

Skechers U.S.A., Inc. (SKX)

\$26.40 (As of 04/10/20)

Price Target (6-12 Months): **\$22.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 04/09/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

5-Strong Sell

Zacks Style Scores:

VGM:B

Value: C

Growth: A

Momentum: F

Summary

Shares of Skechers have slid and underperformed the industry in the past three months. Much of the downside can be attributed to the coronavirus outbreak in China that is impacting the company's performance. The current situation in China has resulted in temporary closure of stores and consequently below-average traffic and comparable store sales. Management has withdrawn its recently-provided guidance for first-quarter fiscal 2020 considering the current situation and its unpredictable impact on results. Also, concerns related to operating expenses cannot be ignored. Nonetheless, fourth-quarter 2019 marked third straight quarter of top line beat. Impressively, its international and direct-to-consumer businesses show strength. Also, Skechers' domestic e-commerce business continues to gain traction.

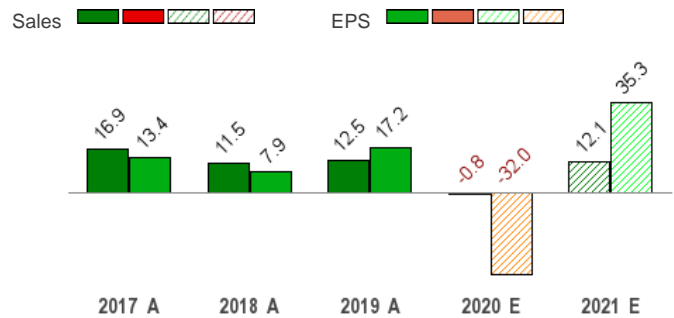
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$44.50 - \$17.06
20 Day Average Volume (sh)	2,675,028
Market Cap	\$4.1 B
YTD Price Change	-38.9%
Beta	1.15
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Shoes and Retail Apparel
Zacks Industry Rank	Bottom 16% (212 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	6.7%
EPS F1 Est- 4 week change	-37.5%
Expected Report Date	NA
Earnings ESP	-24.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,807 E
2020	1,243 E	1,268 E	1,417 E	1,458 E	5,180 E
2019	1,277 A	1,259 A	1,354 A	1,331 A	5,220 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$2.07 E
2020	\$0.44 E	\$0.02 E	\$0.59 E	\$0.49 E	\$1.53 E
2019	\$0.73 A	\$0.49 A	\$0.67 A	\$0.39 A	\$2.25 A

*Quarterly figures may not add up to annual.

P/E TTM	11.6
P/E F1	17.3
PEG F1	2.5
P/S TTM	0.8

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/10/2020. The reports text is as of 04/13/2020.

Overview

Founded in 1992 and headquartered in Manhattan Beach, California, Skechers U.S.A., Inc. (SKX) designs, develops, markets, and distributes footwear for men, women, and children in the United States and overseas under the SKECHERS name, as well as under several uniquely branded names.

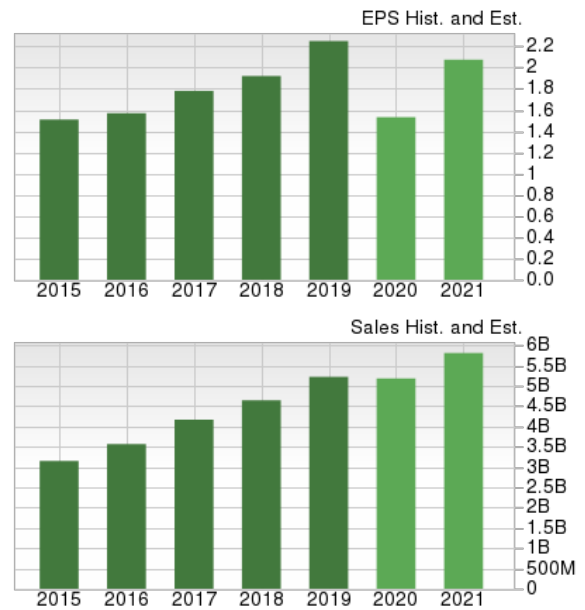
Through its distribution networks, joint venture partners in Asia and the Middle East, and wholly-owned subsidiaries in Canada, Japan, throughout Europe and Latin America, Skechers' products are available in more than 170 countries and territories. There are more than 3,500 SKECHERS Company-owned and third-party-owned retail stores.

Skechers offers casuals, dress casuals, comfort and lightweight, sandals, and casual fusion categories for men and women under the **Skechers USA brand**; sport footwear for men and women, including men's lifestyle athletic footwear, lightweight women's sneakers, and sport sandals and boots under the **Skechers Sport brand**; fusion and sport fusion sneakers for females of all ages under the **Skechers Active brand**; and vulcanized looks and at Home collection under the brand **BOBS from Skechers**.

The company also provides casuals, field boots, hikers, and athletic shoes for men and women under the **Skechers Work brand**; boots, shoes, sandals, dress sneakers, and lighted footwear for infants, toddlers, boys, and girls under the **Skechers Kids brand**; and a vivid range of on-trend casual, dress and active styles for men under **Mark Nason Collection**.

The company also offers specially designed footwear collection under **Skechers GORun**, **Skechers GOWalk**, **Skechers**, **Skechers GOtrain**, **Skechers GOtrail**, **Skechers GO Golf** and **YOU by Skechers**.

Skechers reports under four segments - **domestic wholesale sales**, **international wholesale sales**, **direct-to-consumer (which includes domestic and international retail sales)**, and **e-commerce**.



Reasons To Sell:

▼ **Dismal Stock Performance:** Shares of Skechers have lost 37.8% in the past three months compared with the industry's decline of 17.9%. Much of the downside can be attributed to the coronavirus outbreak in China that is impacting the company's performance. The current situation in China has resulted in temporary closure of stores and consequently below-average traffic and comparable store sales. Management has withdrawn its first-quarter fiscal 2020 view considering the current situation and its unpredictable impact on results. Also, concerns related to operating expenses cannot be ignored.

Concerns related to higher operating expenses cannot be ignored. Further, the company remains vulnerable to fashion obsolescence and currency fluctuations.

We note that rising concerns related to the COVID-19 pandemic have disrupted economic activities globally. The crippling effect of the outbreak led to supply-chain disruptions, slowdown in production activities and reduced demand for several commodities. In the view of implementation of safety measures and drop in store footfall, companies are temporarily shutting their brick-and-mortar stores, curtailing work hours and operating in shifts or permitting employees to work remotely.

▼ **Higher Operating Expenses:** We are concerned about escalating selling, general and administrative (SG&A) expenses that may hurt the company's margin and in turn the bottom line. In the fourth quarter of 2019, SG&A expenses rose 25.5% and were modestly higher as a percentage of sales. Also, selling expenses increased on higher advertising costs. General and administrative expenses increased by \$84.7 million owing to additional spending in relation to its direct-to-consumer business and company-owned Skechers stores. Also, the expenses include spending to support growth of its joint venture businesses, incorporating operations in China and Mexico. Further, operating margin contracted 60 basis points to 7.1% in the quarter. Prior to this, SG&A costs rose 16.8%, 5.6% and 1.2%, respectively, in the third, second and first quarter.

▼ **Prone to Currency Fluctuations:** Skechers generates a significant amount of net sales outside the U.S. Due to high exposure to international markets the company remains prone to currency fluctuations. The weakening of foreign currencies against the U.S. dollar may require the company to either raise prices or contract profit margins in locations outside of the United States. An increase in price may have an adverse impact on the demand for the products.

▼ **Fashion Obsolescence a Threat:** Fashion obsolescence remains the main concern for Skechers' business model, which involves a sustained focus on product and design innovation. The company's pioneering position may be hurt by delays in its product launches. The company operates in the highly competitive athletic footwear and apparel segment. It faces stiff competition from athletic footwear specialty stores, sporting goods stores, department stores, discount stores and traditional shoe stores in terms of distinctiveness, innovativeness, quality and pricing, which may weigh on its results.

Risks

- **Q4 Sales Beat:** Skechers' top line beat the Zacks Consensus Estimate for the third quarter in a row, when it reported fourth-quarter 2019 results. Despite in-line earnings, the top and bottom line continued to rise year over year. The top-line growth was backed by strength in domestic and international businesses, with each region contributing double-digit growth. Moreover, the company's direct-to-consumer business acted as the primary growth catalyst. Direct-to-consumer sales rose 19.4% on 16.3% growth domestically and 24.7% internationally. Moreover, the joint venture in Mexico is performing well. The company is making strategic investments to improve infrastructure worldwide, primarily e-commerce platforms and distribution centers. The company is also focusing on designing and developing new products.
 - **Strategic Endeavors:** We believe that greater emphasis on new lines of product, corporate upgrades and store remodeling projects, cost-containment efforts, inventory management, and global distribution platform bodes well. It operates e-commerce sites in the United States, Chile, Germany, United Kingdom, Spain, China and Canada. Notably, comparable store sales at company-owned stores and e-commerce jumped 9.9%, comprising 10.3% in the United States and 8.8% internationally. Capital expenditures incurred during 2019 totaled \$240.7 million. Recently, Skechers collaborated with The Goodyear Rubber & Tire Company in order to develop the technology in its footwear. Its select styles in categories for men, women and kids will use Goodyear's rubber technology in custom Skechers outsoles, thus delivering increased grip and durability.
 - **Diversified Portfolio of Brands:** Skechers continues to offer a diversified portfolio of brands that includes a wide range of fashion, athletic, non-athletic, and work footwear at compelling prices. We believe that this multi-brand strategy enables the company to roll out new products without cannibalizing its existing brands and helps to expand the targeted demographic profile of customers. Skechers D'Lites is fast gaining traction with sturdy demand in North America and Europe, after gaining grounds in Asia. The brand is also set for growth in South America, India and the Middle East.
 - **Solid International Business:** Management is focused on product innovation, additional store openings and increasing distribution channels by entering into distribution agreements to boost sales and profitability. Moreover, Skechers' international business remains a considerable sales growth driver for the company with Europe and China being the significant market outside the United States. Skechers is poised to enhance its global reach in the footwear market through its distribution networks, subsidiaries and JVs. The company witnessed sales growth of 31.2% across its international business during the fourth quarter of 2019. This represented a record 59.3% of net sales. Moreover, Skechers' international wholesale business grew 32.8%, while company-owned direct-to-consumer business rose 19.4%. The company's international wholesale business improved from a year ago, driven by growth in subsidiaries, joint ventures and distributor businesses. Management stated that Skechers witnessed growth across all regions, with China, India, the United Kingdom and UAE being the biggest drivers. Markedly, its joint venture in Mexico is performing well. In 2019, the company accomplished the milestone of \$5-billion annual sales and its international business accounted for 57.9% of total sales.
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Last Earnings Report

Skechers Q4 Earnings In Line With Estimates, Sales Top

Skechers reported in-line earnings in fourth-quarter 2019. This designer, developer, marketer and distributor of footwear reported quarterly earnings of 39 cents a share, in line with the Zacks Consensus Estimate. Moreover, the bottom line improved 25.8% from 31 cents per share reported in the year-ago period. Moreover, the top and bottom lines maintained the trend of recording year-over-year increase.

The company generated net sales of \$1330.7 million that increased 23.1% (or 23.8% on a constant-currency basis) from the year-ago quarter and beat the Zacks Consensus Estimate of \$1,243 million. The top-line growth was backed by strength in domestic and international businesses, with each region contributing to double-digit growth.

Let's Analyze the Results

Skechers witnessed sales growth of 31.2% in the international business (representing a record 59.3% of net sales) and 13% in the domestic business. On a constant-currency basis, sales for the international business were up 32.3% from the prior-year quarter.

On a segmental basis, the company's international wholesale business grew 32.8%, while company-owned direct-to-consumer business rose 19.4% from the year-ago quarter. Further, the domestic wholesale business increased 10.4% from the prior-year period. Comparable same-store sales in company-owned stores and e-commerce rose 9.9% from the year-ago period, including 10.3% in the United States and 8.8% internationally.

The company's international wholesale business improved from a year ago, driven by growth in subsidiaries, joint ventures and distributor businesses. Management stated that Skechers witnessed growth across all regions, with China, India, the United Kingdom and UAE being the biggest drivers. Markedly, its joint venture in Mexico is performing well.

Gross profit in the reported quarter grew 23.7% from the prior-year figure to \$637.7 million. Moreover, gross margin expanded 20 basis points to 47.9% on improved average selling price per unit. This was partly offset by higher average cost per unit on increased duties in the domestic wholesale business.

Operating income came in at \$94.1 million, up 12.4% from the prior-year quarter, while operating margin contracted 60 basis points to 7.1%.

Other Financial Aspects

Skechers ended 2019 with cash and cash equivalents of \$824.9 million, long-term borrowings (excluding current installments) of \$49.2 million, and shareholders' equity of \$2,314.7 million, excluding non-controlling interest of \$221.4 million.

Management incurred capital expenditures of roughly \$66 million during the quarter, with a total spending of \$240.7 million in 2019.

For 2020, the company plans capital spending of approximately \$325-\$350 million. This will be used to complete the construction of the China distribution center, expand the U.S. distribution facility, open 115-125 new company-owned Skechers stores, and carry out 20-30 store remodels, expansions and relocations. Moreover, the capital expenditure will be used for the expansion of corporate headquarters and technology investments, primarily in the direct-to-consumer business.

Store Update

During the quarter, Skechers opened nine company-owned retail stores in the United States, remodeled one and extended two, taking the total count to 497. Further, it opened 12 company-owned international stores and 259 joint venture or third-party owned stores in the reported quarter, bringing the total international retail store count to 3,050.

Of the total international stores, 2,747 are owned and operated by international distribution partners, joint ventures, and a network of franchisees. Total store count at the end of 2019 was 3,547, including 800 company-owned stores. In 2020, the company plans to open 75-80 new stores in the United States, 40-50 wholly-owned company stores in international markets and 550-650 Skechers third-party stores.

Q1 View

For first-quarter fiscal 2020, the company provided a softer-than-expected guidance. The company's guidance incorporates an initial estimate of the impact from the current situation in China due to the outbreak of coronavirus. This has resulted in the temporary closure of stores and below-average comparable store sales. It may change the guidance if the situation in China worsens, affecting the company's business outside China and hurting the supply chain. Management anticipates first-quarter 2020 earnings in the range of 70-75 cents a share. Moreover, the company expects net sales in the band of \$1.400-\$1.425 billion.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	6.66%
EPS Surprise	0.00%
Quarterly EPS	0.39
Annual EPS (TTM)	2.28

Recent News

Skechers Withdraws Guidance - March 18, 2020

Skechers provided an update on the coronavirus outbreak, stating that it is temporarily closing its company-owned retail stores across North America as well as some parts of Europe. The shutdown is scheduled to last till Mar 28. Earlier, Skechers had announced closures of company-owned and third-party stores in various gravely-impacted international markets. The company also withdrew its recently-provided guidance for first-quarter fiscal 2020 considering the current situation and its unpredictable impact on results. During fourth-quarter earnings call, management expected net sales in the band of \$1.400-\$1.425 billion for first-quarter 2020. Earnings per share were envisioned in the range of 70-75 cents. However, the company has withdrawn these forecasts.

Skechers Teams up With Goodyear - February 26, 2020

Skechers recently collaborated with The Goodyear Rubber & Tire Company in order to develop the technology in its footwear. Its select styles in categories for men, women and kids will use Goodyear's rubber technology in custom Skechers outsoles, thus delivering increased grip and durability. Notably, styles featuring Goodyear outsoles are available at the company's retail stores, www.skechers.com, and select retail partners.

Valuation

Skechers shares are down 38.9% in the year-to-date period and nearly 24.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Consumer Discretionary sector are down 17% and 24.1%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 3.9% and 19.2%, respectively.

The S&P 500 index is down 13.7% in the year-to-date period and 4.5% in the past year.

The stock is currently trading at 10.31X forward 12-month earnings, which compares to 25.37X for the Zacks sub-industry, 19.38X for the Zacks sector and 18.16X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.33X and as low as 8.14X, with a 5-year median of 14.72X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$22 price target reflects 8.76X forward 12-month earnings.

The table below shows summary valuation data for SKX

Valuation Multiples - SKX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	10.31	25.37	19.38	18.16
	5-Year High	29.33	26.48	23.23	19.34
	5-Year Low	8.14	18.63	16.15	15.19
	5-Year Median	14.72	23.29	19.87	17.45
P/S F12M	Current	0.7	2.66	1.81	3.08
	5-Year High	2.57	2.9	3.19	3.44
	5-Year Low	0.55	1.99	1.68	2.54
	5-Year Median	1.05	2.58	2.52	3.01
EV/EBITDA TTM	Current	8.12	19.44	9.32	10.23
	5-Year High	22.54	24.5	17.6	12.87
	5-Year Low	4.68	12.39	8.26	8.27
	5-Year Median	9.63	16.01	12.26	10.78

As of 04/09/2020

Industry Analysis Zacks Industry Rank: Bottom 16% (212 out of 253)



Top Peers

Adidas AG (ADDYY)	Neutral
Anta Sports Products Ltd. (ANPDF)	Neutral
Deckers Outdoor Corporation (DECK)	Neutral
Wolverine World Wide, Inc. (WWW)	Neutral
Columbia Sportswear Company (COLM)	Underperform
NIKE, Inc. (NKE)	Underperform
Steven Madden, Ltd. (SHOO)	Underperform
V.F. Corporation (VFC)	Underperform

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SKX Underperform	X Industry	S&P 500	ADDYY Neutral	DECK Neutral	NKE Underperform
VGM Score	B	-	-	B	A	C
Market Cap	4.14 B	1.39 B	19.66 B	48.69 B	4.17 B	135.16 B
# of Analysts	4	4	13	8	5	9
Dividend Yield	0.00%	1.13%	2.18%	1.08%	0.00%	1.13%
Value Score	C	-	-	D	B	F
Cash/Price	0.28	0.18	0.06	0.07	0.18	0.03
EV/EBITDA	6.65	8.73	11.72	13.90	9.97	24.81
PEG Ratio	2.35	1.16	2.04	3.95	0.91	2.54
Price/Book (P/B)	1.60	1.50	2.66	6.27	3.71	14.94
Price/Cash Flow (P/CF)	8.85	8.42	10.44	19.22	14.02	28.72
P/E (F1)	16.48	16.48	17.51	26.99	15.73	32.82
Price/Sales (P/S)	0.79	0.66	2.12	1.84	1.94	3.27
Earnings Yield	5.80%	6.08%	5.65%	3.70%	6.36%	3.04%
Debt/Equity	0.40	0.40	0.70	0.23	0.20	0.69
Cash Flow (\$/share)	2.98	2.97	7.01	6.46	10.62	3.02
Growth Score	A	-	-	A	A	A
Hist. EPS Growth (3-5 yrs)	9.27%	8.48%	10.92%	26.24%	21.81%	7.68%
Proj. EPS Growth (F1/F0)	-31.89%	-6.97%	-1.14%	-15.22%	-0.27%	6.20%
Curr. Cash Flow Growth	11.53%	0.43%	5.93%	19.27%	33.19%	0.27%
Hist. Cash Flow Growth (3-5 yrs)	18.98%	5.48%	8.55%	10.81%	15.19%	7.69%
Current Ratio	2.28	1.90	1.24	1.37	2.89	1.90
Debt/Capital	28.59%	34.67%	42.36%	18.38%	16.56%	40.75%
Net Margin	6.64%	6.55%	11.64%	8.38%	13.20%	10.46%
Return on Equity	14.82%	17.13%	16.74%	27.83%	27.93%	51.49%
Sales/Assets	1.16	1.20	0.54	1.20	1.27	1.61
Proj. Sales Growth (F1/F0)	-0.76%	0.00%	0.45%	1.34%	1.56%	0.99%
Momentum Score	F	-	-	B	C	C
Daily Price Chg	2.60%	1.75%	2.48%	5.41%	2.62%	1.75%
1 Week Price Chg	-12.74%	-10.94%	-4.40%	-11.23%	-8.25%	-5.25%
4 Week Price Chg	3.41%	0.00%	11.26%	29.47%	13.56%	16.97%
12 Week Price Chg	-38.58%	-29.32%	-20.02%	-29.32%	-13.77%	-16.04%
52 Week Price Chg	-23.14%	-24.25%	-11.31%	-2.00%	-0.71%	2.11%
20 Day Average Volume	2,675,028	161,363	3,931,994	161,363	636,543	14,554,306
(F1) EPS Est 1 week change	-27.80%	0.00%	-0.12%	0.38%	0.00%	-0.05%
(F1) EPS Est 4 week change	-37.49%	-9.75%	-5.78%	-14.25%	-8.15%	-6.81%
(F1) EPS Est 12 week change	-38.86%	-14.05%	-7.64%	-24.49%	-5.24%	-11.41%
(Q1) EPS Est Mthly Chg	-97.07%	-27.44%	-10.13%	-15.52%	-43.18%	-64.71%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	A
Momentum Score	F
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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