

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

**\$41.21** (As of 01/21/20)

Price Target (6-12 Months): **\$44.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/24/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:A

Value: B

Growth: A

Momentum: B

### Summary

Greater emphasis on new line of products, cost containment efforts, inventory management and global distribution platform have helped lift Skechers' performance, whose shares have surged and outpaced the industry so far in the year. Notably, both sales and earnings per share continued to increase year over year during the third quarter of 2019. Although Skechers misses on earnings, top line came ahead of the Zacks Consensus Estimate for the second consecutive quarter. Looking ahead, management also provided a decent fourth-quarter view. The company's international and direct-to-consumer businesses are the primary catalysts. Skechers' domestic e-commerce business also continues to gain traction. However, concern related to higher operating expenses and adverse currency fluctuations cannot be ignored.

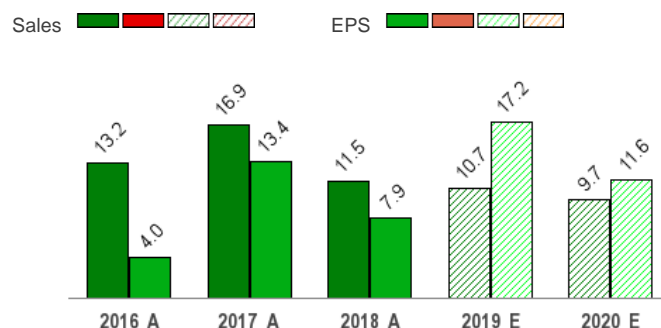
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$44.49 - \$25.26
20 Day Average Volume (sh)	1,187,691
Market Cap	\$6.5 B
YTD Price Change	-4.6%
Beta	0.78
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Shoes and Retail Apparel</a>
Zacks Industry Rank	Bottom 30% (178 out of 255)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.9%
Last Sales Surprise	1.1%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	NA
Earnings ESP	0.0%
P/E TTM	18.7
P/E F1	16.4
PEG F1	2.4
P/S TTM	1.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,414 E	1,367 E	1,480 E	1,364 E	5,639 E
2019	1,277 A	1,259 A	1,354 A	1,247 E	5,139 E
2018	1,250 A	1,135 A	1,176 A	1,081 A	4,642 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.77 E	\$0.55 E	\$0.77 E	\$0.46 E	\$2.51 E
2019	\$0.73 A	\$0.49 A	\$0.67 A	\$0.39 E	\$2.25 E
2018	\$0.75 A	\$0.29 A	\$0.58 A	\$0.31 A	\$1.92 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/21/2020. The reports text is as of 01/22/2020.

## 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.

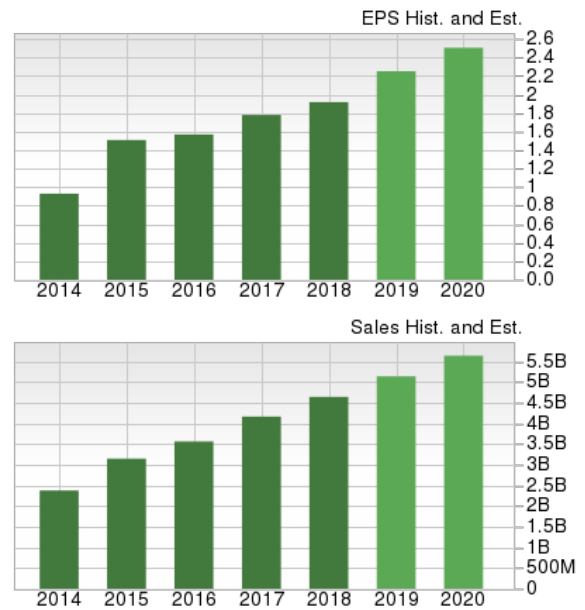
Through its distribution networks, joint venture partners in Asia and the Middle East, and wholly-owned subsidiaries in Canada, Japan, throughout Europe and Latin America, Skechers' products are available in more than 170 countries and territories. There are more than 3,300 SKECHERS Company-owned and 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**.



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## Reasons To Buy:

▲ **Impressive Stock Performance:** Shares of Skechers have surged 61.2% so far in the year and comfortably outperformed the industry that gained 30.1%. The stock is gaining from the company's impressive performance. Notably, both sales and earnings per share continued to increase year over year during the third quarter of 2019. While the top line grew 15.1%, the bottom line improved 15.5% during the quarter under review. Looking ahead, management also provided a decent fourth-quarter view. Management guided fourth-quarter 2019 earnings in the range of 35-40 cents a share. The company had reported earnings of 31 cents in the final quarter of 2018. The company now anticipates fourth-quarter 2019 net sales in the band of \$1.225-\$1.250 billion, up from \$1.081 billion reported in the prior-year period.

With more emphasis on the new line of products, cost containment efforts, inventory management and global distribution platform, Skechers anticipates sustaining the growth momentum.

Skechers' international and direct-to-consumer businesses acted as the primary catalysts. The company's domestic wholesale business also returned on growth path. Management informed that the company witnessed growth across all regions with prominent markets being Germany, the U.K., Spain, India, Turkey, UAE, China, Russia and Japan. 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 of new products.

▲ **Strategic Endeavors:** We believe that greater emphasis on new line of products, corporate upgrades and store remodeling projects, cost containment efforts, inventory management and global distribution platform bode well. It operates e-commerce sites in Chile, Germany, U.K., Spain and Canada. Notably, comparable store sales in company-owned stores and e-commerce jumped 7.7%, comprising 6.8% in the United States and 9.9% internationally. Management now envisions capital expenditures of about \$85-\$90 million in the remaining part of the year. This comprises an additional 15-20 company-owned direct-to-consumer stores and 8-10 store remodels, expansions or relocations, construction of new distribution center in China, improvement of existing distribution centers in Europe, and the expansion of corporate headquarters in California.

Capital expenditures incurred during the third quarter of 2019 were \$48.9 million, of which \$16.9 million was related to the construction of distribution center in China, \$16.3 million related to retail stores worldwide and \$8.6 million related to worldwide distribution capabilities.

▲ **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.

▲ **Growth Drivers:** 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 21.9% during the third quarter of 2019 across its international business, representing 58.8% of total sales.

Skechers' international wholesale business grew 21.7%, while company-owned direct-to-consumer business grew 13.3%. The company's international wholesale business grew on account of 4.4% increase in distributor business, 24.2% jump in joint ventures and 27% growth in wholly owned subsidiaries. Significant dollar gains came from subsidiaries in India, Germany and Spain and distributors in Russia, Turkey and UAE. Management expects international and direct-to-consumer businesses to sustain momentum in the final quarter and increase at a rate similar to the third quarter.

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## Reasons To Sell:

▼ **Higher Operating Expenses:** We remain concerned about higher general & administrative expenses that may hurt the company's margin and in turn the bottom line. In the third quarter of 2019, the same jumped 16.8% or \$59.7 million on account of additional spending of \$24.4 million to support growth of international businesses, including in China and the addition of operations in Mexico, and \$18.5 million associated with 37 new company-owned stores, including 14 opened in the quarter under review. In the second and first quarters, general & administrative expenses increased 5.6% and 1.2%, respectively. We note that selling expenses increased 8.2% during the third quarter of 2019 owing to higher advertising expenses in international markets. Also, domestic wholesale gross margin was lower year-over-year due to higher average cost per unit, partly attributable to increased tariffs.

Concern related to higher operating expenses cannot be ignored. This may hurt the company's margin. Further, the company remains vulnerable to fashion obsolescence and currency fluctuations.

▼ **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.

▼ **Dip in Consumer Sentiment May Impact Sales:** Any dip in consumer confidence – a key determinant of the economy's health – may have serious bearing on spending. The company's customers remain sensitive to macroeconomic factors including interest rate hikes, increase in fuel and energy costs, credit availability, unemployment levels, and high household debt levels, which may negatively impact their sentiment. This may adversely impact its growth and profitability.

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## Last Earnings Report

### Skechers Q3 Earnings Miss, Revenues Top Estimates

After four straight quarters of earnings beat, Skechers USA, Inc. reported a negative earnings surprise during the third quarter of 2019. Nonetheless, the top line came ahead of the Zacks Consensus Estimate for the second consecutive quarter. Moreover, both sales and earnings per share continued to increase year over year. Looking ahead, management also provided a decent fourth-quarter view.

This designer, developer, marketer and distributor of footwear delivered quarterly earnings of 67 cents a share that missed the Zacks Consensus Estimate by a couple of cents. However, the bottom line improved 15.5% from 58 cents reported in the year-ago period. On a constant currency basis, earnings came in at 71 cents a share, up 22.4% year over year.

Management guided fourth-quarter 2019 earnings in the range of 35-40 cents a share. The company had reported earnings of 31 cents in the final quarter of 2018.

The company generated net sales of \$1,354 million that increased 15.1% (or 17.2% on a constant currency basis) from the year-ago quarter and also beat the Zacks Consensus Estimate of \$1,339 million.

The company now anticipates fourth-quarter 2019 net sales in the band of \$1.225-\$1.250 billion, up from \$1.081 billion reported in the prior-year period.

Skechers' international and direct-to-consumer businesses acted as the primary catalysts. The company's domestic wholesale business also returned on growth path. Management informed that the company witnessed growth across all regions with prominent markets being Germany, the U.K., Spain, India, Turkey, UAE, China, Russia and Japan. 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 of new products.

### Let's Analyze the Results

Skechers witnessed sales growth of 21.9% across international business (representing a record 58.8% of net sales) and 6.7% in its domestic business. The company's international wholesale business grew 21.7%, while company-owned direct-to-consumer business rose 13.3%.

Notably, the company's domestic wholesale business jumped 5%, following a decline of 3.8% in the preceding quarter. The company anticipates domestic wholesale business to grow during the fourth quarter.

The company's international wholesale business improved on account of 4.4% increase in distributor business, 24.2% jump in joint ventures and 27% growth in wholly owned subsidiaries.

Management expects international and direct-to-consumer businesses to sustain momentum. Comparable store sales in company-owned stores and e-commerce jumped 7.7%, comprising 6.8% in the United States and 9.9% internationally.

Gross profit for the reported quarter grew 15.8% to \$653.1 million. Moreover, gross margin expanded 30 basis points to 48.2% on account of improved retail pricing and product mix in its international businesses. This was partly offset by higher average cost per unit in domestic business.

Operating income came in at \$147.4 million, up 19% from the prior-year quarter, while operating margin increased 40 basis points to 10.9%.

### Other Financial Aspects

Skechers ended the reported quarter with cash and cash equivalents of \$824 million, long-term borrowings (excluding current installments) of \$39.8 million, and shareholders' equity of \$2,174.5 million, excluding non-controlling interest of \$167 million.

Management incurred capital expenditures of roughly \$48.9 million during the quarter and plans to spend approximately \$85-\$90 million in the remaining part of the year.

### Store Update

During the quarter, Skechers opened 12 company-owned domestic stores and closed one taking the total count to 488. Again, two company-owned international stores were opened, while two were shuttered, which kept the total count unchanged at 291. Further, the company ended the quarter with 318 joint-venture stores and 2,210 distributor, licensee and franchise stores. Total store count at the end of the quarter stood at 3,307, including 779 company-owned stores.

Quarter Ending **09/2019**

Report Date	Oct 22, 2019
Sales Surprise	1.10%
EPS Surprise	-2.90%
Quarterly EPS	0.67
Annual EPS (TTM)	2.20

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## Recent News

### Skechers Opens Retail Store in Disneytown, Shanghai - Oct 30, 2019

Skechers has opened a flagship retail store in the Disneytown shopping district at the Shanghai Disney Resort. This kids store which started operating from Oct 20, is the first retail store in Disney resort.

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## Valuation

Skechers shares are up 61.2% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the Zacks Consumer Discretionary sector are up 30.1% and 21.4%, respectively.

The S&P 500 index is up 25.1% in the past year.

The stock is currently trading at 16.31X forward 12-month earnings, which compares to 26.86X for the Zacks sub-industry, 20.86X for the Zacks sector and 19.13X for the S&P 500 index.

Over the past five years, the stock has traded as high as 29.33X and as low as 10.46X, with a 5-year median of 14.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$44 price target reflects 17.4X 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	16.31	26.86	20.86	19.13
	5-Year High	29.33	26.86	23.35	19.34
	5-Year Low	10.46	18.63	16.16	15.17
	5-Year Median	14.82	23.22	20.11	17.44
P/S F12M	Current	1.14	3.13	2.37	3.56
	5-Year High	2.57	3.13	3.19	3.56
	5-Year Low	0.65	1.99	1.81	2.54
	5-Year Median	1.07	2.58	2.54	3
EV/EBITDA TTM	Current	12.73	25.03	12.97	12.38
	5-Year High	21.59	25.03	17.76	12.86
	5-Year Low	4.73	13.14	11.07	8.48
	5-Year Median	9.79	15.97	12.42	10.67

As of 01/21/2020

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## Industry Analysis Zacks Industry Rank: Bottom 30% (178 out of 255)



## Top Peers

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

Industry Comparison Industry: Shoes And Retail Apparel				Industry Peers		
	SKX <b>Neutral</b>	X Industry	S&P 500	ADDYY <b>Neutral</b>	DECK <b>Neutral</b>	NKE <b>Neutral</b>
<b>VGM Score</b>	<b>A</b>	-	-	<b>C</b>	<b>D</b>	<b>D</b>
Market Cap	6.46 B	1.92 B	24.43 B	68.87 B	4.90 B	162.87 B
# of Analysts	5	4	13	7	5	13
Dividend Yield	0.00%	0.94%	1.75%	0.77%	0.00%	0.94%
<b>Value Score</b>	<b>B</b>	-	-	<b>D</b>	<b>C</b>	<b>D</b>
Cash/Price	0.14	0.05	0.04	0.04	0.04	0.02
EV/EBITDA	11.96	12.39	14.00	19.76	13.08	29.72
PEG Ratio	2.37	2.06	2.06	2.25	1.58	2.49
Price/Book (P/B)	2.70	2.45	3.39	8.72	5.52	17.44
Price/Cash Flow (P/CF)	15.40	11.07	13.69	26.75	16.48	34.61
P/E (F1)	16.59	16.44	19.00	29.00	19.20	34.72
Price/Sales (P/S)	1.30	1.01	2.68	2.64	2.35	3.99
Earnings Yield	6.09%	6.09%	5.26%	3.45%	5.21%	2.88%
Debt/Equity	0.43	0.55	0.72	0.23	0.25	0.66
Cash Flow (\$/share)	2.68	2.68	6.94	6.46	10.62	3.02
<b>Growth Score</b>	<b>A</b>	-	-	<b>B</b>	<b>F</b>	<b>A</b>
Hist. EPS Growth (3-5 yrs)	11.33%	9.89%	10.60%	28.59%	18.60%	8.00%
Proj. EPS Growth (F1/F0)	11.21%	11.21%	7.57%	11.90%	3.08%	20.98%
Curr. Cash Flow Growth	9.34%	7.54%	14.00%	19.27%	33.19%	0.27%
Hist. Cash Flow Growth (3-5 yrs)	32.84%	6.27%	9.00%	10.81%	15.19%	7.69%
Current Ratio	2.37	1.68	1.23	1.37	2.44	1.98
Debt/Capital	30.27%	39.81%	42.99%	18.38%	20.22%	39.81%
Net Margin	6.73%	6.90%	11.15%	8.27%	13.36%	11.21%
Return on Equity	14.85%	14.85%	17.16%	26.81%	27.89%	50.03%
Sales/Assets	1.22	1.25	0.55	1.24	1.30	1.64
Proj. Sales Growth (F1/F0)	9.90%	5.72%	4.05%	7.50%	6.00%	8.36%
<b>Momentum Score</b>	<b>B</b>	-	-	<b>D</b>	<b>A</b>	<b>F</b>
Daily Price Chg	-1.65%	-0.39%	-0.27%	-0.02%	0.85%	0.05%
1 Week Price Chg	-1.57%	1.40%	2.29%	0.86%	5.14%	3.60%
4 Week Price Chg	-4.67%	0.00%	2.13%	7.22%	6.38%	4.43%
12 Week Price Chg	7.68%	1.57%	6.99%	12.60%	16.79%	17.14%
52 Week Price Chg	60.47%	5.25%	21.25%	48.69%	44.52%	29.51%
20 Day Average Volume	1,187,691	66,818	1,415,064	32,429	328,192	4,307,468
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.44%	0.00%
(F1) EPS Est 4 week change	0.47%	0.00%	0.00%	0.00%	0.44%	-0.03%
(F1) EPS Est 12 week change	-1.31%	-0.11%	-0.34%	-3.02%	4.52%	1.37%
(Q1) EPS Est Mthly Chg	-2.94%	0.00%	0.00%	0.00%	0.72%	-0.21%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### 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	<b>B</b>
Growth Score	<b>A</b>
Momentum Score	<b>B</b>
VGM Score	<b>A</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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