

## Skechers U.S.A., Inc.

NASDAQ:SKX

**Analyst:** Brandon Casey

**Sector:** Consumer Disc.

**BUY**

Price Target: \$25.66

### Key Statistics as of 11/10/2016

Market Price:	\$21.47
Industry:	Apparel, Footwear, & Acc. Design
Market Cap:	\$3.38B
52-Week Range:	\$18.81-34.27
Beta:	0.20

### Catalysts:

- Continuation of organic growth
- Mid-run: Q4 Earnings 2016
- Continuity of marketing success

### Company Description:

Skechers U.S.A., Inc. (SKX) sells casual, active, rugged, and lifestyle footwear for men, women, and children of all ages. It sells its products to stores and retailers. Sketchers also sells its products across the world through distributors, in addition to selling directly to international customers through its own stores. The CEO/Founder Robert Greenberg has been with the company since its birth in 1992 along with co-founder and President Michael Greenberg. They endorse celebrities such as Meghan Trainor, Sugar Ray Leonard, Ringo Starr, Pete Rose, and Mariano Rivera. They believe brand recognition is a key to success in the footwear business, and it shows through their endorsements and advertising.



## Thesis

Skechers U.S.A., Inc. has continued to be a valuable and successful company in the footwear industry. Their ability to market and advertise their brand stands out amongst all competitors. Skechers does this through connecting to their customers by either endorsing superstars or sponsoring public events. In addition to branding, SKX has the financial success to prove there are an undervalued company. They grow at a faster rate than competitors and have margins at or around the industry average. Also, they have a low P/E ratio which leads me to believe SKX is an undervalued company. Many investors must see this too, since SKX has a short interest ratio of 1.27, lower than any big competitors. Overall the future is bright for Skechers and I believe it is a BUY at \$21.47 with a potential gain of 19.52%.

## Financials

SKX's margins and financials show how efficient they operate, and show that SKX may be undervalued. Skechers has a P/E ratio of 12.44. By using Capital IQ I found the median forward NTM P/E of 15.44. Multiplying this number by the NTM EPS gives us a median implied price per share of \$27.67. With a current price of \$21.41 this P/E shows us that SKX is undervalued.

33 Equity Valuation	33 CDS Spreads	34 Profitability	35 Balance Sheet	36 ESG			
Name (BICS Best Fit)	Sales Growth (%)	EBITDA Growth (%)	Operating Margin	Net Income Growth	Net Profit Margin	Netx/Sales (%)	Return on Invested
Average	0.74%	3.88%	13.40%	11.11%	25.33%	7.62%	9.08%
(M) SKECHERS USA INC-CL	17.61%	16.16%	12.95%	11.30%	16.19%	7.58%	19.63%
(M) XTEP INTERNATIONAL H	8.06%	21.76%	18.57%	17.54%	22.35%	12.11%	10.55%
(M) GEOX SPA	5.48%	18.19%	6.39%	2.47%	326.47%	0.99%	2.37%
(M) TOD'S SPA	1.61%	12.76%	21.16%	13.25%	-13.23%	7.96%	4.55%
(M) ZHEJIANG AOKANG SHO	1.12%	--	--	15.36%	9.72%	11.63%	6.67%
(M) DECKERS OUTDOOR COR	0.49%	-21.56%	12.29%	9.52%	-10.80%	7.07%	10.50%
(M) STEVEN MADDEN LTD	0.27%	4.26%	13.63%	12.01%	5.70%	8.18%	1.38%
(M) STELLA INTERNATIONAL	-2.61%	-17.20%	8.74%	6.18%	-20.50%	5.88%	4.78%
(M) CROCS INC	-2.84%	28.23%	2.35%	-0.82%	-36.97%	-2.17%	-3.93%

(Accounting adjustments: Adjusted for abnormal items, when applicable)

Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2377 Japan 81 3 3204 8800 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2016 Bloomberg Finance SN 892980 EST GMT-5-00 6397-4072-0 10

Above is the financial layout of Skechers compared to its competitors. Immediately I realized that Skechers has margins at or above the industry average. Skechers' sales growth of 17.61% is outperforming the industry average of 0.74%. Skechers also has EBITDA growth of 16.16%, which surpasses the industry average. It is clear that Skechers is growing faster than other competitors, but how efficiently are they growing? SKX has an EBITDA margin of 12.95%,

barely lower than the average of 13.40%. Their operating income margin of 11.30% is just above the industry average, and net profit margin of 7.58% is just under the average. So overall, SKX is growing much faster than the industry but they are just as efficient as their competitors.

However, I argue that SKX is more efficient than its competitors. In my proforma analysis, SKX had a ROC/WACC of 1.18 compared to a competitor average of 1.17. This does not say much, however, if you split that up into ROIC and WACC we get different results. SKX has an ROIC of 17.9% and WACC of 15.2%, compared to industry averages of 12.8% and 11.0%, respectively. Since SKX has higher values for these measures of efficiency, the stock is clearly undervalued.

## Ownership

Skechers is mainly owned by Investment Advisors, but also has 9.91% of themselves owned by Hedge Funds.



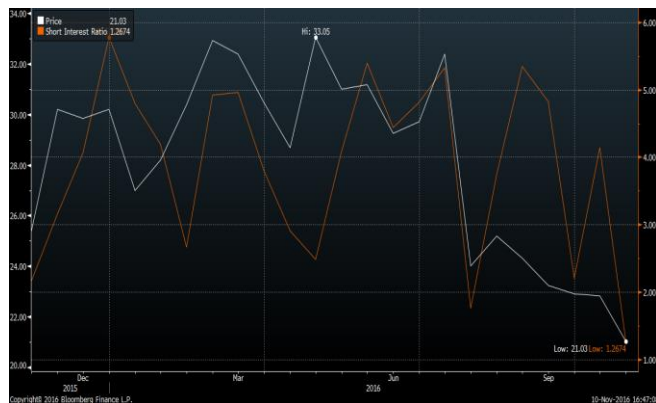
Ownership Type	11/06/16	Curr	Change
1) Investment Advisor	78.89	80.12	+1.23
2) Hedge Fund Manager	10.04	9.91	-0.13
3) Pension Fund	2.95	2.77	-0.18
4) Individual	2.53	2.53	0.00
5) Bank	1.86	1.85	-0.01
6) Government	2.15	1.27	-0.88
7) Insurance Company	0.75	0.63	-0.12
8) Brokerage	0.40	0.40	0.00
9) Foundation	0.18	0.18	0.00
0) Unclassified		0.10	
2) Other	0.10	0.10	0.00

At the end of September, a hedge fund called OZ Management LP increased their position by 1,400,423 shares. This is a significant amount of shares to buy at one time, so OZ Management LP must see potential in SKX. They might possibly see how SKX is currently undervalued since the P/E is low and their ROIC and WACC exceed its competitors.

## Short Interest

Skechers looks like a great company to invest in due to its financials. Apparently a lot of other investors agree. As of 10/31/16, its short interest ratio sits at 1.27. Over the course of its time on the market, SKX has a low short interest of 0.8257. Its current short interest is not far from the overall low by any means. In the recent

past, we can see how volatile the short interest has been.



The current short interest must be a reflection of how financially successful SKX is in comparison to competitors. Comparing short interest with competitors, SKX impresses as well. Competitors like Nike Inc. have a short interest of about 3.1459. Under Armour Inc. has a short interest of 3.7829, and DSW Inc. has a short interest of 7.0598. With a short interest of 1.27, it is easy to see investors have a lot of faith in Skechers in the long run.

## Advertising and Marketing

In addition to financial success, Skechers has been able to land many well-known figures and celebrities to endorse. Skechers has claimed that most of its success has come from having a popular brand and it believes it is an important factor in success in the footwear industry. Some endorsees are: Ringo Starr, Demi Lovato, Sugar Ray Leonard, Pete Rose, Joe Montana, Joe Namath, and Mariano Rivera. These household names help Skechers bring popularity to their already popular name.

Skechers is active in engaging consumers through social media. It has accounts on Facebook, Twitter, Instagram, Pinterest, and Snapchat. They use these sites as leverage to attract customers through effective sales techniques and special promotions. They are involved in several charity events, product tie-ins and giveaways, and collaborations with national retailers and radio stations. Last year they appeared at marathons in Boston, New York, London, and Paris. In 2016, they became the sponsor of The Skechers Performance Los Angeles Marathon. Clearly Skechers is doing all it can to become more popular amongst its customers.

## Conclusion

Skechers has already established itself as a big player in the footwear industry. With higher ROIC and WACC than competitors, we see that they are operating more efficiently than competitors and have great organic growth. The market currently has undervalued SKX and now is the time to buy. With a low P/E ratio we notice how SKX is undervalued. Their continued ability to attract customers through marketing and advertising shows us that Skechers is here to stay in the industry for the long run. Having low short interest, successful marketing, and impressive margins and profitability I would consider SKX a BUY at around \$21.47.

**Skechers U.S.A., Inc. (skx)**

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**NEUTRAL**

Analysis by Brandon Casey

Current Price:

\$21.47

Intrinsic Value

\$23.76

Target 1 year Return: 19.52%

Probability of Price Increase: 91.8%

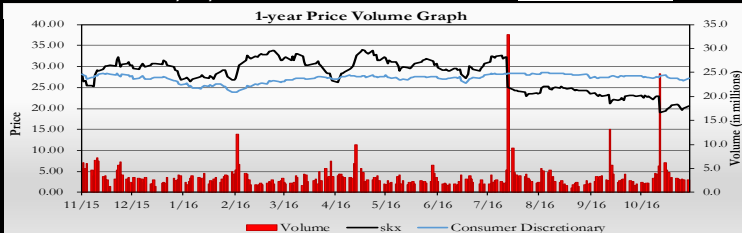
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Divident Yield:

0.0%

Target Price

\$25.66



**Description**  
Skechers U.S.A., Inc. designs, develops, markets, and distributes footwear for men, women, and children; and performance footwear for men and women under the Skechers GO brand name worldwide.

**General Information**

Sector	Consumer Discretionary
Industry	Textiles, Apparel and Luxury Goods
Last Guidance	November 3, 2015
Next earnings date	February 8, 2017
Estimated Country	Risk Premium 7.76%
Effective Tax rate	34%
Effective Operating Tax rate	36%

**Market Data**

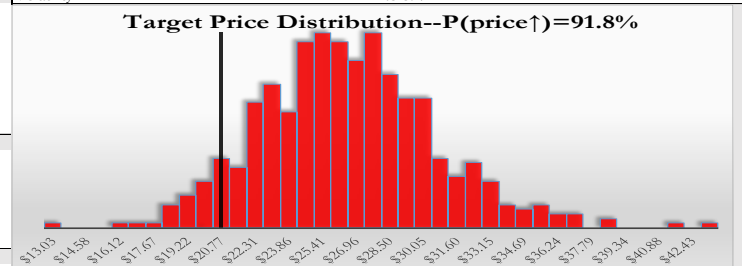
Market Capitalization	\$3,346.97
Daily volume (mil)	1.93
Shares outstanding (mil)	157.88
Diluted shares outstanding (mil)	154.89
% shares held by institutions	74%
% shares held by investments Managers	57%
% shares held by hedge funds	9%
% shares held by insiders	11.57%
Short interest	4.71%
Days to cover short interest	2.29
52 week high	\$34.27
52-week low	\$18.81
Levered Beta	0.14
Volatility	45.89%

**Past Earning Surprises**

Quarter ending	Revenue	EBITDA
9/30/2015	-2.53%	-20.41%
12/31/2015	3.50%	-28.80%
3/31/2016	3.96%	11.94%
6/30/2016	-1.99%	-16.27%
9/30/2016	-2.40%	2.60%
Mean	0.11%	-10.19%
Standard error	1.5%	7.6%

**Peers**

Wolverine World Wide Inc.
American Eagle Outfitters, Inc.
Genesco Inc.
DSW Inc.
Under Armour, Inc.
Deckers Outdoor Corp.
Columbia Sportswear Company
Finish Line Inc.

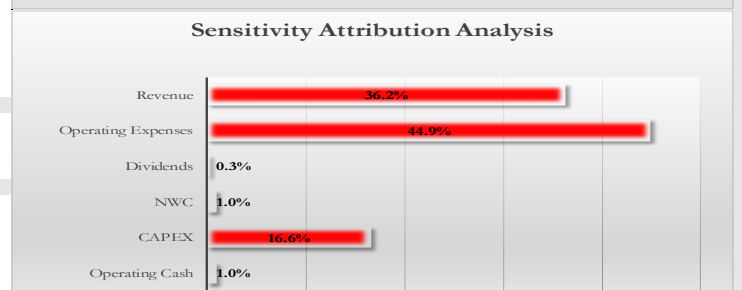


**Management**

Management	Position
Greenberg, Robert	Co-Founder, Chairman of the
Greenberg, Michael	Co-Founder, President and Di
Weinberg, David	Chief Financial Officer, Chi
Paccione, Philip	Executive Vice President of
Nason, Mark	Executive Vice President of
Greenberg, Jeffrey	Senior Vice President of Act

**Total compensations growth**

8.94% per annum over 5y
10.93% per annum over 5y
5.73% per annum over 5y
8.97% per annum over 5y
1.57% per annum over 5y
N/M



**Profitability**

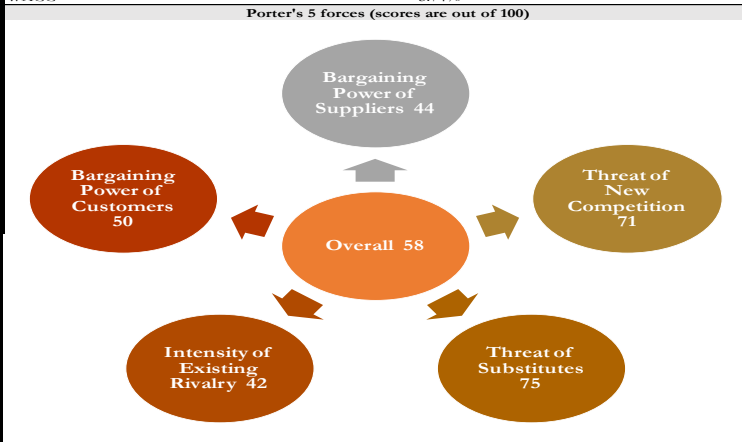
skx (LTM)	skx (5 years historical average)	Industry (LTM)
ROIC	14.4%	7.20%
NOPAT Margin	10%	8.10%
Revenue/Invested Capital	1.48	0.89
ROE	15.1%	6.75%
Adjusted net margin	8%	6.26%
Revenue/Adjusted Book Value	1.83	1.08

**Invested Funds**

skx (LTM)	skx (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	23.7%	21.4%
Estimated Operating Cash/Total Capital	23.7%	20.9%
Non-cash working Capital/Total Capital	20.4%	19.9%
Invested Capital/Total Capital	102.9%	102.1%

**Valuation**

Period	Revenue growth	NOPAT margin	ROIC/WACC
Base Year	17.6%	17.6%	2.51
9/30/2017	4.9%	7.9%	1.65
9/30/2018	11.6%	10.4%	2.22
9/30/2019	7.9%	10.2%	1.82
9/30/2020	5.0%	9.9%	1.64
9/30/2021	4.9%	10.1%	1.62
9/30/2022	4.7%	10.4%	1.62
9/30/2023	4.6%	10.6%	1.62
9/30/2024	4.5%	10.9%	1.61
9/30/2025	4.3%	11.1%	1.61
9/30/2026	4.2%	11.4%	1.61
Continuing Period	4.1%	11.6%	0.99



**Capital Structure**

skx (LTM)	skx (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.14	0.15
Cost of Existing Debt	18.93%	13.09%
Estimated Cost of new Borrowing	22.92%	16.21%
CGFS Risk Rating	F	C
Unlevered Beta (LTM)	0.13	0.65
WACC	5.74%	10.17%

**Net Claims**

Period	Invested Capital	Net Claims	Price per share
Base Year	\$1,851.48	\$575.55	\$24.11
9/30/2017	\$1,875.04	\$446.85	\$26.01
9/30/2018	\$2,003.03	\$717.93	\$28.58
9/30/2019	\$1,996.10	\$611.17	\$31.27
9/30/2020	\$2,392.16	\$373.10	\$33.98
9/30/2021	\$2,890.41	\$83.19	\$36.78
9/30/2022	\$3,084.29	-\$235.55	\$39.66
9/30/2023	\$3,902.52	-\$584.03	\$42.61
9/30/2024	\$4,337.17	-\$963.52	\$45.61
9/30/2025	\$4,628.69	-\$1,375.29	\$48.66
9/30/2026	\$4,896.19	-\$1,820.54	\$51.73
Continuing Period			