

## Skechers USA Inc

## Conference takeaways: US wholesale outlook improving but not out of woods

Reiterate Rating: NEUTRAL | PO: 67.00 USD | Price: 62.20 USD

## Focus remains on finding ways to leverage SG&amp;A

We hosted John Vandemore, CFO for investor meetings at our consumer conference in Miami. Mgmt. expects total sales growth this year will be driven more by unit growth (vs ASP) and reiterated expectations for gross margin expansion to be relatively offset by SG&A deleverage. We expect SKX will lean hard into looking for ways to leverage SG&A this year as a source of upside to guidance however we think this could prove difficult. We remain Neutral rated and see a balanced risk/reward with SKX trading at 16x P/E.

## US wholesale outlook improving, but not out of the woods

Mgmt. had a cautiously optimistic tone on US wholesale in 1H, citing visibility that the channel is improving. On the positive front, conversations with retailers are getting better. Certain accounts continue to perform very well while other accounts that have been struggling are generally improving, but still not out of the woods. That said, for the overall business, it seems tough to gauge when strong sell through trends will converge with materially better sell in trends. Overall, mgmt. doesn't think this year will be a big restocking year and reiterated guidance for US wholesale sales to increase LSD-MSD.

## Int'l growth should be aided by Hands Free Slip-Ins

We remain positive on the continuation of robust int'l growth and expect the broader roll out of the Skechers Hands Free Slip-Ins technology will provide a nice boost to the business. Mgmt. reiterated confidence that the 4Q slowdown in European wholesale was transitory, partly due to a difficult compare and partly due to inventory issues at a handful of customers that has been resolved. We think China continues to be a compelling long-term opportunity, but the macro environment may prevent the business from returning to its normal algo of high teens (plus) in '24. In India, we remain more cautious on near term trends given the inability to import product under new regulations.

## Soccer/basketball roll out will take time

The focus this year on the recent soccer and basketball product roll out will be improving awareness and eventually rolling out more commercialized product in 2H (more assessable price points). Next year, the company's goal is to have more wholesale orders, particularly internationally. We view this category expansion as relatively immaterial to the business this year, but will gauge the longer term potential once the commercial rolls out into the market.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.38	3.49	3.82	4.58	5.23
EPS Change (YoY)	-8.1%	46.6%	9.5%	19.9%	14.2%
Consensus EPS (Bloomberg)			3.91	4.56	4.92
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.1x	17.8x	16.3x	13.6x	11.9x
EV / EBITDA*	11.7x	8.5x	7.6x	6.5x	5.8x
Free Cash Flow Yield*	-1.5%	11.0%	4.4%	5.4%	6.6%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 4.

14 March 2024

## Equity

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## Stock Data

Price	62.20 USD
Price Objective	67.00 USD
Date Established	8-Mar-2024
Investment Opinion	B-2-9
52-Week Range	41.56 USD - 65.17 USD
Mkt Val (mn) / Shares Out (mn)	8,278 USD / 133.1
Free Float	99.3%
Average Daily Value (mn)	123.47 USD
BofA Ticker / Exchange	SKX / NYS
Bloomberg / Reuters	SKX US / SKX.N
ROE (2024E)	12.6%
Net Dbt to Eqty (Dec-2023A)	-21.3%
ESGMeter™	Medium

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## Key terms

ASP: average selling price

Int'l: International

LSD – Low single-digit

MSD- Mid single-digit

SKX- Sketchers U.S.A.

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Timestamp: 14 March 2024 05:00AM EDT

# iQprofile<sup>SM</sup> Skechers USA Inc

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	8.7%	11.4%	11.4%	12.1%	12.2%
Return on Equity	10.1%	13.2%	12.6%	13.1%	13.0%
Operating Margin	7.3%	9.8%	10.1%	10.6%	11.0%
Free Cash Flow	(121)	907	360	446	550

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.6x	2.3x	1.3x	1.2x	1.2x
Asset Replacement Ratio	2.3x	1.8x	2.1x	1.9x	1.7x
Tax Rate	17.8%	18.8%	20.5%	20.0%	20.0%
Net Debt-to-Equity Ratio	-9.8%	-21.3%	-25.6%	-29.8%	-34.1%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	7,445	8,000	8,837	9,885	10,859
% Change	18.0%	7.5%	10.5%	11.9%	9.9%
Gross Profit	3,515	4,152	4,640	5,215	5,756
% Change	12.5%	18.1%	11.7%	12.4%	10.4%
EBITDA	700	967	1,082	1,263	1,427
% Change	-7.0%	38.0%	12.0%	16.7%	13.0%
Net Interest & Other Income	(24)	16	0	0	0
<b>Net Income (Adjusted)</b>	<b>373</b>	<b>546</b>	<b>595</b>	<b>713</b>	<b>814</b>
<b>% Change</b>	<b>-8.1%</b>	<b>46.3%</b>	<b>8.9%</b>	<b>19.9%</b>	<b>14.2%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	373	546	595	713	814
Depreciation & Amortization	154	182	190	215	236
Change in Working Capital	(433)	304	(93)	(149)	(168)
Deferred Taxation Charge	(6)	(2)	0	0	0
Other Adjustments, Net	151	202	68	68	68
Capital Expenditure	(359)	(324)	(400)	(400)	(400)
<b>Free Cash Flow</b>	<b>-121</b>	<b>907</b>	<b>360</b>	<b>446</b>	<b>550</b>
<b>% Change</b>	<b>-23.7%</b>	<b>NM</b>	<b>-60.3%</b>	<b>23.8%</b>	<b>23.4%</b>
Share / Issue Repurchase	(66)	(151)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	(2)	(38)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	616	1,190	1,550	1,996	2,546
Trade Receivables	848	860	950	1,063	1,168
Other Current Assets	2,182	1,902	2,030	2,233	2,448
Property, Plant & Equipment	1,345	1,507	1,716	1,902	2,066
Other Non-Current Assets	1,902	2,088	2,088	2,088	2,088
<b>Total Assets</b>	<b>6,893</b>	<b>7,547</b>	<b>8,335</b>	<b>9,281</b>	<b>10,316</b>
Short-Term Debt	20	12	12	12	12
Other Current Liabilities	1,593	1,649	1,774	1,940	2,092
Long-Term Debt	216	243	243	243	243
Other Non-Current Liabilities	1,192	1,243	1,243	1,243	1,243
<b>Total Liabilities</b>	<b>3,022</b>	<b>3,147</b>	<b>3,272</b>	<b>3,438</b>	<b>3,590</b>
<b>Total Equity</b>	<b>3,872</b>	<b>4,400</b>	<b>5,063</b>	<b>5,843</b>	<b>6,726</b>
<b>Total Equity &amp; Liabilities</b>	<b>6,893</b>	<b>7,547</b>	<b>8,335</b>	<b>9,281</b>	<b>10,316</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 4.

## Company Sector

Footwear

## Company Description

Skechers is the third largest global athletic footwear company and was founded in 1992. Roughly half of the business comes from the wholesale channel and the company is nearly evenly split between US/international revenues.

## Investment Rationale

Our Neutral rating on Skechers (SKX) reflects our view that the risk/reward is balanced given the long-term sales and margin potential with the near-term wholesale challenges.

## Stock Data

Average Daily Volume 1,988,133

## Quarterly Earnings Estimates

	2023	2024
Q1	1.02A	1.10E
Q2	0.98A	1.06E
Q3	0.93A	1.02E
Q4	0.56A	0.64E

## Price objective basis & risk

### Skechers USA Inc (SKX)

Our \$67 PO is based on 17.5x P/E, a slight premium to the stock's historical average of 16x given our confidence in executing on sales growth but a discount to high growth footwear peers given the company's lower margin profile.

Upside risks to our PO are a faster than expected recovery in wholesale and in China.

Downside risks to our PO are a slowdown in footwear sales due to a weaker macro environment and a longer than expected recovery in wholesale.

## Analyst Certification

I, Christopher Nardone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Amer Sports Inc	AS	AS US	Lorraine Hutchinson, CFA
	Bath & Body Works Inc	BBWI	BBWI US	Lorraine Hutchinson, CFA
	Burlington Stores	BURL	BURL US	Lorraine Hutchinson, CFA
	Crocs, Inc.	CROX	CROX US	Christopher Nardone
	Deckers Outdoor Corp	DECK	DECK US	Christopher Nardone
	European Wax Center	EW CZ	EW CZ US	Lorraine Hutchinson, CFA
	lululemon athletica Inc	LULU	LULU US	Lorraine Hutchinson, CFA
	Oddity Tech	ODD	ODD US	Lorraine Hutchinson, CFA
	PVH Corp	PVH	PVH US	Christopher Nardone
	Ralph Lauren	RL	RL US	Christopher Nardone
	Ross Stores Inc	ROST	ROST US	Lorraine Hutchinson, CFA
	Tapestry Inc.	TPR	TPR US	Lorraine Hutchinson, CFA
	TJX Companies	TJX	TJX US	Lorraine Hutchinson, CFA
	Urban Outfitters	URBN	URBN US	Lorraine Hutchinson, CFA
<b>NEUTRAL</b>				
	American Eagle	AEO	AEO US	Christopher Nardone
	Birkenstock	BIRK	BIRK US	Lorraine Hutchinson, CFA
	FIGS, Inc.	FIGS	FIGS US	Alice Xiao
	Foot Locker	FL	FL US	Lorraine Hutchinson, CFA
	Levi Strauss & Co.	LEVI	LEVI US	Christopher Nardone
	Nike	NKE	NKE US	Lorraine Hutchinson, CFA
	Signet Jewelers	SIG	SIG US	Lorraine Hutchinson, CFA
	Skechers USA Inc	SKX	SKX US	Christopher Nardone
	Ulta Beauty	ULTA	ULTA US	Lorraine Hutchinson, CFA
	Under Armour Inc	UAA	UAA US	Lorraine Hutchinson, CFA
<b>UNDERPERFORM</b>				
	Aritzia	YATZ	ATZ CN	Alice Xiao
	Aritzia	ATZAF	ATZAF US	Alice Xiao
	Carter's Inc	CRI	CRI US	Christopher Nardone
	Gap Inc.	GPS	GPS US	Lorraine Hutchinson, CFA
	Kohl's	KSS	KSS US	Lorraine Hutchinson, CFA
	Nordstrom	JWN	JWN US	Lorraine Hutchinson, CFA
	Revolve	RVLV	RVLV US	Alice Xiao
	V F Corp	VFC	VFC US	Lorraine Hutchinson, CFA
	Victoria's Secret & Co	VSCO	VSCO US	Alice Xiao



## US - Softline Retailing and Dept Stores Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>RSTR</b>	Macy's	M	M US	Lorraine Hutchinson, CFA

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

**Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

**Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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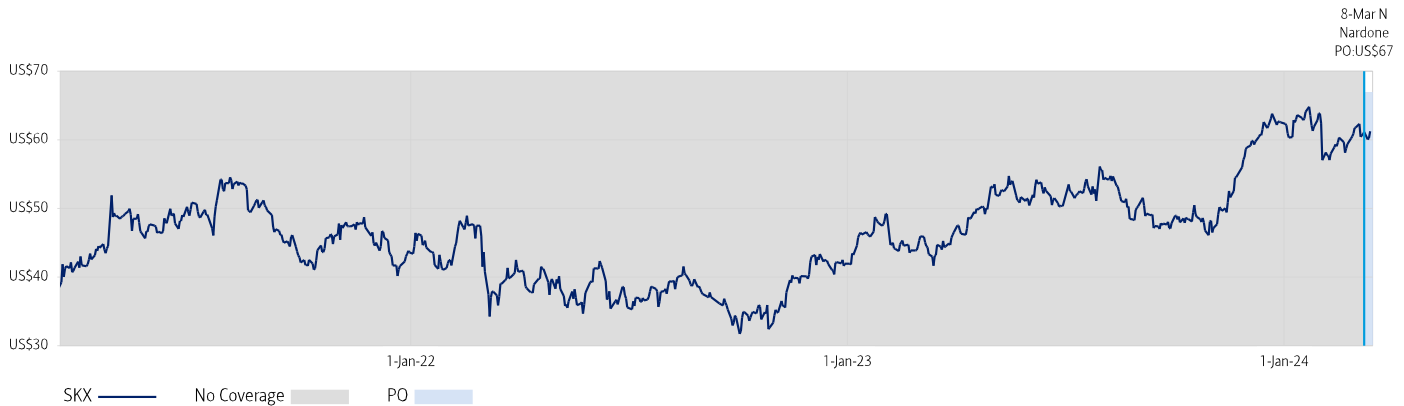
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	13	52.00%	Buy	8	61.54%
Hold	6	24.00%	Hold	3	50.00%
Sell	6	24.00%	Sell	2	33.33%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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