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Market Intelligence

Skechers U.S.A., Inc. NYSE:SKX

Company Conference Presentation

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Chief Financial Officer

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Jay Daniel Sole
UBS Investment Bank, Research Division

All right. Thank you so much. Good afternoon, everybody. Welcome from me to the UBS 2024 Global Consumer and Retail Conference. I'm Jay Sole, UBS' retailing, department stores and specialty softlines analyst. It's great to see everybody here today. Thank you so much for coming. And I am super honored and grateful that we have Skechers here today to speak with us, representing Skechers is John Vandemore, CFO.

And now the plan for today is we're going to do a Q&A session. I have some questions for John. And if everybody has the capability, you can send me a question through this iPad right here. And when we get to -- toward the end of the 45 minutes, I will read your questions if you like.

So to start off, John, thank you again for being here.

John M. Vandemore
Chief Financial Officer
Thanks for having us.

Question and Answer

Jay Daniel Sole
UBS Investment Bank, Research Division

Skechers is a remarkable story. 11% revenue compound annual growth rate over the past 20 years. Skechers is now the third largest footwear company in the world. And I would say, largest footwear company at this conference, number one. And the question is, what's been the key to success? I mean remarkable growth story, how do you do it?

John M. Vandemore
Chief Financial Officer

Well, I'd love to take credit for fully, but I'm going to have to do so on behalf of a much larger and more capable organization than just the CFO, although I hope I helped a little bit. The number one answer for us is product, Jay. We are definitely a product-first organization. In our product, we have, over time, come to insanely focus on what we consider kind of the 4 key characteristics of what people want in footwear, at least from Skechers, that's style, quality, comfort at a reasonable price.

And really, it's those last 2, we win on in almost every comparison we've seen to every other brand out there. It's delivering comfort to the user to wear at a reasonable price that suits the many needs they have. I would add to that, we operate in with an incredibly diverse assortment. We make everything from running shoes, lately basketball and football, soccer for you Americans, all the way through to sandals, skimmers, boots and anything in between.

And that broad assortment allows us to attack the market in a lot of different ways that some others can't do because their focus is a little bit more narrow. Complementing that is our incredible distribution infrastructure. That includes everything from a retail store base that exceeds 5,000 stores today as well as pretty extensive distribution infrastructure in many markets that we own and operate -- and into that, we invest a lot of automation, a lot of know-how that's gained from one market and transported to another.

And then lastly, it's just our footprint is global. We do more than half of our revenue outside of the United States. We have a toehold in at least 182 markets around the world. And I think that does a lot for our brand. It's hard to see sometimes if you're just looking at it from a domestic lens. It insulates us from any one market having troubles, but it also allows us to share knowledge, both product knowledge, but marketing knowledge, distribution knowledge in a lot of other markets.

So we can take something that works incredibly well in one market and bring it to another. And for anybody following fashion and footwear nowadays, you know that the speed at which trends circle the globe is increasing. So having the ability to respond to that in our own system is an incredible advantage. And then last, but not least, I'll throw it in the CFO. That's definitely been the key.

Jay Daniel Sole
UBS Investment Bank, Research Division

Absolutely. Well, you mentioned the distribution model, which I think is a really unique aspect of the company that maybe not everybody appreciates, because Skechers as a company has full price stores in the best malls in America and around the world. It has outlet stores. It has warehouse storage, which is sort of like a combination. You have a great e-commerce business. and also great wholesale distribution across many different types of channels. There really isn't another footwear company in the world that has so many channels covered.

John, the question is how can you be in so many different channels and be profitable in each of these channels and make it work for the brand?

John M. Vandemore
Chief Financial Officer

Yes, I'd first like to say, I mean, I'd love to pretend that, that was a well-formed strategy 20 years ago, where we saw the future and we predicted that it was important to be in all those channels. The reality is -- it's actually not that precise. It's been an organic development over time. Our original entree into the direct-to-consumer business, for example, was largely because we couldn't get as much distribution as we felt was appropriate for the range of products we were bringing to market. So we didn't enter our direct-to-consumer business at a tremendous forethought and strategic vision. We did it because we had to.

I also think it's a reflection of our embrace of the consumer as much as we would like to pretend that we can tell the consumer where to buy our product, how to buy it and at precisely what price we want them to buy it. That's not our -- we don't think that's our role. So our approach is designed to be reflective of the consumer. We want to be where the consumer is. If that's in our own stores, fantastic. If it's in a partner door, fantastic. If it's online, great.

So we really embrace that mantra of where they want it, when they want it, how they want it. And we've lived with it for quite a while. I think in some instances, where brands have had to pivot to direct-to-consumer, they don't have the experience we have of avoiding channel conflict like you mentioned.

The #1 advantage we have in that is that if you take any microcosm of our business, particularly in the wholesale side. The wholesale partner is not often going to look to the whole assortment -- the whole range of products we offer. They're using a subset of it for their needs in their business, which is entirely appropriate. The result as such is that there's very little overlap between any given wholesale partner and our own DTC business. And in many ways, quite frankly, they act in a collaborative fashion.

When we market our product, we don't market Skechers, branded shoes in Skechers stores only. We market the product. We market the feature. We market the brand and that lifts all boats who are willing to display and treat the brand in an appropriate fashion.

So I think we found this capability, this practice to be able to work very collaboratively with our partners to leverage our own direct-to-consumer business. And from that meet the needs of the consumer, which is the end goal.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. And you mentioned Skechers has 5,000 points of distribution, Skechers stores all over the world.

John M. Vandemore
Chief Financial Officer

Yes, just Skechers stores.

Jay Daniel Sole
UBS Investment Bank, Research Division

Just talk about how that helps build brand equity?

John M. Vandemore
Chief Financial Officer

Yes. I mean -- the reality is when you operate stores, you always get asked is every store profitable? And the reality is not every store is ever going to be profitable. And one of the main reasons for that is stores serve 2 purposes. They definitely serve as an outlet to distribute product, to sell product and to make money. But some stores actually have tremendous marketing value to them. There's some -- not far from here.

But I would say what we find is in any given market, especially initially when we enter a market, it becomes incredibly important at some point in time to have a retail presence, because it's a testimonial to the brand, but it also displays the brand in its best possible way. We are obviously always going to be the most interested in displaying our brand at the highest possible level.

And so a retail establishment allows us to do that, where we find it has a tremendous impact is really, in all honesty, the first, call it, 10 to 20 stores. Because even if you're into wholesale in a market until you have a brand presence in a retail store, it's hard to really distinguish yourself from other shoe companies. You can do so via marketing, but that doesn't really only takes you so far.

And so what we find is in a market that's relatively new that starts with wholesale, we significantly advantage the brand in both channels by bringing in retail presence. And we do that through a variety of ways. We'll open our own stores, but we'll also use franchise partners to open doors, because what we want is we want the brand to be present in a way that is additive to the image of the brand. And one thing we do control very tightly is how that brand is reflected in the retail environment.

We have individuals who travel the globe, checking on as far away locations as in Uzbekistan as well as Brazil, making sure that, that retail expression is true to what our standards are. And it all becomes part of the mix of getting your brand in front of consumers and illustrating the depth and breadth of the brand because that's not easily done in just the wholesale environment.

Jay Daniel Sole
UBS Investment Bank, Research Division

Yes. Well, I can attest to the consistency of the store presentation across the world. I was in Uruguay and I saw some stores and looked just like Scotland, Sydney and in Japan. So it's amazing. Everywhere I've ever been, it looks like a Skechers store.

John M. Vandemore
Chief Financial Officer

The benefit of having our fleet is, whenever anybody goes on a vacation anywhere, I usually get a picture of them in front of a Skechers store. And usually, my next question is, can you take 5 or 6 pictures of the inside and just send it back to me to make sure that they have the right point of sale up, that they have the right product down.

Jay Daniel Sole
UBS Investment Bank, Research Division

That's funny. All right. Another thing that I find quite remarkable about Skechers that I think not everybody is aware of is the consistency in the gross margin. And not just the consistency, but the consistent improvement in the gross margin. If we go back 10 years ago to 2013, the gross margin was 44.3%, not a bad number. But this past year was 51.9%. And other than the COVID year, which obviously was an unusual year, it's been on a steady climb up, despite all the inflation that's been out there, all the inventory build that's been out there in the industry from other brands and a lot of FX volatility in the global business, you've dealt with a lot of FX swings.

What's been the key to be able to just be on that steady path of maintaining that gross margin increase without having the big fluctuations that we've seen other brands have to deal with?

John M. Vandemore
Chief Financial Officer

Yes, I think it's a couple of things. First and foremost, it is on the back of continuing to develop really good product, which, over the years, we've come to emphasize the features, particularly features around comfort. We would refer to it as our comfort technologies. Because when we embed those in product, what we find is we have the ability, we have the license from the consumer to charge a little bit more. That's definitely a margin-enhancing play that we've been operating with for really the last decade. So that's helped.

I think certainly, mixing our business more to international more into DTC over time has been an advantage to our overall margin. I would also add that over the course of COVID as unpleasant as many of the effects were on costs and margin, it gave us an opportunity to rethink -- what I think it's kind of grown up organically as some relatively unnecessary discount structures and incentives.

And so -- in the background, we've been eliminating those slowly, not in a way that disadvantages customers or consumers, but with some regularity so that what we have now, I think, is a very good reflection of -- from a merchandise level, what we can achieve in the margin of our products and then being able to carry that down through to the aggregate P&L is important.

That being said, that's never a fight that's totally over. You're constantly struggling against things like FX, input cost, variances, inflation. You may have heard recently in the last couple of years, there's been a challenge with shipping costs. So you're always fighting that battle to make sure you maintain the margins, but we feel really good about where things stand at the moment and think it's an adequate reflection of what our product deserves in kind of the marketplace.

Jay Daniel Sole
UBS Investment Bank, Research Division

So that makes sense. I want to follow up with just the inventory management aspect of it, because if we go back 15 years ago when people would talk about Skechers, inventory management will be an issue, maybe buying too much into a fashion trend and maybe that fashion trend chips or something like that.

But something has changed, it's really helped the company manage inventory in a really efficient way and not get caught with too much or even too little at times. What's been the approach? How has that worked? And just tell us a little bit more about how that serves the company?

John M. Vandemore
Chief Financial Officer

Yes. First, let me share a quote that I love that our Chief Operating Officer, David Weinberg has and he's used it several times in the last year. And it goes something like this, "If you're not focused on inventory every day, you really shouldn't be in retail." And I think there's an absurd amount of truth to that. I think there's 2 dynamics at play mostly. One is that we are a different company today than we were 5 years ago, 10 years ago, 15 years ago. We've got a more diverse offering.

And I think that allows us to withstand the fluctuations in style trends that come and go footwear. I mean, there's no doubt that happens. There's nothing we can do to change the dynamic of the footwear industry. But having a broader portfolio of product helps us absorb those a little bit easier. I would say though, one of the things that I'm most proud of over the last couple of years is that we had some really significant supply chain challenges.

At first, they left us in a deficit of products in a very meaningful way. At point in time, I remember our stores being on average, half empty or half full, as the optimist might say, but either way, not where they needed to be. And then what we dealt with was a tremendous onslaught of inventory that came in a very compressed time frame. And we rose to the challenge of meeting that. As Jay knows, unfortunately, we spared no expense.

It did cause us some short-term harm, but what we felt was important was rightsizing the inventory quickly and predominantly because our philosophy is that producing newness, delivering newness and innovation to the marketplace is paramount to our success. So what we needed to do, we knew was get the inventory in and get it out. And so in doing allowing us to bring the next new thing in.

In 2021, '22, at one point, we had spent an extra $500 million on inventory. Subsequent to that, we very consciously focused on winnowing that down. We did so to the point where last quarter, we were down by nearly 1/3. We had reharvested most of that investment. But I think probably most importantly, we did so while maintaining that gross margin trajectory.

And I think that's an incredibly hard feat to accomplish in the best of times. But to do so in the midst of kind of COVID recovery, I think, was a great accomplishment. And it's a reflection of our day in and day out focus on inventory. We try not to take as a company, a lot of inventory risk. We're not looking to speculate much on what would exceed or not succeed in the marketplace. Our mantra is, let's identify what's going to work and let's follow it fast.

And we employ that strategy throughout our organization. And in fact, we employ that with our wholesale partners, too. We're always focused on what does channel inventory look like? Should we adjust the flow of goods to a partner to make sure they stay healthy? Because the reality is, going back to that business we have that is pretty evenly balanced between wholesale and direct-to-consumer, we're in the market, too.

The last thing we want is somebody to be in an over inventory position and have to take drastic action to move that inventory, that will harm our DTC business over here. And so I think what we've been able to achieve is healthy symbiosis between our wholesale partners and our DTC business, but upstream, the key component to that is managing inventory well.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. I want to ask you one about the balance sheet before we get into some of the more 2024 topics. But the company has almost $1 billion in net cash on the balance sheet right now. And it's always kept the fortress balance sheet. Trying to tell us why is the company taking that approach? How does it serve the company well? And then if you could just add on, tell us about how you manage the lease portfolio? Obviously, lots of points of distribution. What do you make sure to make sure that stays healthy as well?

John M. Vandemore
Chief Financial Officer

Yes. On the -- I mean you kind of mentioned it. Our number one priority from a capital allocation perspective is to maintain a fortress balance sheet. We're not rated. But if we were, we would expect it to be pretty high-quality IG. And the reason for that is the retail -- the fashion industry is tough. You go through these moments. I think the example I just gave on inventory, when I had to go find $500 million to put into inventory over a 9-month horizon, that was pretty easy to do because we had the balance sheet to do it. if we didn't, we would have had certainly severe pressures to face.

And so our number one priority is to ensure we have the balance sheet to withstand what I would call the vicissitudes of a fashion-driven business And so we make sure that we're in a strategically healthy position liquidity-wise at all points in time. It doesn't mean that we don't take opportunities to redeploy cash and certainly now that we're past some of that investment, that working capital investment required by the supply chain disruptions. We are more actively pursuing other returns, but it will always be with an eye towards managing that balance sheet with strength.

In terms of leases, that's actually kind of an interesting question because as I'm sure many of you don't care. The standards for leases changed a couple of years ago, such that instead of not recording lease obligations at all on your balance sheet, you had to put the lease obligation on and then what's known as a right-of-use asset. Both of these are kind of made-up numbers. But what they portray is the obligation you face when you have a wide-ranging lease portfolio, I would tell you that we monitor that at the micro level as well as the macro level.

The micro, it's really about are we in a store in a location that, a, we need or b, is productive? It's got to be 1 of those 2 or both. And so we're managing that on a regular basis. We're calling stores actively every chance we get. And it's an intense process across the globe to make sure that we're not deteriorating our margin structure or inhibiting our ability to be profitable to grow by just hanging on to a location. That's not healthy for anyone.

In addition to that, we manage it at a macro level to make sure that our overall obligation pool sits both from a duration standpoint and a tender standpoint as well as just at a cost standpoint that makes sense. And that's just -- that's an active process. It's one, I think that every business gets better and better, the more you do it.

And so with over 5,000 stores now, 1,600-plus company-owned stores, we are getting better and better. What you notice over time, though, is there's different characteristics to different markets. So when you talk about a lease in Asia, if it's a 3-year lease, it's a very long lease. If you're talking about a lease in North America, a 3-year lease is pretty short. And so you have to adapt to each market and understand how you're structuring those leases to give you the maximum amount of protection, but also the opportunity, the opportunity to succeed with the retail footprint because that's -- unfortunately, that's not guaranteed just because you open up a store.

Jay Daniel Sole
UBS Investment Bank, Research Division

Okay. So maybe looking forward, can you just talk to us what are the company's key strategic priorities?

John M. Vandemore
Chief Financial Officer

Well, as we look to 2024, our first hope -- and this isn't really a strategy, so I admit that is that this is a more normal year than we've seen in the last couple of years. There's been innumerable challenges across the landscape of our business and many businesses out there. So our expectation is that this becomes a much more normal year than in years past.

From that point forward, we feel really good about the product portfolio we have. If the first and second largest footwear companies in the world were here, I would challenge our innovation of late in the product area against theirs pretty confidently.

I think we've done a lot to bring newness to the market. We've done a lot to bring technology. And again, a lot of that focused on something they don't care much about, which is comfort. And my apologies for anybody wearing their shoes right now. But I think that innovation gives us a tremendous advantage across the globe.

Our traditional growth strategy is the same one we're going to be employing next year. We're going to focus on growing international markets. We're going to focus on growing our direct-to-consumer business, that's [indiscernible] stores, online and quite frankly, the melding between those two. And then I think the outlier opportunity is the domestic wholesale marketplace, clearly, one that's been challenged of late. We're actually cautiously optimistic on what we're seeing out of the domestic wholesale marketplace. We're seeing good booking trends.

The tenor of our conversation with partners has definitely turned more positive. I wouldn't go so far as to suggest we're fully out of the woods in terms of challenges in that retail landscape, but I do feel like it's getting better. I'm excited to see the response to our next season that we'll be showing customers over the next couple of months. But I feel good that we're making headway against some of the challenges that we had last year.

Jay Daniel Sole
UBS Investment Bank, Research Division

In terms of the strategic priorities, can you just talk about some of the ongoing investments to unlock the opportunity to become a bigger company to grow, specifically omnichannel supply chain and the loyalty program, which has been something you've been working on for a while?

John M. Vandemore
Chief Financial Officer

Yes. That's really just a small microcosm of what we've been working on. And I think in part, that's probably worth mentioning that we are definitely a work in progress as a company in that we need to continue to scale up to the size that we've become to have the capabilities that we know consumers need. Online was a very big focus for us.

Coincidently, right before COVID, we replatformed almost every site we had in the world, and then we added about 15 to 20 new sites. Had we not done that, it would have significantly disadvantaged us during COVID and beyond. And in addition to that, you mentioned, we've added a significant upgrade to our loyalty program to complement that. We've also spent a significant sum, kind of tying back that online presence to our in-store presence.

At the end of the day, we generally think about this from a consumer perspective in that the consumer doesn't say 1 day, "[indiscernible], I'd really like to buy a pair of Skechers shoes in a store." They really say, "oh, I need a pair of shoes what's out there," right? So you have to first get to them. But then you also have to make it effortless for them to transact. If they need the shoes in the next hour, then you have to have a store nearby. So we have a store there.

If they want to reserve before they get there, they can do that online. If they want to buy before that they can do. If they buy online and they want to return to a store, you can do that. And so making all of that a very seamless interaction at the consumer level, we think is, quite frankly, at some point, it will be kind of the bare minimum for retail activation.

We've also put a lot of time and energy into distribution infrastructure. We feel in most positions across the globe, it's important for us to control our own success, and that means owning and operating our distribution. In the United States, we have over 2 million square feet of distribution space, heavily automated. We just opened a handful of new distribution locations across the globe, Panama, Colombia, Canada, India. We're in the process of building a second distribution center in China.

And the key to that is we want to make sure we control our destiny. And so we invest a lot in that to own it. We have to go through the pains of starting up. But then -- when we have that infrastructure in place, we find that it's the most efficient manner for us to get product from point A to point B. One other area I would tell you just we're investing in because it's not always the most s*** areas at the back of the house. Implementing systems to be able to operate at scale like we do is a never-ending challenge.

And we're always investing in how do we make our business operate better. Is that a new HRIS system like we'll launched this year or a new backbone GL or ERP? There's a lot of opportunity for us in the future, continuing to invest in those capabilities to support our business globally because it's hard operating in as many locations and geographies and countries as we do. So we find it increasingly important to continue to invest in those capabilities to advantage our business in those locales.

Jay Daniel Sole
UBS Investment Bank, Research Division

Okay. I want to ask you about the long-term revenue growth opportunity. And the question is how should we think about it? I mean, what is the long-term revenue growth opportunity?

John M. Vandemore
Chief Financial Officer

Yes. I mean it depends on what you mean. By long term, I would say in general, and I know this will sound a little bit boring. The strategy we've been following, we believe, is the road map, the future growth. The fastest-growing markets are unfortunately not the domestic markets, although we do think there's some outsized growth opportunities here.

So our first focus is growing outside of the United States. That's in wholesale, that's in direct-to-consumer, but ultimately growing our footprint across the globe. You may ask me, unfortunately, in the future, what's your favorite growth opportunity out there from a global perspective? And then I will endlessly read off every country we're in outside of the United States. And that belies our confidence that we have opportunity in a ton of different markets from Southeast Asia to South America, Eastern Europe, even in some Western European markets.

So outside of the United States is where the predominance of our growth will occur over the next 3 to 5 years to be sure. Inside the United States, we actually think we have outsized opportunity to continue to grow our direct-to-consumer business. We're far from fully penetrated in the United States. We're operating just north of 550 stores today. We think that number can be significantly higher.

Even if you consider how you want to leverage digital, we think the presence of stores is additive to the brand, additive to the consumer experience. So the outsized opportunity in the U.S. is to continue to grow that DTC business.

The domestic wholesale business, we do think has the opportunity to grow. It just won't be growing at those leaps and bounds every year. The last 2 or 3 years have been a little bit extreme ups and extreme downs. Our view is that the domestic wholesale marketplace is a reliable, but slightly slower growing market, but one that obviously contributes very healthy margins and results to the bottom line. And so being our home market, being the one we see most regularly, it's also a critical component of our overall growth trajectory.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. So we got a question from the audience that came in. I think it's a nice -- on the back of your answer about domestic wholesale, and there's been lots of ups and downs. The question is, can you frame the risk of Nike coming back to undifferentiated wholesale? I guess I'll just take that to wholesale in general.

John M. Vandemore
Chief Financial Officer

I got to watch what I say now. First of all, who wants to be the retailer that's like undifferentiated, undifferentiated guy out there. I'll be honest with you. I don't sit up at night worrying too much about Nike. It's not that they're not a very capable footwear provider. But the reality is Nike has been competitive in the markets in which we operate since we've started. And it hasn't limited our ability to grow.

I would also add that there's a lot of categories we play in that Nike doesn't. And so more often than not, quite frankly, Nike isn't our direct competitor. Now certainly, at their size and scale, which we're jealous of, they can have an influence on the marketplace. But in terms of day in and day out competition, it really isn't our primary concern.

I do wonder -- I feel bad for retailers who have been rejected and then kind of accepted back. It's starting to feel a little bit like an abusive relationship to me. But since I'm not involved in it, it's not something I'll get involved with. But again, it's not something we worry about. Either those guys or the guys from Germany, I mean, we're happy to compete. We think to borrow a bad phrase from box, I think pound for pound, we feel pretty good about how we compete.

Jay Daniel Sole
UBS Investment Bank, Research Division

Okay. One other from the audience. And forgive me if I'm going to paraphrase here a little bit. But the question is about providing value to consumers. It's part of the scheduled DNA. The question is, will you be able to increase your average price through product mix shifts? And do you want to do that? Do you want to narrow the gap in price versus your competitors?

John M. Vandemore
Chief Financial Officer

This is going to sound very odd coming from a CFO, but I swear I am one. I don't worry as much about price as you might think. We're not -- we don't aim to be a price taker, certainly not at the expense of our wholesale partners or the consumer. What we focus on is value for the money. What are we giving you? And then as a result, what are you willing to pay for it? I'm a big fan of the statement that nobody sets the price other than the consumer. And I think it's fundamentally true.

And so what our focus is on is how do we deliver more value to the consumer in one way or another. And then can we get a fair price for that? And I think that focus has served us well. It does mean that our strategy, I think, is a little bit different. Sometimes we're not playing as much off of scarcity as others. We're not playing as much off of branding as others. But what we're really playing to is the same kind of 4 characteristics: style, comfort and quality, at a reasonable price.

If I can get 3 out of 4 of those right, then I'm going to get a reasonable price from you as much as for you in that equation. And we feel really good about that. The way we've been managing that lately is by adding more comfort technology to the product, adding in Skechers Hands-Free Slip-ins technology, adding in Skechers Arch Fit technology, focusing on wide width, which a lot of brands don't produce anymore. Our Max Cushioning product, all these capabilities, these characteristics, these functions that deliver more comfort and value as a result of the consumer.

And so far, what we've seen is very positive response from the consumer to that. So it's not much in our eye about managing ASPs as it is about, let's deliver good value for the money. And if we deliver more value, we'll get more money. And that generally has held true. An interesting side note, people have asked lately with the -- where is the middle class consumer going? How is that impacting your people trading down? Over the last 2 years, what we've seen is within our portfolio, consumer is actually climbing up the value curve. They're willing to pay a little bit more for that value. And so that's actually been a positive trend for us.

Jay Daniel Sole
UBS Investment Bank, Research Division

It's interesting because the value proposition, I think, is one of the reasons Skechers can play across so many different categories because the brand is defined by value rather than just play a sport like running or basketball where the consumer is only going to be willing to see a brand is authentic in that one specific little narrow leave of business.

But recently, you've leveraged the value proposition in 2 new categories, basketball, huge category; soccer, obviously, big business or some of the other competitors that we mentioned already. Tell us about entering those categories and how it's going so far?

John M. Vandemore
Chief Financial Officer

I just have to correct you right now. You can't say soccer, you have to say football. Europeans will kill me say if I say otherwise. Yes, they're definitely new categories for us. But I would say our strategy isn't going to be remarkably different in those categories once we're firmly established from a commercial standpoint.

How we've chosen to start in those categories is, I think, for us, the right path forward, which is, first, we had to ensure we could build a great product. We would not have gotten into these categories if we weren't fully convinced that we could build great product. We onboarded a team that had tremendous skills and depth in these categories.

And so, the first charge to them was go out and build great products. Once we're convinced we had that, and I assure you, we didn't just rely on our interpretation of good product. We actually put it on the feet of athletes and ask them what they thought. Once we had positive confirmation that the product was there, we knew we next needed to validate, if you will, our bonafides in the market, right? It wasn't enough to just say to a consumer, we built a great cleat. That wasn't going to cut it.

And so in working with partners like Harry Kane, Julius Randle, Terance Mann, a lot of others out there, what we sought to do is make sure that the consumer understood that, quite frankly, if it's good enough for those guys, it will probably work for me on a Sunday with 5 other middle-aged guys. And so once we've established the bonafides of the product and the quality, we believe it will afford us the opportunity to go after it commercially.

Now when you see us go after it commercially, what you'll see is a very common strategy, which is -- our perception is there really is not as many players, not as much competition in those 2 categories as there should be. Very rare where you have that concentrated of a share position by just 2 brands. And so we think we can offer something unique. We think it will be a little bit more focused on could you not on comfort, on capability, but also we'll have a more reasonable price aspect.

And so as we get past establishing the quality of our product firmly in the public's mind, we'll bring out a commercialized range that has a price structure that does air on the side of being more reasonable we feel, but also across more categories, including men's and women's, kids, cleated, turf, basketball, high, low, all the categories. Ultimately, we'll see what happens.

What I think we have that others don't when they've entered the space in the past is we have a lot of capabilities, we have a lot of patience. And to be certain, it's not the only avenue of growth available to us. This is -- it can be potentially an avenue of growth, but it's not the only one we have. So our future is not really dependent upon just these categories succeeding.

So we're going to give it a go. We're pretty excited about it. It's fun. It's also new to us that when you bring on a brand ambassador and they start performing really well, you can fully attribute it to your gear, which is great. I'm not sure it's completely accurate, but it's fun to see the athletes that you support succeed in part because they're actually very eager to help you as a footwear company succeed.

The amount of good input we get from these guys is actually priceless in the sense that they're telling us what similar athletes want to see in product and then we can build that into what we design and develop. And that's very valuable as well. It's very -- it's really a partnership.

Jay Daniel Sole
UBS Investment Bank, Research Division

Great. All right. I want to transition for a second and talk about the company's long-term operating margin opportunity. And how would you describe it? What are sort of the 2 or 3 key drivers?

John M. Vandemore
Chief Financial Officer

Well, so we've always said that our business has the opportunity to achieve that kind of low teen operating range. I think we've traditionally said 11% to 13% just as kind of a range to think about. What has inhibited us between now and that point has largely been the investments we make for the future. And the example I give -- I know this is a trite example is every store we operate as much as we wish it were profitable day 1, it's not. It takes time for a store to season in a market. It takes time for consumers to become aware of the store.

And so every store we open, even though we open it with the expectation and largely the success of seeing it become accretive to our operating margins, it starts off a little bit behind. So as you make those investments, there are always something for the future that drag your near term. I mentioned operating our distribution centers. It's costly to set up and operate a new distribution center.

And when they start operations, there are always learnings you need to achieve before you get to full efficiency. And so, there's a lot of investment for the future that impedes that full margin realization today. But quite frankly, those are the trade-offs we're completely willing to make to get our business to kind of that next level, which for us, we've said $10 billion is the next near-term mark to achieve.

I would also add of late, we have overspent a bit relative to our historical average on advertising. One of the reasons for that is we think we're -- I think we believe we have a very effective technology in our Skechers Hands-Free Slip-ins. And if anybody watch CNBC, I guarantee, you've all seen a commercial or 2. And the reason for that is we want to make it clear to the consumer that this is a Skechers technology. This is something we've brought to the market. We're already seeing invitations out there.

And so what we want to win on in this one, in particular, is that we thoroughly brand the technology. So people will recognize that it was Skechers who brought this to the market because we do expect to see some pretty stiff competition later in that kind of space.

Jay Daniel Sole
UBS Investment Bank, Research Division

I want to follow up on that idea. You've always made a lot of investments to drive future growth. And I know you always get the SG&A question from everybody, and you always get it from me. But I'm going to ask you in a different way this time because, really, I personally consider the investments in the company is willing to make the investments to drive long-term growth as maybe the expense of near-term margin upside as part of the secret sauce of the company. It's one of the reasons you are the largest footwear company in the world growing in double-digit CAGR for 20 years.

The question is, how do we know the company will continue to make that choice to think about the long term, make the right investments to drive, get more shoes on more feet and get to $10 billion and beyond and not make the sacrifice just to get to a little bit more short-term margin gains?

John M. Vandemore
Chief Financial Officer

Yes. I mean, it does take discipline. I know that sounds silly because I've just said that it takes discipline to spend more SG&A than all of you guys want me to. But the reality is, it is spending towards the future. I think one of the benefits of our structure, one of the benefits, quite frankly, of our seasoned management team is we're willing to make that investment. When I first got to Skechers, I was coming from outside and at times, it took a little bit of adjustment to get used to how quickly we could make a decision to invest in the future.

There was no endless hand-wringing session about what it meant for EPS guidance. There was no [indiscernible] presentation that needed to be made to several executives in the Board because our ethos is our number one objective. And quite frankly, the way we're going to drive the most value for shareholders is to continue to grow the business.

I mean that will get us the most value at the end of the day. It also will serve to cement, which we want to do, our role as the third largest footwear company in the world, if not maybe catch up to somebody some day. And so that focus has allowed us to continue to have the license to think about what investments need to be made. It certainly helps that we have a high-growth business. And so that affords us the opportunity to invest ahead of time.

And I say that, but I don't want it to sound like we don't also look at opportunities to be efficient. We absolutely do. But if I had two decisions to make, and I could only make one and one was biased towards investing for growth that we felt very confident in or investing to save a few pennies, we're going to invest for growth. And I think that's the right answer for both the brand, but ultimately, shareholders.

There will likely come a time when the growth opportunities are a bit diminished or a little bit less. And we will focus more on driving ultimate profitability. But for right now, the opportunities are so vast in front of us that we feel like that spend on incremental, be it SG&A, be it CapEx is well worth it for the shareholders and quite frankly, for the brand.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. All right. So in the last few minutes, I want to ask a little bit about what you're seeing right now. You mentioned a little bit, you sounded positive what you're hearing domestically from the wholesale channel partners. I want to ask you about China. Both in the near term, how are you seeing that market? A lot of talk about macro consumer spending trends in China. But also a bigger picture, are you still confident in China when you think about the multiyear view?

John M. Vandemore
Chief Financial Officer

My response is going to somewhat dovetail with that last question. We have the patience to stay in markets that we think have long-term opportunity. I would share that we're probably a bit more bullish than what I'm hearing about generally in the market on China. Last year, the results in China, I think is in large part to the execution of our China team there outdistanced our expectations. So it was a much better year than we thought going in. That was an incredibly pleasant surprise.

It seemed to us to indicate continuing improvement in the marketplace. I wouldn't say that things are back to normal per se, but they are getting better. Clearly, there are going to be some challenges near term with some of the macro conditions in that market. But in all honestly, what market doesn't have macro trends. And if they can hit a 5% GDP growth rate, that's still far better then you're getting in a lot of other markets.

But more importantly, the growth opportunities we see in that market are not -- while not completely insulated from those effects aren't going to be completely taken away because of them. We still see a tremendous number of individuals transitioning into kind of middle-class roles, earning middle-class incomes, as a result, having more discretionary spend power. We know there's opportunities for us to open more stores to get our brand in front of more people.

There's also incredibly exciting channels that are burgeoning in that market that you don't see anywhere else. I don't know if anybody's had the benefit of seeing a live streaming session in China, but it's an incredibly innovative social media plus QVC model that is working really, really well and growing really, really fast. I have aspirations of becoming a social media influencer on a live stream at someday.

And what it tells you is there's a lot of opportunity. There's continued growth in that market. And ultimately, I think the benefit that we bring to that market is powered by the product. As much as we're among the most innovative here, we're among the most innovative there. Not to say it's easy because that is a highly competitive market with some very capable local players, but we feel good about what we can bring to market and the technologies and how they resonate.

And so I look at China with a lot of optimism. Again, there may be some short-term hiccups we need to deal with. But given our experience last year, given our dedication to the market, let me say this. I wouldn't be investing in a second distribution center in that market if we didn't have full faith and confidence that, that market was going to continue to deliver growth for the Skechers brand and we're excited about it.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. Okay. Last question. Just on the promotional environment globally. A lot of talk about maybe is inventory still kind of high? Or is there still a lot of discounting happening out there, how is that affecting you? What are you seeing?

John M. Vandemore
Chief Financial Officer

I would describe the promotional environment is pretty stable. And I'm a CFO, so I'm a big fan of no promotions ever. Full price sell-through only. But the reality is that's not what consumers want. And so I think what's been distinctive about this promotional environment relative to the last 3 or 4 years really has been that it's doing the job, it's intended to do, it's driving conversion, it's driving unit sales, it's driving the consumer to store.

And so as much as I would prefer to only be full price all the time, giving consumers what they want and to incent them into the stores, to incent them to transact, to incent them to buy more than 1 pair on a visit, that's all well worth it. I think the results last year, our DTC business was up over 20%. Clearly, testified to that being a component of the success.

Clearly, the product was also a key element of that. But I would generally say that still seems to be what is effective, and I haven't noticed anything that we'll have or will in the future change that demonstrably. Although I will note that kind of like inventory. It's one of those dynamics you always have to be focused on and always be aware of. But right now, we feel like it's stable, it's constructive, it's doing what it's intended to do. And so we'll continue to view it that way until we see something change.

Jay Daniel Sole
UBS Investment Bank, Research Division

Okay. I won't mind you one more question.

John M. Vandemore
Chief Financial Officer

We have 15 seconds.

Jay Daniel Sole
UBS Investment Bank, Research Division

Yes. Super lightning round questions. Free cash flow, buybacks. How do you feel about it?

John M. Vandemore
Chief Financial Officer

Look, when we have the cash, we definitely look at opportunities to return it to shareholders. We're certainly not adverse to that. Last couple of years have been a little bit challenging with some of the working capital needs. But I think without abating, it gives us more opportunity to think of ways to put cash back to work, including directly to shareholders. And so we'll continue to consider that actively.

Jay Daniel Sole
UBS Investment Bank, Research Division
Outstanding. All right. John Vandemore, thank you so much. Really appreciate everybody's time today. John, thanks for doing this.