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FIN-431-01
Skechers Stock Pitch
23 October 2023

Skechers USA Inc Class A | NYSE: SKX

Current Price : \$48.43*

Recommendation:

BUY

*as of 10/20/2023

12-Mo. Target Price % : +13.9%

12-Mo. Target Price \$: \$55.16

Sector: Consumer Discretionary
Industry: Footwear & Accessories

Profile * (Figure 1, Morningstar)

Closing Price	\$48.43
1-Yr H/L	32.01-56.50
Mkt Cap	7.4839 B
Shrs Out	155.14 M
Beta (5Y Monthly)	1.37
TTM Diluted EPS	3.03
TTM Return	54.32%

Abstract

Skechers USA, Inc., (NYSE: SKX) is a lifestyle footwear and apparel brand, mainly focusing on designing and marketing many different types of footwear for men, women, and children. Based on SKX's current and future economic outlook, a BUY is the recommended action, with \$55.16 being the 12-month target price. This valuation was estimated through a forecast of revenue growth (Figure 3) which gave findings (Figure 2) to estimate a 12-month target price. The valuation methodology I used to determine the 12-month target price is broken down in Figure 2. SKX is expected to grow nearly 13% over the next 12 months.

Findings		
Model	Price (\$)	Weight (%)
RIM	39	25
MVAM	47	25
P/B Price	103.29	16.66
P/EPS Price	42.25	16.66
P/EBIDA Price	56.48	16.66
Valuation	\$55.16	100%



(Figure 2, Analysis)

Key Financials (Figure 3, Morningstar & Analysis)

FY	2020	2021	2022	2023E	2024E	2025E	2026E
Revenue (\$)	4,597 MM	6,285 MM	7,444 MM	63645 MM	65873 MM	70155 MM	73663 MM
Change in Rev	-11.9%	36.7%	18.5%	9.0%	10.0%	11.0%	2.5%
Diluted EPS	\$ 0.64	\$ 4.73	\$ 2.38	\$ 2.59	\$ 2.85	\$ 3.17	\$ 3.25
Net Income (in thousands \$)	98,564	741,503	373,028	406,601	447,261	496,459	508,871
Change in NI	-71.6%	652.3%	-49.7%	9.0%	10.0%	11.0%	2.5%

Business Description

Skechers USA (NYSE: SKX) designs and markets lifestyle footwear and apparel for men, women, and children. SKX primarily sells through wholesale distribution to continue to "profitably grow [their] operations worldwide." SKX does this by leveraging the importance of brand recognition by "aggressively" marketing their brands through television, brand ambassadors, and recognized professional athletes. Skechers introduced their first line, Skechers USA Sport Utility Footwear, in 1992 and have been continuing to expand their product offering and grow their sales by attracting consumers based on their reputation of a quality product "at a reasonable price."

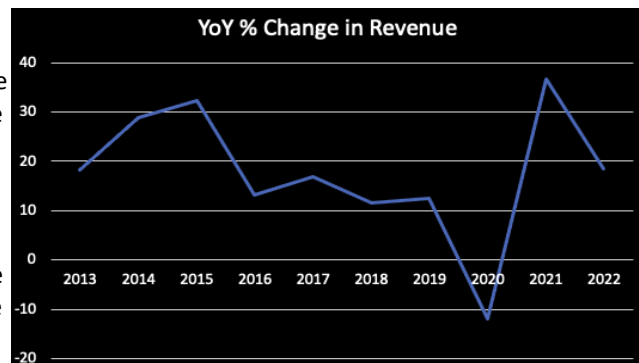
Products

SKH offers a large array of Skechers-branded products, including lifestyle brands, performance brands, and apparel. Their principal goal is ensuring that they have a basket of quality products at a reasonable price "for the entire family." SKH seeks to stay ahead of the trends in order to create products that fully capture consumers' ever-changing preferences. In current news, SKX is still striving to grow, seeking to launch a new basketball division within their product line with reigning NBA MVP Joel Embiid planning to sign an agreement in the next week. Though Skechers are trying to break into the basketball sneaker world, they have already shown success with other professional sports -- emphasizing the importance of marketing within the brand.

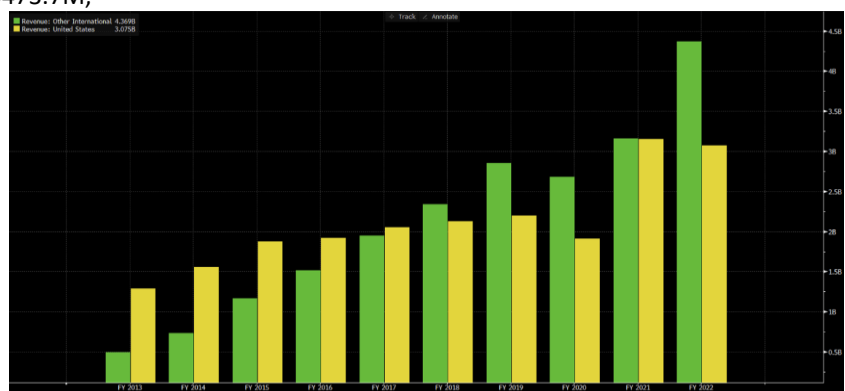
Sales & Marketing

In 2022, U.S.-based revenue only made up around 40% of their total revenue (\$3.1B in US, \$4.4B other, Figure 4, Bloomberg). Throughout history, the geographical breakdown of revenue has slowly moved to a majority of international sales. During the last 5 years, SKX has been making large investments into key growth markets like India, China, and South

America and has added distribution centers in India, Panama, Chile, Colombia, "boosting their distribution footprint to over 10 centers from just 4." In terms of total revenue, SKH has noticed strong, positive YoY growth in every year since 2013, besides YE 2020. (Figure 5) Of the total revenue, China brings in \$1B+, totalling 20% as the company's "largest international market and its biggest growth opportunity abroad." But, within these revenue numbers, SKH has two main methodologies for sales: wholesale and direct-to-consumer. Since 2020, even with COVID, wholesale purchases have made nearly double the amount of revenue than direct-to-consumer sales have. Again, due to the importance of Skechers having affordable footwear for all, it would make sense that wholesale sales make up a majority of the revenue. Moving on to marketing, Skechers spent \$473.7M, \$375.0M, and \$248.7M in marketing during the years 2022, 2021, and 2020, respectively. SKX spends money on advertising through media and tv, as well as through brand ambassadors and professional athletes. Skechers have already signed professional footballer Harry Kane and have plans on signing NBA players Embiid, Randle, and Mann. Along with already having products in "over 170 countries [and] 4,000 stores and distribution centers," Skechers looks to be constantly seeking out new ways to increase their competitive position and standing as a trusted brand.



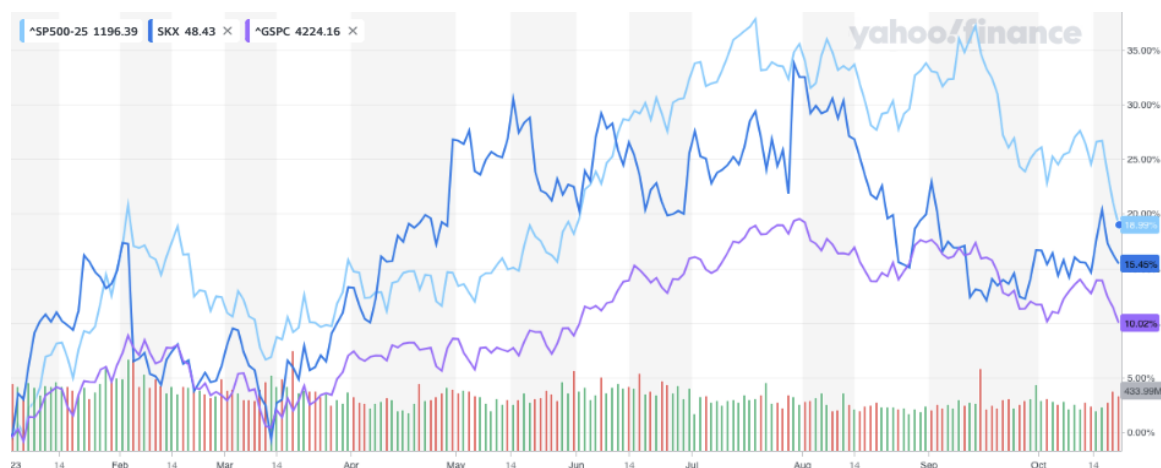
(Figure 5)



(Figure 4, see Appendix 2)

Industry Overview & Competition Position

Sketchers is in the consumer sector, one that thrives during expansion in the business cycle. In this sector, cyclical businesses like SKX, Crocs, and VF Corporation (Vans) should outperform during expanding stages of the economy. Sketchers has shown strong positive growth, with a stock price increase totaling over 15% YTD nearing the growth of S&P Consumer Discretionary Index (SP500-25) and beating out the total S&P 500 (Figure 6, Yahoo Finance).



(Figure 6)

Industry Analysis

In regards to industry, SKX is a footwear, accessory, and apparel brand. When thinking of this industry, normally all thought goes to a company like Nike. But, since the beginning of 2023, SKX has dramatically outperformed Nike (Figure 7). Skechers have been able to stay strong and competitive in the industry thanks to the demand of their product always being prevalent. Most footwear companies struggle with this – trends go in and out of style very often. But, SKX has a business model that allows them to stay “trending” (Appendix 3) due to their vast amount of selection, availability, and cost-saving opportunities for customers. In terms of competitors more comparable to Skechers, companies like Crocs, VF Corporation, Asics, and Puma have similar business models in the footwear industry and all are considered mid-cap.



(Figure 7)

Competitive Positioning

Porter's Five Forces is a model that can determine the level of competition an industry/company faces. With the *Five Forces* being: 1. Threat of entry, 2. Rivalry between existing competitors, 3. Pressure from substitute products, 4. Bargaining power of buyers, and 5. Bargaining power of suppliers; a company like SKX can determine their competitive stance in the massive footwear industry.

1. **Threat of Entry: Medium** – Founded in 1992, Skechers have always ensured that their brand carries a positive connotation with it. But, due to the fact that SKX sells and competes primarily internationally – there are possible risks of other brands stepping into these markets and lowering Skechers market share. Therefore, though Skechers has proven themselves as a reliable brand, they have only been around for just over 30 years and must continue to grow both domestically and internationally.

2. **Rivalry between existing competitors: Medium** – Continuing on SKX proving they are a reliable brand, Skechers have made a name for themselves. Though most consumers would likely consider them a footwear brand made for kids, just the fact that Skechers name is so prominent and known proves the general public's trust in the brand. Of course, SKH still faces rivalry between a competitor like Crocs, who also is known for children-focused footwear.

3. **Pressure from substitute products: Medium** – Like rivalry between existing competitors, Skechers will of course face pressure from substitutes in this highly competitive industry. The reason that SKX's pressure isn't ranked *high* is because of how known and relevant the Skechers name is. SKH offers a low-cost alternative footwear option for consumers; this also lowers their pressure from substitutes. SKH also offers a wide range of products, allowing the consumer to find whatever they are looking for through Skechers and not shop somewhere else.

4. **Bargaining power of buyers: High** – As a cyclical business, SKX is extremely susceptible to consumer's buying power. In periods of economic downfall, Skechers recognizes that their sales can and/or will decrease. Bargaining power of buyers is the highest level of competition SKX faces because if consumers stop buying, Skechers will go out of business. Again, SKX has proven to be a reliable brand but consumer ideas and economic conditions can always change and worsen. Consumer tastes are always rapidly changing, causing this to be the highest level of competition SKX faces.

5. **Bargaining power of suppliers: Low** – Per their 10K, SKX has reliable suppliers and contracts with them to claim manufacturing will not be a risk.

Investment Summary

Given Skechers historic performance, industry analysis, and economic outlook, a **BUY** is the recommended investment action. Skechers should now be a reliable and trusted brand, as their sales growth proves it. Skechers is expected to continue that growth in revenue along with growth in their stock price with a 12-month target price of \$55.16, or a 13.9% increase.

Valuation

A target price of \$55.16 was discovered through the use of valuation metrics (Figure 8). These metrics consisted of a residual income model and market value added model – which both held a ½ of the weight. Multiplier prices were also tied into the valuation results with P/B Price, P/EPS price, and P/EBIDA price each holding a ⅓ of the weight. Comparable companies used for calculating the multiplier prices consist of Crocs (CROX), VF Corporation (VFC), Asics (ASCCY), and Puma (PUM) – all are mid-cap footwear companies. The multipliers' prices showed a strong outlook for the industry (Figure 9). The weighted sum of all of these valuation methods resulted in a BUY with a proposed 12-month target of a 13.9% price increase.

	P 0	P 1
DDM	\$ -	\$ -
FCFM	\$ -	\$ -
RIM	\$ 35	\$ 39
MVAM	\$ 41	\$ 47
Average	\$ 38	\$ 43
Multipliers' Prices		
P/B Price	\$ 103.29	\$ 103.29
P/Sales Price	\$ -	\$ -
P/EPS Price	\$ 42.25	\$ 42.25
P/FCF Price	\$ -	\$ -
P/EBIDA Price	\$ 56.48	\$ 56.48
Average	\$ 67.34	
EPS1/K	\$ 36.13	
Average	\$ 52.85	\$ 55.16

(Figure 8)

SKX - Sketchers						
Ticker	SKX US Equity	10/20/2023				
Forecast Data						
Year	1	2	3	4	5	
g	9.00%	10.00%	11.00%	12.00%	2.50%	
	1	2	3	4	Avg.	Your Company
Computators' Ticker	CROX US Equity	VFC US Equity	7936 JP Equity	PUM GR Equity		SKX US Equity
PX_TO_BOOK_RATIO	8.1793	3.2326	3.123	3.4354	4.492575	0
PX_TO_SALES_RATIO	1.8704	0.915	1.1012	1.0022	1.15314	0.8769
PX_TO_EPS_BEFORE_ABNORMAL_ITEMS	10.383	10.6427	25.4991	24.0254	17.60588	17.4792
PX_TO_FREE_CASH_FLOW	13.5006	#N/A N/A	#N/A N/A	#N/A N/A	13.5006	#N/A N/A
PX_TO_EBITDA	7.0713	7.9123	10.5833	#N/A N/A	8.722975	9.325

(Figure 9)

Financial Analysis

During recent times, it is clear through SKX's financials that they have been experiencing strong demand for their products. Since the end of 2020, Skechers revenue has grown by over 55% with 2021 proving strong demand and trust consumers continue to have in the brand. Skechers can continue to notice this growth by continuing to increase both international and direct-to-consumer (DTC) sales. With nearly 60% of their sales last year being overseas, international sales potential is much greater than those sales domestically. If SKX is able to increase their DTC sales through international sales, revenue will continue to grow thanks to e-commerce. Skechers has been seeking out ways to improve their DTC sales in order to notice these results. Through investments in this segment over the last three years, Skechers is aiming to have an online presence in each country that they operate in... which is 170 of them. SKH still believes that they are underappreciated in the regions that they already operate in, so they are making the effort to ensure a strong brand, as well as online presence, in each country. Skechers has the goal of having in place a digital presence in each country that they operate in, whether directly or indirectly.

Investment Risk

As a cyclical business, Skechers experiences many potential risks that could harmfully affect their business. The main risk associated with Skechers has to do with their customers. With all the social media today, trends are constantly changing and even someone like me changes what I like all the time, sometimes even on a daily basis. This idea that a consumer has is what Skechers struggles with every day and they are constantly trying to get ahead of the consumer. SKX also has macroeconomic risks that dramatically affect them. Changes and uncertainty in foreign interest rates and exchange rates can hurt the company as a majority of their sales are international. Interest rates can dramatically affect a consumer's purchasing decision – which would lower sales for SKX. And like every other business Skechers has operational risks and financial risks that could affect them in the future. Skechers has proven to be a reputable and trusted brand around the world by consumers, giving them the expectation of increasing their stock price by nearly 14% over the next 12 months.

Appendix 1: Sources

Yahoo Finance
Morningstar Research
Skechers Equity Research - Abigail Gilmartin
Deutsche Bank SKX Skechers USA
nasdaq.com
SKX 10-K
Bloomberg Terminal

Appendix 2: Sales Info

(in millions)	Year Ended December 31,		Change	
	2022	2021	\$	%
Geographic sales				
Domestic				
Wholesale	\$ 1,831.6	\$ 1,448.3	383.3	26.5
Direct-to-Consumer	1,243.5	1,115.1	128.4	11.5
Total domestic sales	3,075.1	2,563.4	511.7	20.0
International				
Wholesale	2,800.8	2,310.3	490.5	21.2
Direct-to-Consumer	1,568.6	1,436.5	132.1	9.2
Total international sales	4,369.4	3,746.8	622.6	16.6
Total sales	\$ 7,444.5	\$ 6,310.2	1,134.3	18.0
Regional sales				
Americas (AMER)	\$ 3,854.4	\$ 3,152.3	702.1	22.3
Europe, Middle East & Africa (EMEA)	1,699.2	1,282.9	416.3	32.5
Asia Pacific (APAC)	1,890.9	1,875.0	15.9	0.9
Total sales	\$ 7,444.5	\$ 6,310.2	1,134.3	18.0
China sales	\$ 1,062.7	\$ 1,247.9	(185.2)	(14.8)
Distributor sales	\$ 557.1	\$ 387.2	169.9	43.9

Appendix 3: Trending

SKECHERS

TRENDING FOR 30 YEARS

1992 Skechers launches its first shoe: a men's logger boot at the height of grunge.

1995

1997 Boys and girls get their very own collection with Skechers Kids.

1998 The brand launches two collections: Skechers USA casuals and Skechers Sport athletics.

1999 Oops... Skechers did it again. Energy is a global success.

2001 The Skechers Grand Prix casual becomes a men's must-have.

2002 The daily grind looks good with Skechers Work utility and service shoes.

2004 Bikers pick up speed.

2007 Skechers infuses a little SoCal spirit with sunny Skechers Cali.

2011 Skechers races (and wins) with Skechers GOrun.

2012 Performance expands with Skechers Gōwalk and GO GOLF.

2013 A new era of comfort begins with SKECHERS MEMORY FOAM.

2015 Born to help kids in need, BOBS expands to save shelter animals' lives.

2016 A leader since '98 in lighted shoes, Skechers charges ahead with new innovations.

2017 Skechers Street arrives.

2018 A decade after the original D'Lites, its retro revival covers the world.

2019 Energy and Stamina continue the retro revolution.

2020 Max Cushioning takes comfort to the max!

2021 The Fit story expands - from Classic to Relaxed, Wide, Stretch, and Arch Fit.

2022 Our Planet Matters with recycled materials is good for your feet, good for the world.

2023 Hands Free Slip-ins makes it easier than ever to step in and go.

SKECHERS
THE COMFORT TECHNOLOGY COMPANY

An iconic lifestyle brand for generations.
The Comfort Technology Company™ for the world.