

Skechers USA Inc

Putting its best foot forward, but not without challenges; Initiate at Neutral

Initiating Coverage: NEUTRAL | PO: 67.00 USD | Price: 61.14 USD

Risk/reward balanced at current valuation

We are initiating coverage on Skechers (SKX), the third largest global athletic footwear brand, with a Neutral rating and \$67 PO. We think a LDD sales CAGR is sustainable and see a path for SKX to reach the 11-13% operating margin target over the medium term. In our view, SKX's 16x P/E fairly balances the long-term sales and margin potential with the near-term wholesale challenges. Our \$67 PO is based on 17.5x F24E EPS, a premium to the 15x 5yr historical avg given the rerating in footwear peer multiples.

A strong sales algo with global runway

Confidence in our double-digit sales forecast is driven by multiple growth levers: new stores (5k+ today and on path to 10k), int'l growth (focus on India, China, Europe), and category expansion, including broader adoption of its Slip-in technology (aka "hands free shoes"). We forecast F24E EPS of \$3.82, 2% below consensus and within the company's \$3.65-3.85 guide. In a scenario where SKX beats the midpoint of its current EPS guide by 20% (\$4.50 in EPS power), our \$67 PO would imply a 15x multiple, which is roughly in line with the stock's historical avg.

Limited margin expansion this year could cap EPS upside

We think today's healthy merchandise margin may cap gross margin upside (current GM at historical highs). The company is also unlikely to take its foot off the pedal on investing for sustainable growth, so leveraging SG&A is uncertain in the near-term. We think SKX can deliver on its F24 outlook but find it hard pressed to underwrite significant upside; we forecast 10.1% operating margin in '24 (+30bp) and 11% by '26.

Wholesale is not out of the woods yet

We remain relatively cautious on the outlook for wholesale (56% of sales). The US wholesale market remains choppy as recent commentary from peers suggests that some retailers are not yet back to full strength. Int'l wholesale (includes distributor/franchises) has also cooled in recent quarters, but we expect a gradual return to a double-digit exit rate by year end. We forecast total wholesale growth of 4% in 2024 (vs -3% in 2023).

China is a long term oppty, but near-term question mark

Skechers' China business (15% of sales) performed well in 2023 (reported sales increased 16% vs -15% in '22). We are cautiously optimistic about the business given consistent investments and a growing middle-class but recognize the macro environment remains uncertain, and near-term results could be uneven.

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)			3.92	4.56	4.92
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	25.7x	17.5x	16.0x	13.3x	11.7x
EV / EBITDA*	11.5x	8.4x	7.5x	6.4x	5.7x
Free Cash Flow Yield*	-1.5%	11.2%	4.4%	5.5%	6.8%

* For full definitions of *IQmethod*SM measures, see page 13.

08 March 2024

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Stock Data

Price	61.14 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
Mrkt Val (mn) / Shares Out (mn)	8,137 USD / 133.1
Free Float	99.3%
Average Daily Value (mn)	119.23 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 TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

LDD: low double digits

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Timestamp: 08 March 2024 06:00AM EST

iQprofileSM Skechers USA Inc

iQmethodSM – 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

iQmethodSM – 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
Net Income (Adjusted)	373	546	595	713	814
% Change	-8.1%	46.3%	8.9%	19.9%	14.2%

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)
Free Cash Flow	-121	907	360	446	550
% Change	-23.7%	NM	-60.3%	23.8%	23.4%
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
Total Assets	6,893	7,547	8,335	9,281	10,316
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
Total Liabilities	3,022	3,147	3,272	3,438	3,590
Total Equity	3,872	4,400	5,063	5,843	6,726
Total Equity & Liabilities	6,893	7,547	8,335	9,281	10,316

* For full definitions of iQmethodSM measures, see page 13.

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 1,950,055

Quarterly Earnings Estimates

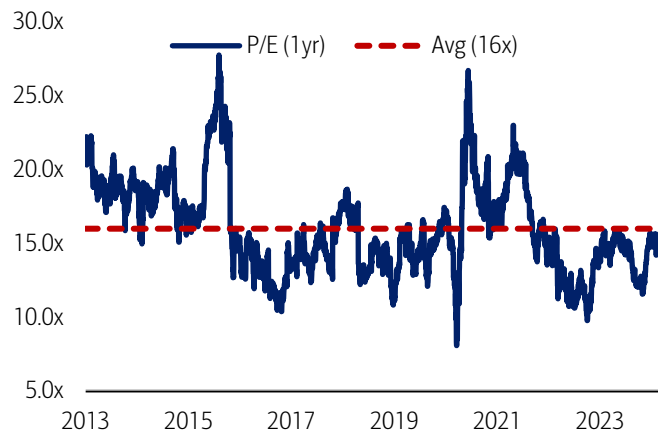
	2023	2024
Q1	1.02A	1.10E
Q2	0.98A	1.06E
Q3	0.93A	1.02E
Q4	0.56A	0.64E

Initiating coverage with Neutral, \$67 PO

We are initiating coverage on Skechers (SKX) with a Neutral rating and \$67 PO. We think SKX's historical average 16x P/E multiple fairly balances the stock's long-term sales and margin potential with the near-term challenges around wholesale. Our \$67 PO is based on 17.5x F24E EPS, a premium to the stock's 16x historical avg given the rerating in footwear peer multiples. We forecast F24 EPS of \$3.82, 2% below consensus and within the \$3.65-3.85 guidance. In a scenario where SKX beats the midpoint of its current EPS guide by 20% (\$4.50 in EPS power), our \$67 PO would imply a 15x multiple, which is roughly in line with the stock's historical avg (and in line with the 5yr average).

Exhibit 1: SKX trades at 16x P/E (F24), in line with its long term avg

Historical 1yr forward P/E

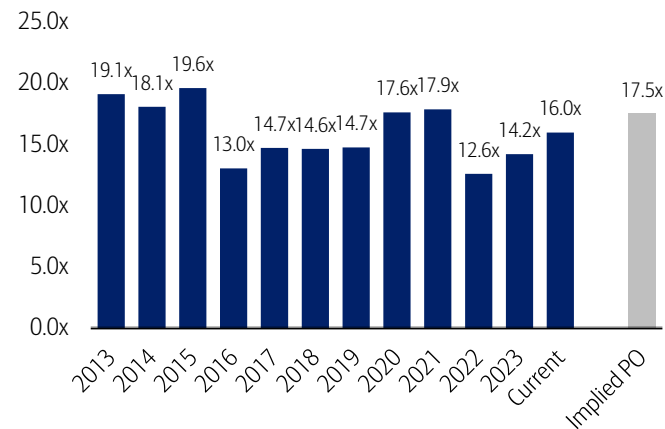


Source: Bloomberg

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Exhibit 2: Our \$67 PO is based on 17.5x P/E (F24E)

Average 1yr forward P/E multiple since 2013



Source: Bloomberg

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SKX is trading at 16x P/E (F24E); a discount to the footwear peer average of 27x. Sales growth is relatively in line with the group but operating margins and EPS growth (F25E) are below the peer average.

Exhibit 3: SKX trades at a discount to footwear peers; similar sales growth but lower margins

Global footwear comp table

Company	Ticker	Mkt Cap (mn)	Sales growth		EPS growth		EBIT margin	P/E		EV/EBITDA	
			2024E	2025E	2024E	2025E	2025	2024E	2025E	2024E	2025E
adidas*	ADS	\$33,912	5%	9%	n/a	104%	6.8%	61.0x	29.9x	16.6x	11.4x
Birkenstock*	BIRK	\$8,312	17%	17%	15%	34%	24.7%	35.0x	26.1x	17.7x	14.6x
Boot Barn	BOOT	\$2,733	4%	13%	-7%	16%	11.9%	18.1x	15.5x	10.1x	8.2x
Crocs	CROX	\$7,502	4%	5%	5%	7%	24.9%	9.8x	9.1x	8.1x	7.7x
Deckers	DECK	\$23,432	11%	12%	6%	9%	19.5%	31.1x	28.5x	23.1x	21.2x
Nike	NKE	\$148,770	4%	7%	10%	23%	14.4%	26.1x	21.3x	19.8x	16.4x
On Holding*	ONON	\$8,951	29%	27%	41%	33%	14.0%	39.2x	29.4x	23.1x	17.2x
Puma*	PUM	\$6,298	4%	8%	13%	25%	7.9%	18.1x	14.5x	7.4x	6.7x
Steve Madden	SHOO	\$3,132	11%	6%	7%	13%	11.7%	16.2x	14.3x	11.4x	10.5x
Under Armour	UAA	\$3,628	0%	6%	-12%	30%	6.7%	15.2x	11.7x	6.3x	5.3x
Average			9%	11%	9%	29%	14.2%	27.0x	20.0x	14.3x	11.9x
Skechers	SKX	\$9,371	10%	12%	9%	20%	10.6%	16.0x	13.3x	7.8x	6.7x

Source: BofA Global Research estimates, Visible Alpha, Bloomberg

Note: results are calendarized, ADS, BIRK, ONON, PUM in local currency. BOOT and SHOO are not covered by BofA Global Research.

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Margins: upside is limited in near term

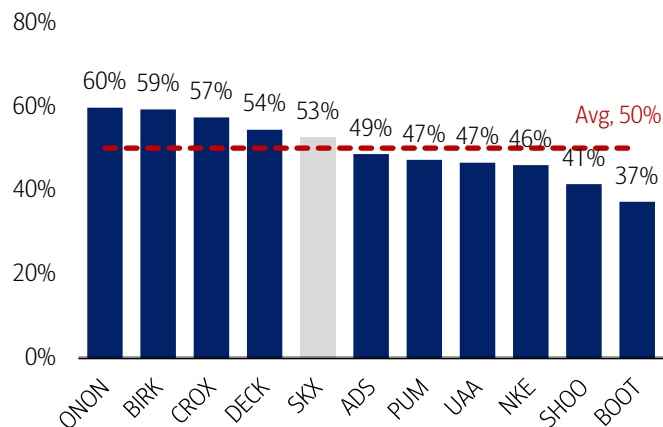
Like all brands, Skechers is faced with the challenge of investing for sustainable growth while focusing on delivering opex leverage to drive margin expansion. We expect modest GM expansion will be driven by the continuation of international and DTC outperformance. This expansion would be limited and will likely reverse if a wholesale restocking cycle occurs. This is not our base case we think but a significant recovery in wholesale sales would be well received given the increase in gross profit dollars and the fact that the company's operating margins are relatively agnostic to channel mix.

While a positive today, the other near-term risk is the company's relatively healthy merchandise margins. Any volatility on promotions, FX rates, shipping costs, or product costs could curtail a clean merchandise margin story. Like all brands in this space, we continue to watch how the Red Sea disruption evolves given total China production represents roughly 40% of total production and SKX has a meaningful business in Europe (23% of sales).

SKX has an above average gross margin relative to global footwear peers but has higher SG&A as a percentage of sales than almost all peers (we recognize that some companies have different treatment of certain cost factors like rent and logistics). Improving SG&A efficiency is the biggest opportunity for the company to unlock further margin expansion.

Exhibit 4: SKX GM profile is above peer average

Gross margin (F24): SKX compared to peers



Source: BofA Global Research estimates, company reports, Visible Alpha

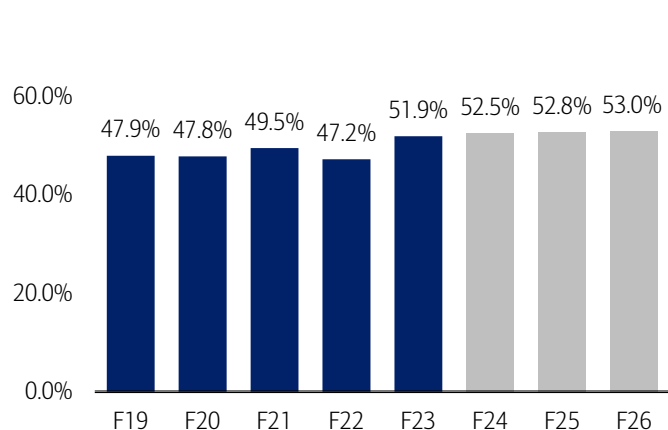
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We have less visibility on whether SKX can drive SG&A leverage in the near term, especially since wholesale is a heavy fixed cost business and is currently not performing in line with its potential. Other cost pressures that will likely remain are 1) marketing: Skechers has historically leaned heavily into marketing with celebrities and recently launched its football and basketball businesses, which we expect will come with increased advertising costs, 2) stores (rent, depreciation): Skechers recently surpassed 5,000 total stores and expects to open 140-160 stores this year in addition to opening more partner/franchise stores, particularly in China, 3) labor costs: it's hard to underwrite relief from global labor costs.

Long term margin of 11-13% is still in the cards: We forecast operating margin expansion of 30bp to 10.1% in '24 and forecast 11% by '26.

Exhibit 6: We forecast modest gross margin expansion in '24-'26

SKX gross margin history and forecast

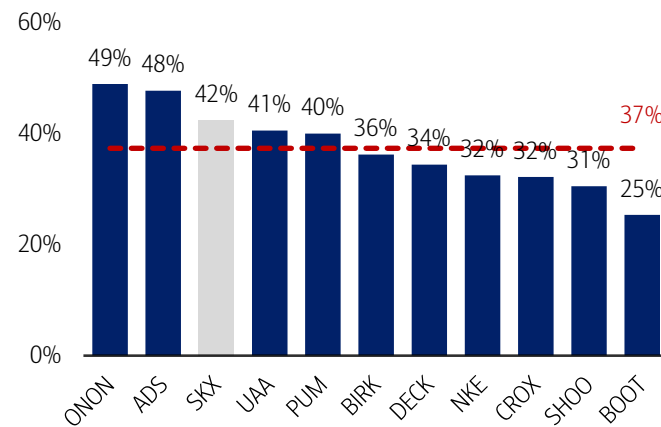


Source: BofA Global Research estimates, company reports

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Exhibit 5: ...but SG&A is higher than most peers

SG&A as percentage of sales (F24): SKX compared to peers

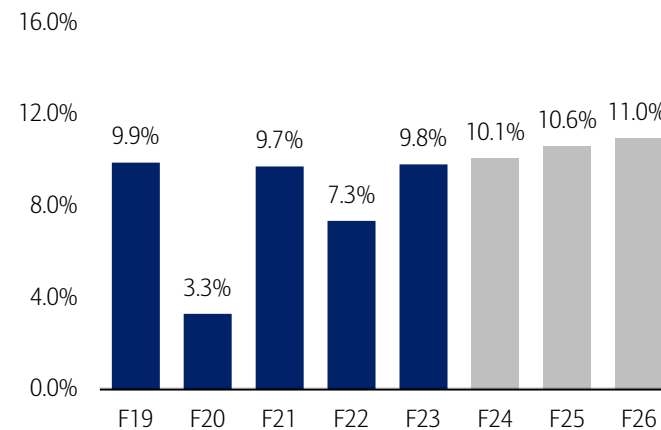


Source: BofA Global Research estimates, company reports, Visible Alpha

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Exhibit 7: We forecast modest operating margin expansion in '24-'26

SKX operating margin history and forecast



Source: BofA Global Research estimates, company reports

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Near term wholesale trends challenged

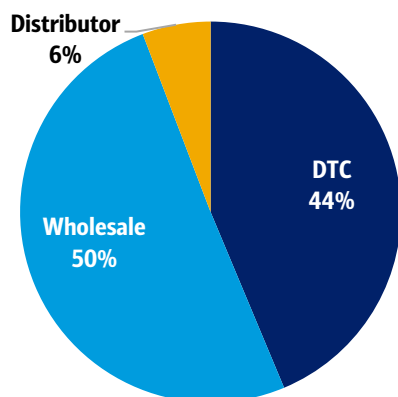
We remain relatively cautious on the outlook for the wholesale business, which represents 56% of total sales. In the US, the wholesale market remains choppy with certain retailers performing better than others. We are encouraged by management's recent comments that order books are favorable in 1H for the first time in a while but given Skechers' wide distribution, we suspect some retailers will continue to remain under pressure based on broader commentary from other brands and retailers. Longer term, the company views the US wholesale channel as a MSD growth market but in the foreseeable future, we view this as a LSD growth business for SKX. We forecast 3% growth in US wholesale in F24 compared to -14% in 2023 and note the company has favorable compares in 1H24 (1Q23 was down 18%, 2Q23 was down 25%).

International wholesale (which includes distributor/franchise businesses) has also cooled in recent qtrs. due to inventory congestion at select retail partners in EMEA. We expect a gradual return to a double digit exit rate by the end of the year. We forecast total wholesale growth of 4% in 2024 (domestic +3%, int'l +5%).

From a margin perspective, we estimate that wholesale and DTC EBIT margins are relatively comparable. That said, the continuation of DTC outperforming wholesale will likely help support gross margins. DTC gross margins are in the mid 60% compared to wholesale in the high 30%/low 40% range.

Exhibit 8: Wholesale/distributor represent the majority of the business

SKX channel mix

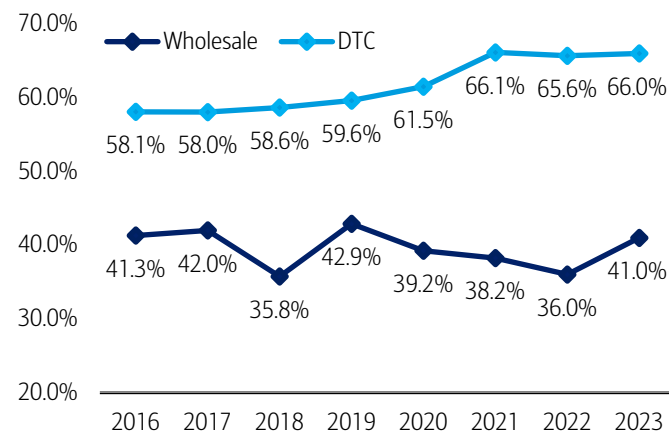


Source: Company reports

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Exhibit 9: SKX has maintained DTC gross margin in mid 60% since '21

SKX gross margin history by channel



Source: Company reports

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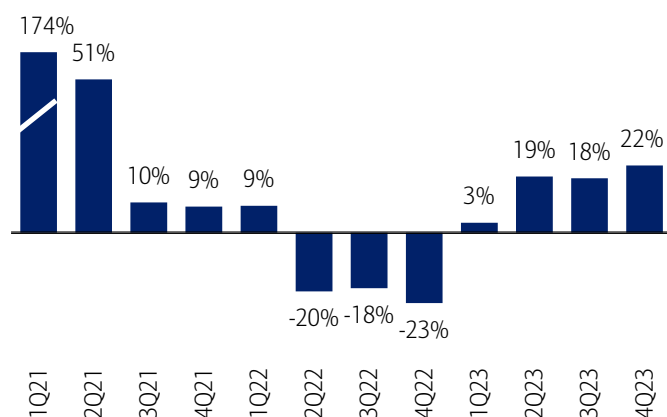
China long term oppty, near term question

Skechers' China business performed well in 2023, reporting 16% sales growth compared to -15% in 2022. China now represents 15% of the total business compared to 20% in 2021. We estimate that half of Skechers China business comes from online, including platforms like Tmall and the company's owned website. The rest of the China business includes owned and operated stores and franchised partners. Note Skechers works with a joint venture partner, Luen Thai, to help operate its China business. We are cautiously optimistic about the business given consistent investments and a growing middle-class but recognize the macro environment remains uncertain, and near-term results could be uneven. **SKX CFO on China (4Q23 EPS call, 2/1):** "Now, I would say, it's still not back to where we think it will reset eventually. It is still a market in recovery....we're optimistic about what we see."

Skechers reported China growth: China growth improved in 2023 with sales increasing 3%/19%/18%/22% in 1Q23-4Q23 compared to down 15% in 2022.

Skechers footwear Taobao/Tmall results: Skechers footwear sales on Taobao and Tmall were +4% y/y in Jan and -27% in Feb. This compares to the sportswear industry +15% in Jan and -15% in Feb.

Exhibit 10: China growth improved in '23 on weaker compares
SKX China sales growth (y/y)



Source: Company reports

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Exhibit 11: SKX Taobao/Tmall sales have lagged the industry since Sept
Skechers Taobao/Tmall sales (Moojing) compared to industry

	Industry	Skechers
Jan '23	-28%	-50%
Feb '23	17%	36%
Mar '23	5%	5%
April '23	17%	75%
May '23	16%	32%
Jun '23	15%	10%
Jul '23	-5%	18%
Aug '23	-15%	14%
Sept '23	-17%	-39%
Oct '23	4%	3%
Nov '23	-10%	-11%
Dec '23	7%	3%
Jan '24	15%	4%
Feb '24	-15%	-27%

Source: Moojing

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Double digit sales growth is likely sustainable

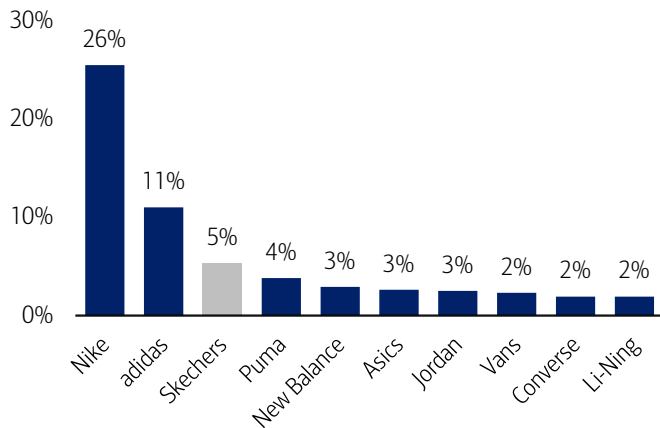
Skechers benefits from a combination of category, channel, and geographic diversification. We think sales can grow at a 11% sales CAGR over the next three years despite some near-term softness in wholesale. While this is an excellent growth rate compared to most companies in the sector, our expectation for growth is relatively in line with Street expectations, therefore we think the market needs to see beats compared to our forecast. We think the following are key growth drivers for the company:

Category expansion: Skechers is the third largest athletic footwear brand in the world and benefits from its broad array of footwear products including athletic shoes, boots, sandals, work shoes, dress shoes, among others. Skechers benefits from category diversification, with no single category representing more than 10% of the business, and its ability to implement different comfort technologies into a variety of different products. For instance, we think the hands-free slip in technology is still in the early innings of gaining global adoption and think this innovation will continue to unlock sales opportunities as awareness increases. Furthermore, Skechers has ventured into new sports categories such as pickleball, soccer, and basketball. While the latter two are still in early days, the brand has signed some big athletes including Harry Kane and Julius Randle (among others) to help jump start each business.



Exhibit 12: Skechers is the third largest athletic footwear company

Global sports footwear market share (top 10, source Euromonitor)

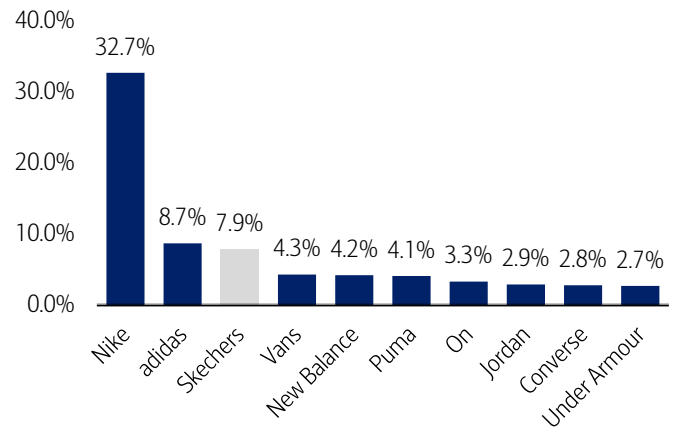


Source: Euromonitor

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Exhibit 13: ...in both the US and globally

North America sports footwear market share (top 10, source Euromonitor)



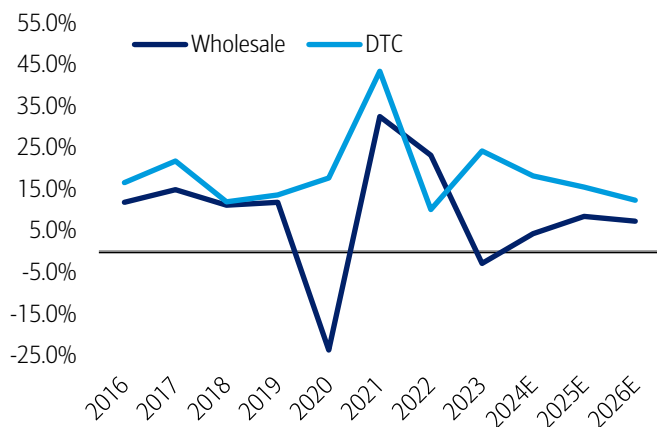
Source: Euromonitor

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Channel growth will be led by DTC: We expect the majority of growth will come from direct to consumer (DTC), and forecast the DTC mix for the company will increase from 44% in 2023 to 50% by 2026. That said, a key growth driver for both channels will be new store growth, which includes owned and operated stores in addition to franchised/licensed stores. Today, the company has 5,168 stores and expects to open 140-160 company-wide stores globally in 2024 in addition to hundreds of partner stores. Over the long term, we expect Skechers will reach its goal of doubling its store count to over 10,000 doors.

Exhibit 14: We forecast low to high teens DTC growth in '24-26

Wholesale and DTC growth rates

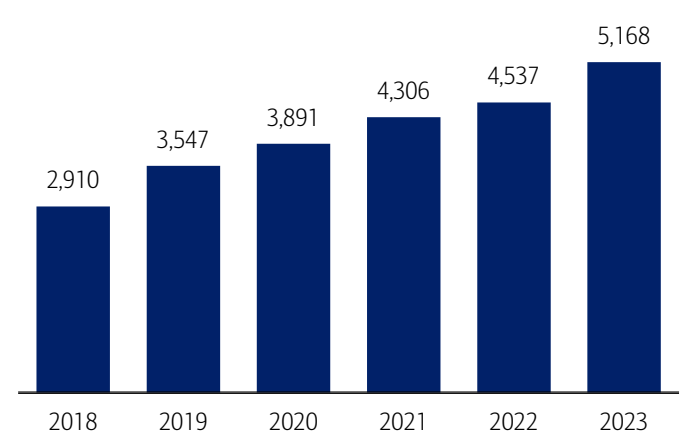


Source: BofA Global Research, company filings

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Exhibit 15: Skechers has increased stores at 12% CAGR since 2018

SKX total stores



Source: Company filings

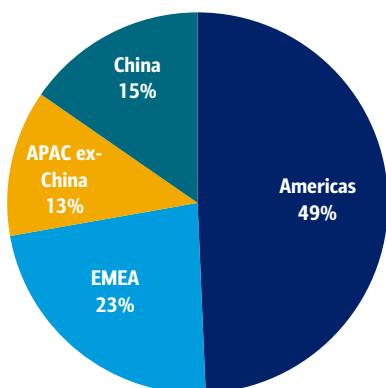
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Sales will be led by international markets: Sales in the Americas represented 49% of total sales in 2023 followed by 23% in EMEA, 15% in China, and 13% in APAC ex-China. We expect strong results across all regions over the next several years but expect international to drive the bulk of revenue growth given the significant white space in several countries including China, India, and countries throughout Europe and Latin America. In particular, India is a key market that is not dominated by any of the global brands, and we think that market represents one of the most compelling long-term opportunities for the brand. Moreover, the hundreds of stores opening annually with partners should provide a nice tailwind for the international business. We forecast a

7%/13% sales CAGR in the Americas/International, respectively, over the next three years.

Exhibit 16: Roughly half of sales come from Americas

SKX sales by geography

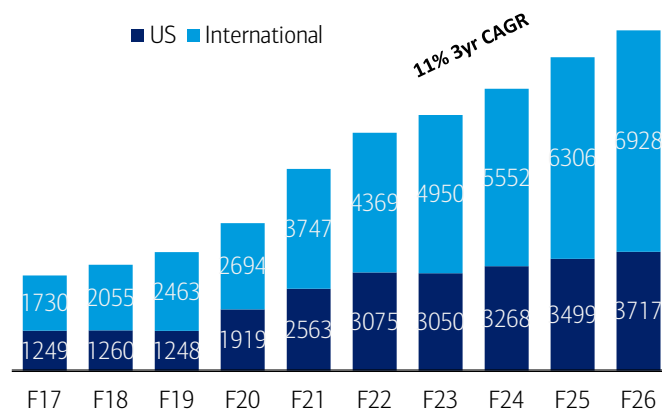


Source: Company filings

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Exhibit 17: We forecast total sales CAGR of 11% from '23 to '26

Sales forecast by geography



Source: Company filings

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Key F24 modeling assumptions

Sales: We forecast 10% sales growth in F24 driven by 7%/13% growth in the Americas/International, respectively.

Gross margin: We forecast 60bp of expansion in F24, weighted toward the 1H.

SG&A: We forecast 11% dollar growth in F24 or 30bp of deleverage.

EPS: We forecast F24E EPS of \$3.82 vs consensus \$3.92. Our forecast includes no share repurchases.

Balance sheet: We forecast \$1.5bn of cash in 4Q24, which is a \$1.3bn net cash position.

Exhibit 18: We forecast F24E EPS of \$3.82, at the upper end of guidance and 2.5% below**cons**

SKX Variance table

	F23 Actual	F24	VA Consensus	BofA vs Cons.	BofA est Y/Y	Cons est Y/Y
Total sales	8,000.3	8,837.5	8,775.5	0.7%	10%	10%
<u>Cost of sales</u>	3,847.9	4,197.5	<u>4,178.6</u>	0.5%	<u>9%</u>	9%
Gross profit	4,152.4	4,640.0	4,596.9	0.9%	12%	11%
Selling expenses	676.9	768.4	748.6			
General & Administrative	2,690.7	2,979.6	2,956.4			
<u>Total SG&A</u>	3,367.6	3,748.0	<u>3,705.0</u>	1.2%	<u>11%</u>	<u>10%</u>
Income from operations	784.8	892.0	876.2	1.8%	14%	12%
<u>Other, net</u>	16.1	0.0	<u>6.0</u>	-100.0%	<u>n/a</u>	<u>n/a</u>
Income before income taxes	800.9	892.0	880.0	1.4%	11%	10%
Income tax expense	150.9	182.9	179.3	2.0%	21%	19%
Tax rate	18.8%	20.5%	20.4%	0.6%	165 bp	153 bp
Net income before NCI	649.9	709.1	700.7	1.2%	9%	8%
Noncontrolling interests	104.1	114.5	115.4			
Net income	545.8	594.6	602.3			
EPS	\$3.49	\$3.82	\$3.92	-2.5%	9%	12%
Diluted Shares	156.3	155.6	154.0	1.0%	0%	-1%
Margins						
Gross margin	51.9%	52.5%	52.4%	12 bp	60 bp	48 bp
SG&A ratio	42.1%	42.4%	42.2%	19 bp	32 bp	13 bp
Operating margin	9.8%	10.1%	10.0%	11 bp	28 bp	17 bp

Source: BofA Global Research estimates, company reports

BofA GLOBAL RESEARCH

SKX has a consistent history of beating its revenue and EPS quarterly guidance over the last three years and a mixed history of raising full year guidance.

Exhibit 19: SKX has consistent history of beating quarterly guidance

Actual results vs qrtly guidance and historical changes to full year guidance

	1d stock price move	FY rev guide	FY EPS guide	Beat prior qtr rev guide	Beat prior qtr EPS guide
1Q21	16.6%	new	new	n/a	n/a
2Q21	5.9%	raise	raise	beat	beat
3Q21	0.6%	lower	lower	miss	miss
4Q21	6.6%	new	new	beat	beat
1Q22	5.0%	raise	raise	beat	beat
2Q22	2.1%	same	lower	beat	beat
3Q22	-9.8%	raise	lower	beat	miss
4Q22	-9.1%	new	new	beat	beat
1Q23	6.6%	raise	raise	beat	beat
2Q23	9.8%	raise	raise	beat	beat
3Q23	-1.5%	lower	raise	beat	beat
4Q23	-10.3%	new	new	in line	beat

Source: Bloomberg, company reports

Note: price move represents 1d stock price change on earnings date

BofA GLOBAL RESEARCH

Exhibit 20: SKX consistently increased EPS guidance in 2023

Quarterly changes to full year sales and EPS guidance

Sales (bn)	4Q	1Q	2Q	3Q	Actual
2021	n/a	\$5.85	\$6.20	\$6.18	\$6.31
2022	\$7.10	\$7.30	\$7.30	\$7.32	\$7.44
2023	\$7.88	\$8.00	\$8.03	\$8.00	\$8.00
2024	\$8.70				

EPS	4Q	1Q	2Q	3Q	Actual
2021	n/a	\$1.90	\$2.60	\$2.48	\$2.59
2022	\$2.80	\$2.85	\$2.65	\$2.25	\$2.38
2023	\$2.90	\$3.10	\$3.33	\$3.38	\$3.49
2024	\$3.75				

Source: Bloomberg, company reports

BofA GLOBAL RESEARCH

Management bios

Robert Greenberg, CEO, Founder: has served as the Chairman of the Board and Chief Executive Officer of Skechers since October 1993. From 1979 to 1992, Mr. Greenberg was the Chairman of the Board and President of L.A. Gear.

Michael Greenberg, President, Co-Founder: has served as the President and a member of the Board of Directors of Skechers since 1992, served as Chairman of the Board from June 1992 to October 1993. Prior to that, Mr. Greenberg held other senior positions at L.A. Gear.

David Weinberg, COO: has served as Chief Operating Officer of Skechers since January 2006 and as Executive Vice President and a member of its Board of Directors since July 1998. Mr. Weinberg served as CFO of Skechers from October 1993 to January 2006.

John Vandemore, CFO: has served as CFO at Skechers since 2017. Mr. Vandemore has more than two decades of business finance experience. Previously Mr. Vandemore served as EVP and Division CFO of Mattel Inc. and CFO and Treasurer of International Game Technology PLC. Prior to that, he spent 12 years in operations and finance roles at The Walt Disney Company.



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
BUY				
	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
NEUTRAL				
	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
UNDERPERFORM				
	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
RSTR				
	Macy's	M	M US	Lorraine Hutchinson, CFA

iQmethodSM 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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Equity Investment Rating Distribution: Textiles/Apparel Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	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 ^{R1}	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%

^{R1} 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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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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