

Skechers U.S.A., Inc. designs and markets branded contemporary casual, active, rugged, and lifestyle footwear for men, women, and children. The Company sells its products to department stores and specialty retailers. Skechers also sells its products internationally through distributors and directly to consumers through its own retail stores.

BUY

Current Price: \$29.72
 Target Price: \$42.82
 Market Cap: 6.454B
 Beta: 1.0
 Other key Metrics/Ratios

EBITDA margin: 11.1
 Total debt: 7.85
 Total Equity: 15.59
 Total Debt/Equity: 4.15
 ROIC: 12.24
 Gross margin: 46.56
 Avg volume: 3.46 million



Thesis: Since 2012 Skechers has been increasing their revenue at an average of around 20% and has had an EBITDA margin at an average of around 12. They have had net income at an average of around 6.8 and they continue to reinvest into the company to build their brand, innovate, and start a global expansion. They have a major market growing in China and will be opening a new distribution center there. They are starting new products and building their market. Many of their customers are now

Catalysts:

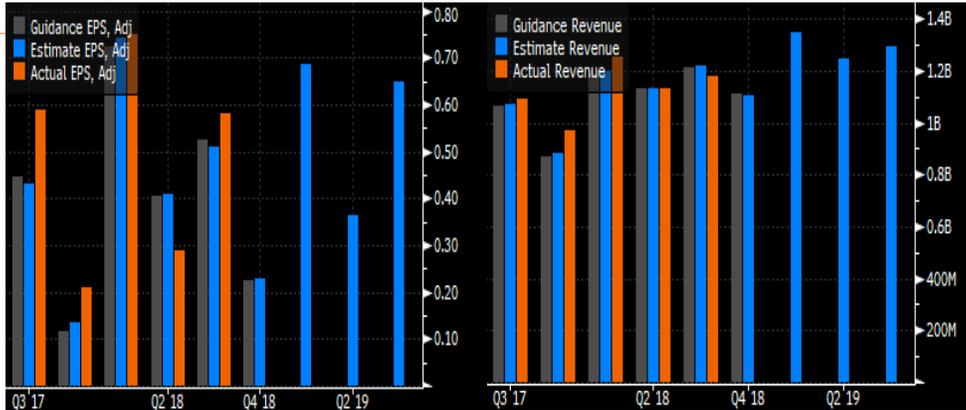
- Short Term: Reinvesting and innovation into the company to build cash
- Mid Term(1-2 years): New corporate offices and distribution center in China
- Long Term(3+): Expand globally

international and they have been seeing a lot of success. Skechers is coming a long way from where they started as a company and they are becoming a top company in their industry.

Earnings Performance:

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Over the last four years Skechers has grown their net income from \$140 million in 2014 to \$277 million in 2017. Over the past 4 years to current LTM they have had an average revenue growth of 21.16% and a constant gross profit of 45-47%. Skechers EBITDA margin has been steadily around 10-13% year after year. All of this showing that they have had a growing company earning around 10 to 13 cents on the dollar. Skechers cash and cash equivalents have increased from \$466 million in 2014 to \$890 million LTM along with their total debt decreasing from \$188 million in 2014 to \$87 million LTM, this showing that they may be positioning themselves for an acquisition. Skechers has been trying to rebrand themselves to attract an older market so that cash may be to help with advertising and pushing their brand to an older market. On 4/18/2018 (Q2) Skechers stock dropped 35% this was due to the fact that their merchandise is selling so fast that they could not keep pace with demand for their products and keep costs under control. It showed Skechers inability to replenish their inventories of popular footwear and caused distribution bottlenecks and higher costs associated with fixing them. Skechers resolved this problem by ramping up its global presence, non-North American sales now representing almost half of their revenue, which is up around 30% from 2014. Skechers is now building a distribution center in China to ease inventory hiccups where their sales jumped more then 30%. This charts below show where there estimates for EPS in Q3 were lower and their revenue was slightly lower which caused the dip in their stock. After Q3 ended Skechers had record sales of \$1.176 billion which is an increase of 7.5% and international wholesale sales increase 11.8% while repurchasing 1.4 million shares of common stock. Their brand has been growing internationally with men liking the “chunky” style. It has been popular with men, women, work, and golf. Skechers is showing a lot of upside potential with their growing market in the states and internationally.



Growth Potential

Skechers had a record Q3 in sales and beat their SG&A expenses and EPS even though revenue fell short. Their product lines continues to have substantial acceleration in sales and they resonate favorably. I believe that they have very limited downside potential with a lot of positive growth coming their way. As of now, Skechers has analysts at 6 buys, 7 holds, and 0 sells with an average price target of \$33. Skechers has been doing a lot to expand and rebrand their business, they talked in the Earnings report about opening new stores and remodeling. They also mention that the stores they are opening are bigger footprint stores because they are focusing in on the outlet and warehouse expression. They have been doing very well with return on equity also going from 1.18 in 2012 to 16.18 in 2017. On the revenue side they had 69.1% of overall revenue in the United States and 30.9% other international (mainly China). Which has now shifted to 53.2% in the US and 46.8% international because they are becoming a lot more popular in china and other international areas. Skechers currently has begun meetings with their domestic accounts for fall of 2019 and next month will be meeting with their international distributors, subsidiaries and joint venture partners. They are going into 2019 with a fresh new product in the pipeline and are continuing to invest in their brand and infrastructure and they expect to break ground for their new corporate offices and distribution center in China. They have a strong cash position and balance sheet and look to be very well positioned for global expansion. As you can see below Skechers has been growing consistently year after year and their cash and cash equivalents have been growing showing they are gaining a good position for expansion while lowering debt and continuing to produce value.

In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM	2018 Y Est	2019 Y Est
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	09/30/2018	12/31/2018	12/31/2019
Market Capitalization	2,804.3	4,640.3	3,808.2	5,915.5	4,738.6		
- Cash & Equivalents	466.7	508.0	718.5	736.4	890.0		
+ Preferred & Other	58.9	48.2	81.9	119.1	142.9		
+ Total Debt	118.3	84.7	75.0	80.9	87.0		
Enterprise Value	2,514.8	4,265.2	3,246.6	5,379.1	4,078.5		
Revenue, Adj	2,377.6	3,147.3	3,563.3	4,164.2	4,531.9	4,668.2	5,119.1
Growth %, YoY	28.8	32.4	13.2	16.9	14.5	12.1	9.7
Gross Profit, Adj	1,071.9	1,424.0	1,634.6	1,938.9	2,162.0	2,226.1	2,441.2
Margin %	45.1	45.2	45.9	46.6	47.7	47.7	47.7
EBITDA, Adj	259.7	409.7	437.0	463.5	515.6	515.6	562.2
Margin %	10.9	13.0	12.3	11.1		11.0	11.0
Net Income, Adj	140.3	235.7	243.8	277.7	292.4	289.7	308.7
Margin %	5.9	7.5	6.8	6.7	6.5	6.2	6.0
EPS, Adj	0.92	1.52	1.57	1.77	1.86	1.84	2.00
Growth %, YoY	149.3	66.4	3.1	12.6	16.4	4.2	8.6
Cash from Operations	163.9	232.2	361.6	159.3			
Capital Expenditures	-56.9	-118.1	-119.5	-136.0		-128.8	-168.0
Free Cash Flow	107.0	114.1	242.2	23.4		215.0	254.1

Debt

Skechers net debt from 2012 to 2017 has increased from -\$183 million to -\$655 million this is because of the expansion that they are trying to do. Their investments have increased shown by their cash from investing activities which went from -\$138 million in 2017 to -\$170 million LTM. Selling expenses were essentially flat versus the prior year at 7.7% which is a 50 basis point increase from 8.2% of sales in the prior year. Long-term debt was \$69.8 million compared to \$71.4 million on 9/30/2017. Skechers has opened 13 new company owned domestic and international stores and six store models which was \$12 million out of \$36.1 million in capital expenditures. For the remainder of 2018 Skechers expects their capital expenditures to keep going about \$20-\$25 million for 10-15 more store openings and 10-15 remodels. This is the reason that they have had a property, plant, and equipment increase from \$362 million in 2012 to \$541 million at the end of 2017. Doing this expansion Skechers has still kept their total debt low decreasing from \$118 million in 2014 to \$87 million LTM while increasing their assets from \$940 million in 2012 to \$2.1 billion LTM.

In Millions of USD except Per Share	2012 Y	2013 Y	2014 Y	2015 Y	2016 Y	2017 Y
12 Months Ending	12/31/2012	12/31/2013	12/31/2014	12/31/2015	12/31/2016	12/31/2017
 Total Current Assets	940.3	1,014.9	1,285.0	1,548.2	1,827.8	2,105.0
 + Property, Plant & Equip, Net	362.4	361.8	373.2	435.9	494.5	541.6
 + Property, Plant & Equip	572.4	606.4	653.2	762.3	878.2	980.1
 - Accumulated Depreciation	209.9	244.6	280.1	326.4	383.7	438.5

In Millions of USD	2014 Y	2015 Y	2016 Y	2017 Y	Current/LTM
12 Months Ending	12/31/2014	12/31/2015	12/31/2016	12/31/2017	09/30/2018
 Market Capitalization	2,804.3	4,640.3	3,808.2	5,915.5	4,738.6
 - Cash & Equivalents	466.7	508.0	718.5	736.4	890.0
 + Preferred & Other	58.9	48.2	81.9	119.1	142.9
 + Total Debt	118.3	84.7	75.0	80.9	87.0

Ownership Skechers had 76.72 ownership by investment advisors as of 10/14/2017 which has increased to 76.80 and a current ownership of 13.95 by hedge fund managers and the number of new buyers has increased by 3.17%. Short interest was at a high point of 11.252 million at the end of Q3 when price dropped and is slowly decreasing back down as the price slowly rises. With the average daily volume at 2.168 million. There was a few sell offs after the Q3 reports were off estimate on revenue but as Skechers fixes those problems investors are losing their doubts in their heads and the price is starting to push back upwards.

51) Institutional				52) Insider			
	10/14/18	Curr	Change		10/14/18	Curr	Change
11) % of Shares Held	91.58	91.74	+0.16%	21) % of Shares Held	2.47	2.47	0.00
12) % of Float Held	93.89	94.06	+0.17%	22) % Chg Insider Positions	-1.72	-1.72	0.00
13) # of Institutions	469	467	-0.43%	23) # of Insiders	12	12	0.00%
14) # of Buyers	170	167	-1.76%	24) # of Buyers Opn Mkt	0	0	
15) # of Sellers	137	137	0.00%	25) # of Sellers Opn Mkt	2	2	0.00%
16) # of New Buyers	63	65	+3.17%	26) # of Shrs Bought Opn Mkt	0	0	
17) # of Selloffs	109	112	+2.75%	27) # of Shrs Sold Opn Mkt	25,860	25,860	0.00%
18) % Chg in Inst Positions	-5.11	-5.42	-0.31%	28) Avg Opn Mkt Buy Price	0	0	
				29) Avg Opn Mkt Sell Price	28.16	28.16	0.00%
Top Geographic Ownership (%)				Top Ownership Type (%)			
53) Geographic				54) Ownership Type			
	10/14/18	Curr	Change		10/14/18	Curr	Change
31) UNITED STATES	90.42	90.42	0.00%	41) Investment Advisor	76.72	76.80	+0.08
32) Unknown	2.62	2.62	0.00%	42) Hedge Fund Manager	14.04	13.95	-0.09
33) BELGIUM	1.12	1.12	0.00%	43) Individual	2.62	2.62	0.00
34) UNITED KINGDOM	1.01	1.01	0.00%	44) Pension Fund	2.50	2.48	-0.02
35) NORWAY	1.01	1.01	0.00%	45) Insurance Company	1.13	1.17	+0.04
36) CANADA	0.96	0.96	0.00%	46) Sovereign Wealth Fund	1.00	1.00	0.00
37) LUXEMBOURG	0.76	0.75	-0.01%	47) Bank	0.85	0.85	0.00
38) SWITZERLAND	0.49	0.49	0.00%	48) Brokerage	0.67	0.67	0.00
39) FRANCE	0.49	0.49	0.00%	49) Government	0.35	0.35	0.00

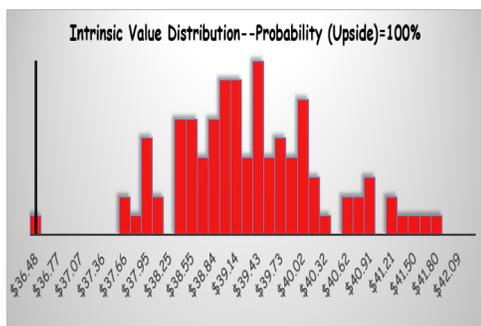
Bear Case

With the very limited downside that I see from Skechers there is a possible case that they already could have gone through their phase of growth. This would assume that they would be declining soon or start to slowdown in sales. If this happened and their expenses grew compared to their revenue then it could be a problem for the company. If their Expense/Revenue ended up around 95% then there could be a slight downfall in price to around the \$18-\$20 range.



Bull Case

If Skechers continues to produce the way that they are producing and expanding the way that they are expanded it is possible that their stock price can go up a significant amount. They have kept revenue at around 12-15% each year and have kept their EBITDA margin around a consistent 12%. Assuming that they revenue tapers out to 2.5% and they can keep their EBITDA margin to even 6%, which is less than historical average, while keeping their CAPEX/REV ratio to their historical average at around 3.74 they could see their stock price go up around \$42 dollars. They currently have a ROIC/WACC of 1.26 showing they are a value creating company and they have a small debt-to-equity percentage of 4.02% they are currently one of the top out of their competitors and I don't see why they would not continue to grow and expand.



Name (BICS Best Fit)	Mkt. Cap. (USD)	Rev - 1 Yr Gr-Y	P/E	ROE	Adj ROIC AR	ROIC/WACC Ratio	Debt/Equity LF
Median	4,308	5.96%	17.61	15.66%	13.28	1.26	21.39%
[0] SKECHERS USA, INC-CL A	4,748	16.86%	15.94	14.97%	13.61	1.26	4.02%
[0] DECKERS OUTDOOR CORP	3,208	6.32%	17.65	21.45%	18.76	1.54	3.54%
[0] STEVEN MADDEN LTD	2,478	10.47%	17.61	17.51%	15.96	1.29	0.00%
[0] WOLVERINE WORLD WIDE...	3,218	-5.80%	17.46	18.26%	--	0.04	65.19%
[0] CROCS INC	1,268	-1.23%	49.28	13.65%	--	0.65	--
[0] NIKE INC -CL B	117,858	5.94%	29.83	30.93%	--	3.50	38.77%
[0] UNDER ARMOUR, INC-CL A...	7,768	3.13%	128.25	3.28%	2.87	-0.59	40.51%
[0] COLUMBIA SPORTSWEAR CO	6,018	3.75%	24.14	15.66%	12.94	1.49	0.00%
[0] CARTER'S INC	4,388	6.29%	15.92	36.05%	17.80	2.69	84.26%
[0] PPH CORP	9,208	8.68%	13.26	13.42%	6.73	0.70	53.52%

Conclusion

Skechers has been a powerhouse the past few years and they have increased revenue, profit, EBITDA along with decreasing costs and increasing cash on hand. They are turning into a strong company that has the potential for global expansion with an upside potential that could be very large. If they continue to expand and grow with the results that they have seen already in china and other international areas they could see a strong push in stock price in the upcoming year or two years.

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