn.

BRAND
**SCARCITY IS A BALANCE
YOU DRAW DOWN**

Every pair shipped beyond demand borrows against future pricing power.

CHANNEL
**SHELF SPACE IS RENTED,
NOT OWNED**

D2C shifts margin; it rarely creates demand. Vacated shelves go to rivals.

INNOVATION
**CATEGORIES REWARD
SPECIALISTS**

Organising by demographic instead of sport cost Nike the running boom.

MARKETS
**LOCAL SPEED BEATS
GLOBAL SCALE**

In China, faster cycles and national pride outran a global playbook.

CONCLUSION - WHAT HAS TO BE TRUE

Nike still has what challengers lack: **\$46 billion** of sales, **\$7.6 billion** of cash, the deepest athlete roster in sport, and a running business that recovered quickly once it got attention. Rebuilding requires four things: fresh product that returns Sportswear and Jordan (half of revenue) to growth; full-price selling that restores gross margin toward the mid-40s; a local-for-local model that stabilises China; and wholesale partners treated as a growth engine rather than a legacy. For investors, the question is no longer whether Nike is a great brand. It is whether management can turn that brand back into full-price demand. The first tests are Q1 FY27 results on **1 October** and the Investor Day on **16–17 November 2026**.

Sources: Nike Inc. Forms 10-K, 10-Q and 8-K earnings releases FY17–FY26 and Q4 FY26 call transcript; Yahoo Finance prices; results releases from On, Deckers, Asics, adidas, Anta, Li-Ning, Xtep and 361°; Foot Locker (Feb 2022); Strava Year in Sport 2025; Fortune, CNBC and Reuters reporting. Nike, Air Force 1, Dunk and Jordan are trademarks of Nike, Inc.; this is independent analysis, not affiliated with or endorsed by Nike.

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