



SKECHERS

2017 SMF Full Analyst Report
UConn Graduate SMF Team

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Current Price	Price Target	52 Week Range	P/E	Market Cap	Recommendation
\$25.43	\$38.70	\$18.81 - \$34.19	16.19	\$4.12 B	Buy

Exhibit 1: SKX Logo



Exhibit 2: SKX Returns v.s. S&P 500



Source: Google Finance

Exhibit 3: SKX Sneakers



Executive Summary

We are issuing a “BUY” recommendation for Skechers with a target price of \$38.70.

Skechers has strong competition and it has consistently performed better than competitors. The company has had strong growth over the last few years along with a strong increase in its stock price. Overall, the shoe industry being cyclical in nature has both positive and negative aspects.

Business Description

Company Description

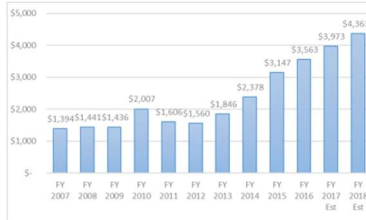
Skechers U.S.A., Inc. designs and markets branded contemporary casual, active, rugged, and lifestyle footwear for men, women, and children. The Company sells its products to department stores and specialty retailers. Skechers also sells its products internationally through distributors and directly to consumers through retail stores. Its shoes are sold through department and specialty stores in more than 160 countries, as well as some 390 company-owned concept and outlet stores and its website. Skechers footwear is manufactured primarily by Chinese contractors.

Operations

Skechers has three business segments: Domestic Wholesale division, International Wholesale division, and the Retail segment.

The Domestic Wholesale division made up nearly 40% of the company's total sales during 2015, the International Wholesale segment accounted for 35% of sales, and the retail stores segment accounted for 25% of sales. The company's Retail Stores segment includes Skechers e-commerce which is made up of almost 120 owned and operated concept stores, more than 150 factory outlet stores, and almost 120 warehouse outlets in the US. Skechers has invested in rapid expansion policies with joint ventures in India to increase sales. These policies consist of a 51% interest in Skechers South Asia Private Limited and a 49% stake in Skechers Retail India Private Limited. This is part of Skechers expansion policy to establish a stronger base in international markets. 60% of Skechers total sales came from the US in 2015 while 3% came from Canada.

Exhibit 4: Revenue (in Millions)



Sales and Marketing

In addition to Skechers owned stores, products are sold in department and specialty stores, athletic and independent retailers, boutiques, and internet retailers. Skechers promotes its brand through print, television, and outdoor campaigns targeted at both adults and children. Advertising activities include marathons and activity events for Skechers Performance division; animated kids' television campaigns featuring its own action heroes; donation events featuring its BOBS charitable footwear program; print, television, outdoor, and online campaigns that highlighted endorsees of Skechers Performance and Skechers lifestyle brands; and social media, visual merchandising, trade shows, and online product marketing efforts.

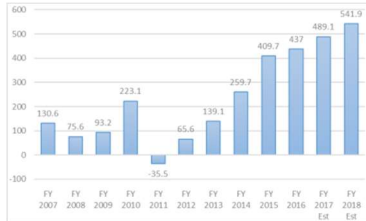
Exhibit 5: Gross Profit (in Millions)



Strategy

Skechers has a strong expansion policy in place to increase sales. Skechers has particularly set its eyes on the markets in Latin America and Central Eastern Europe. In Central Eastern Europe, Skechers has moved away from third party distribution to its wholly owned subsidiary Skechers CEE kft. The same practice has been followed in Latin America demonstrating that the company is looking to boost the visibility of its own brand. Also, Skechers has focused on developing businesses in Brazil and Chile and enhancing its presence in other existing markets by leveraging joint ventures such as in Asia. Skechers has consistently focused on its core market and has not targeted hardcore athletes to avoid competition with more expensive, performance products of companies like NIKE and Adidas.

Exhibit 6: EBITDA

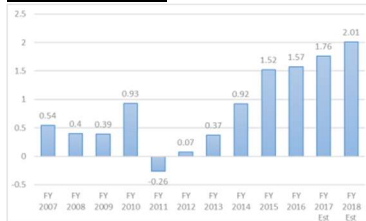


Industry Overview and Competitive Positioning

Shoe Industry

The shoe industry is cyclical in nature. While consumer confidence is at a high encouraging sales with several new product lines coming out, footfalls in stores has been soft. Longer term prospects are also uncertain. International growth is strong. However, this poses its own set of risks such as increased border taxes and weak economic growth.

Exhibit 7: EPS



In the shoe industry, weather is another important consideration. Outlook is guarded heading into the spring season. Consumer optimism is a plus and the markets have seen an upward trend particularly with the Trump boom. Though the market remains highly competitive, some traditional apparel sellers, like Perry Ellis and Iconix Brands, are offering new footwear programs for Spring, adding to the level of competition.

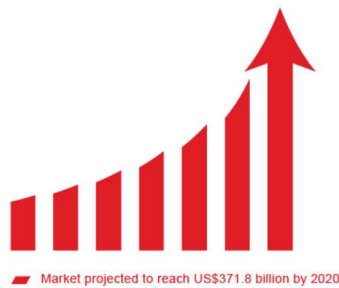
Exhibit 8: Consumer Discretionary Performance



Source: Fidelity

In a good sign for athletic footwear, NIKE has said it sees basketball shoe demand heating up. The decline of the department store has been in development for quite some time. The attempt to move towards retail stores has not brought about strong results for companies. Skechers continues to open outlets, though most will be in international markets. E-commerce sales are strengthening with Amazon, a key player. While consumers can find all brands on Amazon, companies are sticking to their own websites. The positives and negatives of this industry are evenly dispersed, so individual stock selection is critical.

Exhibit 9: Footwear Market Growth



Source: Strategyr

Industry Trend

The shoe industry is in the consumer discretionary sector. This sector has been underperforming compared to the S&P500 as shown in Exhibit 8 on the left margin. However, the global footwear industry has been experiencing rapid expansion, driven by rapid demand for innovative footwear worldwide.

Besides, rising sports activity has significantly increased the sportswear market size globally. The surge in health and fitness also drove the growth of the demand. Consumers are wearing sports-inspired footwear in their daily lives. These trends propel the growth of the footwear market globally.

Exhibit 10: Footwear Market Analysis



Europe: The Largest Market
Asia-Pacific: The Fastest Growing Market at 7.9% CAGR

Source: Strategyr

According to market research of Strategyr (Exhibits 9 & 10), the footwear market is projected to reach \$371.8 billion in 2020. Europe would become the largest market, and Asia Pacific would be the fastest growing market.

Competitive Positioning

The US footwear industry generated over \$48 billion in revenue in 2015. This number is expected to reach \$372 billion worldwide in 2020. In 2016, Skechers had just under \$3.6 billion in revenue. Skechers offers two main footwear lines: lifestyle and performance. The company faces fierce competition in the footwear industry. They compete with Nike and Adidas in the performance space, while the lifestyle space includes competitors such as Steve Madden and Crocs. Skechers has drastically outperformed its competitors in terms of stock price appreciation over the last five years. We can see this in Appendix IV. Exhibit 12 (more details shown in Appendix V) on the left margin of the next page gives us a more detailed view as to how Skechers compares to the industry as a whole, in terms of key financial ratios and figures. Skechers is a strong competitor amongst its peers. The company has experienced tremendous growth in the last few years.

Exhibit 11: Most Wanted Sneaker Brand



Source: Statista

Skechers became the largest footwear brand in the United States in 2015. Skechers differentiates itself against its competition by going for more of a casual style of product. Skechers products appeal to average people by being trendy and comfortable. This trendy element makes their shoes very popular amongst kids and teens. Many of its competitors, Nike and Adidas especially, are geared towards athletes, often paying enormous endorsement deals to famous athletes to market their products. By way of comparison, Skechers has employed a much cheaper marketing strategy that has been a source of cost savings. Skechers uses a mix of television, print, and social media to

Exhibit 12: Competitive Analysis

	Skechers	Industry Avg.
P/E	15.9	19.6
P/B	2.47	5
Price/Sales	1.13	1.4
EPS	1.57	1.45
Operating Margin	10%	12%
Market Cap	4.04B	1.17B
Net Income Growth	7%	14%
Sales Growth	13%	1%
EBITDA Growth	7%	-6%
PEG Ratio	1.42	1.54

advertise their products.

Social Responsibility

Skechers is well positioned as a social responsible company. From the Exhibit 13 on the left margin, we can see how they compare to the industry as a whole. Overall, Skechers is either on par or above industry standards for social responsibility.

Exhibit 13: ESG Scores of Skechers compared to Industry Average

	SIX	Industry Average
ISS Governance Quick Score	9	5.29
ESG Disclosure:	13.22	10.94
Social Disclosure Score	8.77	11.4
Environmental Disclosure Score	NA	18.22

Skechers has created the BOBS shoe line to further their socially responsible agenda. For every pair of shoes in this line sold, they will donate a pair of shoes to a child in need. It is noted that “The BOBS business model is a shining example of the triple bottom line as it takes the three P’s into account: people, profit, and planet. SKECHERS is making money on the sale of the shoe, hence it is profitable. They are caring for people by giving away a pair of shoes for every pair sold and they are considering the environment by using environmentally friendly packaging and creating less waste” (Miratel Solutions Inc.).

In addition, Skechers built the Skechers Foundation to support the general public with education and job training, fitness, and health and nutrition guidance.

This agenda solidifies Skechers as not only a successful company, but a socially responsible one as well.

Exhibit 14: Skechers Foundation Donation



Financial Analysis

Profitability Analysis

As we can see from Exhibits 15 and 16 (more details can be found in Appendix VI), both ROE and ROA have been steadily rising between 2011 and 2015. The profit margin and operating margin have been rising for this period also. However, there was a slight decrease in these profitability metrics last year, which was driven by the decrease of operating margin. As we can see from the Income Statement in Appendix II, this decrease in profit was due to the increase of general and administrative expenses in 2016, which mainly occurred in the fourth quarter. In the fourth quarter of 2016, the general and administrative expenses increased to \$273.4 million, compared to \$221.1 million in the prior year. This increase was primarily due to Skechers’ long-term global growth plan. The company added 53 domestic and international retail stores, and spent \$27.0 million to support its international growth. There was also an increased headcount in the United States to support its brand worldwide. Despite

Exhibit 15: ROE and ROA (in %)



**Exhibit 16: Profit Margin
(in %)**



the small decrease, as shown in Exhibit 17, the ROE, ROA, profit margin and operating margin of Skechers was more than double the industry average. As a result, we conclude that Skechers has sound operations and strong profitability with an upward trend. We expect the profitability advantage of Skechers to continue in the future.

Credit and Liquidity Analysis

According to the credit and liquidity analysis shown in Appendix VII, the credit and liquidity risk of Skechers is low. As shown in Exhibit 16 on the left margin, the current ratio of Skechers is slightly lower than the industry average, while its debt to assets and debt to equity ratios are much lower than the industry averages. As can be seen in Appendix VII and in Exhibit 19, the current ratio of Skechers has been stable for the past 10 years, while the debt to asset ratio has greatly decreased for the past five years. As a result, we can conclude that the credit and liquidity risk of Skechers is low.

Exhibit 17: Profitability compared to industry average

(%)	SKX	Industry Average
Return on avg assets	12.87	5.64125
Return on avg equity	16.61	3.005
Net profit margin	8.01	3.8925
Operating margin	10.4	5.9725

Dupont Analysis

In the DuPont analysis, ROE can be represented by five factors: operating efficiency, asset use efficiency, financial leverage, tax burden, and interest burden.

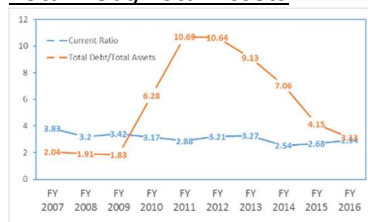
Exhibit 18: Financial ratios compared to industry average

(%)	SKX	Industry Average
Current ratio	2.94	3.27625
Lt debt to assets	2.81	8.505
Total debt to assets	3.13	14.2875
Lt debt to equity	4.19	24.55
Total debt to equity	4.68	51.87

As we can see from Appendix VIII and the Exhibit 20 highlight on the left margin, the ROE of Skechers has been steadily rising since 2011. The interest burden has been increasing slightly since 2012, while the tax burden has been stable. For the other three main factors, the leverage ratio has been stable for the past five years, asset turnover rate has slightly increased, while the main drive of the ROE growth is the increasing operating margin. The slight decrease in ROE last year was due to operating margin decrease, which was explained in the profitability analysis section. Given the very positive trend of ROE and the international growth plan of Skechers, we expect continued positive growth of ROE in the future.

Valuation

Exhibit 19: Current Ratio and Total Debt/Total Assets



Discounted Cash Flow (70% weight)

Weighted Average Cost of Capital

The 10-year treasury rate of 2.179% was used as the risk-free rate. The average return on S&P 500 for the past 3 years, 9.49% was used as the market return. The beta of Skechers is 0.3 (google), 1.25 (value line). Accordingly, the cost of equity can be calculated at 11.32%.

The long-term debt and interest rate used was the cost of debt of 3.7%.

Exhibit 20: ROE with Dupont Analysis



With these assumptions, the weighted average cost of capital was calculated (details shown in Appendix IX), to be 11.18%

Growth Rate Analysis

In Appendix X, we analyzed the growth rate of Skechers. To avoid overvaluing the fast growth in 2012 and 2013, we calculated the 3-year average growth rate of revenue, EBITDA, operating income, net income, diluted EPS and free cash flow. As can be seen from Exhibit 21 on the left margin, the recent growth of Skechers is strong. To avoid over valuing the growth which may not be sustainable, in our DCF model, we used the Bloomberg estimated cashflow for 2017 and 2018. From the 3rd year to the 5th year, we assumed that the revenue growth rate would be sustainable, and assumed the growth rate for these three years to be 25%. From the 6th year to the 10th year, we assumed that the high growth rate may not be sustainable anymore, and the growth rate would drop to 5%. The terminal growth rate was assumed to be 2%, which is the current GDP growth rate level.

Exhibit 21: 3-Year Average Growth Rate

YOY Growth	3 year Average
Revenue	24.79
EBITDA	51.00
Operating Income	65.58
Net Income to Common	75.14
EPS Diluted	73.99
Free Cash Flow	68.12

Intrinsic Value

With these assumptions, we calculated the intrinsic value. The calculated details can be found in Appendix XI. As we can see, the target price of Skechers under these assumptions is \$39.29, which is 57% higher than current market price.

Exhibit 22: Multiples of Skechers Compared to Industry Mean

Name	Skechers	Premium to Ind Avg	Industry Average
Mkt Cap	3.97B		11.89B
BF P/E	13.6x	-27%	18.8x
LF P/BV	2.4x	-18%	3.0x
BF EV/EBITDA	6.8x	-33%	10.1x
BF EV/EBIT	7.6x	-43%	13.4x
BF EV/Rev	0.8x	-35%	1.3x

Multiples (30% weight)

We also performed multiples analysis to calculate the intrinsic Value of Skechers. As can be seen from Exhibit 22 on the left margin, both equity multiples and enterprise value multiples of Skechers are much lower than industry averages.

As shown in the multiples analysis Appendix (Appendix XII), the intrinsic value was calculated at a target price of \$37.31.

Weighted Target Price

We weighted these two methods by giving the DCF model 70% weight and giving the Multiples analysis 30%. We overweighted the DCF model because it's based on the fundamentals of Skechers. As shown in Exhibit 23, the weighted average target price is \$38.7, which is 55% higher than current stock price.

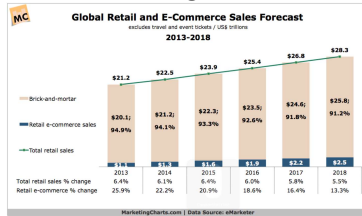
Exhibit 23: Weighted Average Target Price

	Target Price	Weight
DCF Model	\$ 39.29	70%
Multiple	\$ 37.31	30%
Weighted Target Price	\$ 38.70	

Investment Risks

While Skechers has experienced tremendous success and growth, especially in the last five years, the company still faces many risks and uncertainties. One risk that Skechers currently faces is that of exchange rates. Unfavorable rates are negatively affecting the

Exhibit 24: Share of E-Commerce in Global Retail Sales is Growing



company. Additionally, Skechers relies on third party retailers to drive sales and revenue growth. As many retailers struggle and some even declare bankruptcy, Skechers is exposed to risk as they must rely on these stores to make sales.

In the footwear industry, Skechers is continuously vulnerable to changes in consumer preferences. This is especially relevant since their competitors, Nike and Adidas, offer far more customization with their products than Skechers does. It is also worth noting that Skechers struggles in the e-commerce department. E-commerce makes up a very small portion of the company’s overall sales. One last note is that Skechers faces discontinuity in quarterly earnings due to seasonality. This is typical for the consumer products industry, but still creates fluctuation and uncertainty.

Exhibit 25: Buy Recommendation



Conclusion

Over the last five years, we have seen tremendous growth from Skechers. The stock price has soared as well. While there is no guarantee of continued success, we believe that a differentiated marketing approach along with unique and quality product offerings will lead to continued success for Skechers. Despite rapid growth, our intrinsic value of \$38.70 is still well above the current trading price of \$25.43. Therefore, we are issuing a BUY recommendation for this stock.

Other Sources:

- Bloomberg
- Miratel Solutions Inc. website
- Yahoo Finance
- Morningstar

Appendices

Appendix I: Financial Highlights

(Millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 Est	FY 2018 Est
Market Capitalization	894.4	592.2	1,370.20	964.1	597	930.5	1,675.00	2,804.30	4,640.30	3,808.20		
- Cash & Equivalents	304	114.9	295.7	233.6	351.1	325.8	372	466.7	508	718.5		
+ Preferred & Other	0	3.2	3.4	37.6	40	43.1	49.6	58.9	48.2	81.9		
+ Total Debt	16.9	16.8	18.2	82	137	142.6	128.6	118.3	84.7	75		
Enterprise Value	607.3	497.2	1,096.10	850.2	422.8	790.4	1,481.20	2,514.80	4,265.20	3,246.60		
Revenue, Adj	1,394.20	1,440.70	1,436.40	2,006.90	1,606.00	1,560.30	1,846.40	2,377.60	3,147.30	3,563.30	3,972.70	4,363.30
Growth %, YoY	15.7	3.3	-0.3	39.7	-20	-2.8	18.3	28.8	32.4	13.2	11.5	9.8
Gross Profit, Adj	600	595.9	621	911.9	623.7	683.3	818.8	1,071.90	1,424.00	1,634.60	1,839.50	2,032.40
Margin %	43	41.4	43.2	45.4	38.8	43.8	44.3	45.1	45.2	45.9	46.3	46.6
EBITDA, Adj	130.6	75.6	93.2	223.1	-35.5	65.6	139.1	259.7	409.7	437	489.1	541.9
Margin %	9.4	5.2	6.5	11.1	-2.2	4.2	7.5	10.9	13	12.3	12.3	12.4
Net Income, Adj	75.7	55.4	54.7	136.1	-37.5	10.2	55.9	140.3	235.7	243.8	281.4	315.9
Margin %	5.4	3.8	3.8	6.8	-2.3	0.7	3	5.9	7.5	6.8	7.1	7.2
EPS, Adj	0.54	0.4	0.39	0.93	-0.26	0.07	0.37	0.92	1.52	1.57	1.76	2.01
Growth %, YoY	2.5	-27	-2.5	139.7	—	—	442.5	149.3	66.4	3.1	11.8	14.6
Cash from Operations	101.4	-21.8	115.1	-47.4	164.9	-3.4	99	163.9	232.2	361.6		
Capital Expenditures	-31.2	-72.5	-35.3	-82.3	-122.2	-52.5	-41.3	-56.9	-118.1	-119.5	-70.1	-74.2
Free Cash Flow	70.2	-94.3	79.8	-129.6	42.7	-55.9	57.7	107	114.1	242.2	256.4	329.2

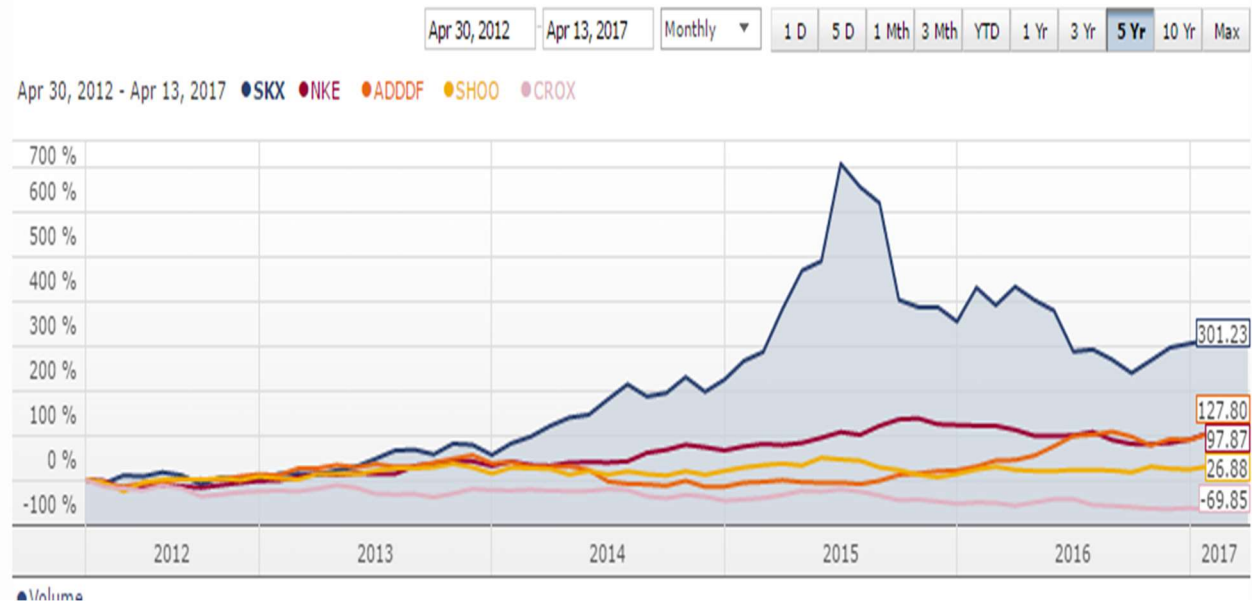
Appendix II: Income Statement

(Millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017 Est	FY 2018 Est
Revenue	1,394.20	1,440.70	1,436.40	2,006.90	1,606.00	1,560.30	1,846.40	2,377.60	3,147.30	3,563.30	3,972.70	4,363.30
+ Sales & Services Revenue	—	—	1,436.40	2,006.90	1,606.00	1,560.30	1,846.40	2,377.60	3,147.30	3,563.30		
- Cost of Revenue	794.2	844.8	815.4	1,095.00	982.3	877	1,027.60	1,305.70	1,723.30	1,928.70		
+ Cost of Goods & Services	—	—	815.4	1,095.00	982.3	877	1,027.60	1,305.70	1,723.30	1,928.70		
Gross Profit	600	595.9	621	911.9	623.7	683.3	818.8	1,071.90	1,424.00	1,634.60	1,839.50	2,032.40
+ Other Operating Income	—	—	1.7	4.6	7.6	7.1	7.7	9.1	11.7	13.9		
- Operating Expenses	487.1	538	550.1	719.7	702	667.3	730.7	869.6	1,079.00	1,277.60		
+ Selling, General & Admin	—	—	550.1	719.7	668.7	667.3	730.7	871.9	1,079.00	1,278.00		
+ Selling & Marketing	—	—	129	186.7	152	134.9	153.5	181	235.6	257.1		
+ General & Administrative	—	—	421.1	533	516.7	532.4	577.2	690.9	843.4	1,020.80		
+ Research & Development	—	—	0	0	2.5	0	—	—	0	0		
+ Other Operating Expense	—	—	0	0	30.8	0	0	-2.3	0	-0.4		
Operating Income (Loss)	112.9	57.9	72.6	196.7	-70.7	23.1	95.8	211.4	356.7	370.9	422.3	476
- Non-Operating (Income) Los	—	—	1.5	0.1	7.2	11.6	11.8	17.7	17.3	11		
+ Interest Expense, Net	-5.3	-2.7	1	0.2	6	12.8	11	11.6	10	5.1		
+ Interest Expense	4.8	4.6	3	3	7.9	13.3	11.9	12.5	10.7	6.3		
- Interest Income	10	7.3	2.1	2.8	1.9	0.6	0.8	0.8	0.7	1.2		
+ Foreign Exch (Gain) Loss	0	0	0	0	0	0	0	0	0	0		
+ (Income) Loss from Affiliat	—	—	0	0	0	0	0	0	—	—		
+ Other Non-Op (Income) Loss	—	—	0.5	-0.1	1.2	-1.1	0.8	6.1	7.3	6		
Pretax Income (Loss), Adjusted	118.3	60.7	71.1	196.6	-77.8	11.5	84	193.7	339.4	359.9	403.7	451.1
- Abnormal Losses (Gains)	—	—	0	0	53.2	1	1.8	2.3	5.9	0.4		
+ Disposal of Assets	—	—	—	—	-9.9	0.2	-0.4	—	0	0.4		
+ Asset Write-Down	—	—	—	—	11.5	—	—	—	—	—		
+ Impairment of Intangibles	—	—	—	—	1.6	—	—	—	—	—		
+ Legal Settlement	—	—	—	—	50	0.8	2.2	—	5.9	—		
+ Other Abnormal Items	—	—	—	—	—	—	—	2.3	—	—		
Pretax Income (Loss), GAAP	118.3	60.7	71.1	196.6	-131	10.5	82.2	191.4	333.5	359.5	403.7	451.1
- Income Tax Expense (Benef	42.6	7.3	20.2	60.2	-63.5	0	21.3	39.2	72.5	74.1		
+ Current Income Tax	—	—	13.8	65.4	-55.6	7.1	9.4	15.1	68.8	79.7		
+ Deferred Income Tax	—	—	6.4	-5.2	-7.9	-7.1	12	24	3.6	-5.6		
+ Tax Allowance/Credit	—	—	0	0	0	0	0	0	—	—		
Income (Loss) from Cont Ops	75.7	53.5	50.9	136.4	-67.6	10.5	60.9	152.2	261	285.4		
- Net Extraordinary Losses (Ga	0	0	0	0	0	0	0	0	0	0		
+ Discontinued Operations	—	—	0	0	0	0	0	0	0	0		
+ XO & Accounting Changes	—	—	0	0	0	0	0	0	0	0		
Income (Loss) Incl. MI	75.7	53.5	50.9	136.4	-67.6	10.5	60.9	152.2	261	285.4		
- Minority Interest	0	-1.9	-3.8	0.3	-0.1	1	6.1	13.4	29.1	41.9		
Net Income, GAAP	75.7	55.4	54.7	136.1	-67.5	9.5	54.8	138.8	231.9	243.5		
- Preferred Dividends	0	0	0	0	0	0	0	0	0	0		
- Other Adjustments	0	0	0	0	0	0	0	0	0	0		
Net Income Avail to Common, GA	75.7	55.4	54.7	136.1	-67.5	9.5	54.8	138.8	231.9	243.5		
Net Income Avail to Common, Ad	75.7	55.4	54.7	136.1	-37.5	10.2	55.9	140.3	235.7	243.8	281.4	315.9
Net Abnormal Losses (Gains)	—	—	0	0	30	0.7	1.1	1.5	3.8	0.3		
Net Extraordinary Losses (Gain	0	0	0	0	0	0	0	0	0	0		
Basic Weighted Avg Shares	135.8	138.1	139	142.3	145.5	148.5	151.1	151.8	152.8	154.2		
Basic EPS, GAAP	0.56	0.4	0.39	0.96	-0.46	0.06	0.36	0.91	1.52	1.58	1.77	1.95
Basic EPS from Cont Ops	0.56	0.4	0.39	0.96	-0.46	0.06	0.36	0.91	1.52	1.58	1.77	1.95
Basic EPS from Cont Ops, Adjust	0.56	0.4	0.39	0.96	-0.26	0.07	0.37	0.92	1.54	1.58	1.76	2.01
Diluted Weighted Avg Shares	140.2	140.1	141.3	147.2	145.5	149.8	151.7	153.1	154.2	155.1		
Diluted EPS, GAAP	0.54	0.4	0.39	0.93	-0.46	0.06	0.36	0.91	1.5	1.57	1.77	1.95
Diluted EPS from Cont Ops	0.54	0.4	0.39	0.93	-0.46	0.06	0.36	0.91	1.5	1.57	1.77	1.95
Diluted EPS from Cont Ops, Adjust	0.54	0.4	0.39	0.93	-0.26	0.07	0.37	0.92	1.52	1.57	1.76	2.01
Reference Items												
Accounting Standard	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP	US GAAP		
EBITDA	130.6	75.6	93.2	223.1	-35.5	65.6	139.1	259.7	409.7	437	489.1	541.9
EBITDA Margin (T12M)	9.37	5.25	6.49	11.12	-2.21	4.2	7.54	10.92	13.02	12.26	12.31	12.42
EBITA	113.4	58.6	73.5	198.4	-69.1	24	96.7	212.1	357.2	370.9		
EBIT	112.9	57.9	72.6	196.7	-70.7	23.1	95.8	211.4	356.7	370.9	422.3	476
Gross Margin	43.04	41.36	43.23	45.44	38.84	43.79	44.35	45.08	45.25	45.87	46.3	46.58
Operating Margin	8.1	4.02	5.05	9.8	-4.4	1.48	5.19	8.89	11.33	10.41	10.63	10.91
Profit Margin	5.43	3.84	3.81	6.78	-2.34	0.65	3.03	5.9	7.49	6.84	7.08	7.24
Sales per Employee	646,351.89	682,169.98	305,755.64	368,909.56	284,956.71	275,383.16	667,037.93	807,595.45	874,256.39	890,827.75		
Dividends per Share	0	0	0	0	0	0	0	0	0	0	0	0
Total Cash Common Dividends	0	0	0	0	0	0	0	0	0	0		
Capitalized Interest Expense	0.9	1	2.2	2.1	4.2	—	—	—	—	—		
Depreciation Expense	17.2	17.1	19.7	24.7	33.7	41.5	42.4	47.6	52.4	66.1		
Rental Expense	48.9	57.4	65.9	74.5	85	88.7	94	107	137.8	171		

Appendix III: Cash Flow Statement

(Millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Cash from Operating Activities										
+ Net Income	75.7	55.4	54.7	136.1	-67.5	9.5	54.8	138.8	231.9	243.5
+ Depreciation & Amortization	17.7	17.7	20.6	26.4	35.2	42.4	43.3	48.3	53	66.1
+ Non-Cash Items	1.7	5	7.5	9	19.5	2.5	20.2	65.2	45	88.3
+ Stock-Based Compensation	—	—	5.7	13.7	13.7	11.4	2.2	8.7	18.3	23.1
+ Deferred Income Taxes	-1.1	-2	2	-5.2	-7.9	-7.5	11.6	22.4	-4.8	-11.9
+ Other Non-Cash Adj	2.8	7	-0.1	0.4	13.7	-1.4	6.5	34.1	31.6	77.2
+ Chg in Non-Cash Work Cap	6.3	-99.9	32.3	-218.9	177.7	-57.9	-19.4	-88.5	-97.7	-36.3
+ (Inc) Dec in Accts Receiv	7.9	-27.5	-46.6	-50	86.1	-37	-21.3	-70.7	-100	-10.4
+ (Inc) Dec in Inventories	-3	-58.2	39.4	-172.4	160.2	-111.8	-22.6	-100.2	-176.1	-58.2
+ Inc (Dec) in Accts Payable	—	—	28.1	32.8	-18.1	10	17.6	98.7	130.1	38.2
+ Inc (Dec) in Other	1.4	-14.2	11.3	-29.3	-50.6	81	6.9	-16.3	48.3	-6
+ Net Cash From Disc Ops	—	—	0	0	0	0	0	0	0	0
Cash from Operating Activities	101.4	-21.8	115.1	-47.4	164.9	-3.4	99	163.9	232.2	361.6
Cash from Investing Activities										
+ Change in Fixed & Intang	-31.2	-72.5	-39.8	-82.3	-105.1	-52.5	-41.4	-56.9	-118.2	-119.5
+ Disp in Fixed & Intang	0	0	0	0	17.1	0	0	0	0	0
+ Disp of Fixed Prod Assets	—	—	0	0	17.1	0	0	0	0	0
+ Disp of Intangible Assets	—	—	0	0	0	0	0	0	0	0
+ Acq of Fixed & Intang	-31.2	-72.5	-39.8	-82.3	-122.2	-52.5	-41.4	-56.9	-118.2	-119.5
+ Acq of Fixed Prod Assets	—	—	-35.3	-82.3	-122.2	-52.5	-41.3	-56.9	-118.1	-119.5
+ Acq of Intangible Assets	—	—	-4.5	0	0	0	-0.1	0	-0.1	0
+ Net Change in LT Investment	0	0	95.3	0	0	0	0	0	0	0
+ Dec in LT Investment	0	0	95.3	0	0	0	0	0	0	0
+ Inc in LT Investment	0	0	0	0	0	0	0	0	0	0
+ Net Cash From Acq & Div	—	—	0	0	0	0	0	0	0	-22.5
+ Cash from Divestitures	—	—	0	0	0	0	0	0	0	0
+ Cash for Acq of Subs	—	—	0	0	0	0	0	0	0	-22.5
+ Cash for JVs	—	—	0	0	0	0	0	0	0	0
+ Other Investing Activities	-44.5	4.2	-29.6	30	0	0	0	0	-8.3	-3.6
+ Net Cash From Disc Ops	—	—	0	0	0	0	0	0	0	0
Cash from Investing Activities	-75.7	-68.2	25.8	-52.3	-105.1	-52.5	-41.4	-56.9	-126.5	-145.6
Cash from Financing Activities										
+ Dividends Paid	0	0	0	0	0	0	0	0	0	0
+ Cash From (Repayment) Deb	-0.5	-0.1	1.6	46.4	55	23.9	-14	-10.3	-33.6	-9.6
+ Cash From (Repay) ST Debt	—	—	2	16.3	32	-48	-2.4	1.7	-1.7	6.1
+ Cash From LT Debt	—	—	—	39.3	37.3	82.1	0	0	0.8	0
+ Repayments of LT Debt	—	—	-0.4	-9.1	-14.3	-10.2	-11.7	-12	-32.7	-15.7
+ Cash (Repurchase) of Equity	10.4	3.7	2.8	23.1	3.3	4	7.3	5.3	12.3	9.8
+ Increase in Capital Stock	10.4	3.7	2.8	23.1	3.3	4	7.3	5.3	12.3	9.8
+ Decrease in Capital Stock	0	0	0	0	0	0	0	0	0	0
+ Other Financing Activities	—	—	4	-2.1	2.1	1.9	-3.2	-4.1	-36.9	-3.8
+ Net Cash From Disc Ops	—	—	0	0	0	0	0	0	0	0
Cash from Financing Activities	13.4	5.5	8.4	67.4	60.4	29.8	-9.9	-9	-58.2	-3.5
Effect of Foreign Exchange Ra	—	—	1.4	0.2	-2.6	0.8	-1.5	-3.3	-6.2	-1.9
Net Changes in Cash	39	-84.6	150.7	-32.1	117.6	-25.3	46.2	94.7	41.3	210.5
Cash Paid for Taxes	41.5	17.8	17.5	87.1	15.8	48.7	5.5	29.5	63.5	65.3
Cash Paid for Interest	4.7	4.9	4.4	3.4	7.7	11.8	10.6	10.8	9.9	5.7
Reference Items										
EBITDA	130.6	75.6	93.2	223.1	-98.6	64.8	136.9	257.4	403.8	436.6
Net Cash Paid for Acquisitions	0	4.6	0	0	0	0	0	0	0	22.5
Tax Benefit from Stock Options	2.2	0.1	-0.1	9	0	0.5	0.7	1.4	8	4.7
Free Cash Flow	70.2	-94.3	79.8	-129.6	42.7	-55.9	57.7	107	114.1	242.2
Free Cash Flow to Firm	73.2	-90.2	81.9	-127.6	—	—	66.5	116.9	122.5	247.1
Free Cash Flow to Equity	69.7	-94.4	81.4	-83.2	114.8	-32	43.6	96.7	80.4	232.6
Free Cash Flow per Basic Share	0.52	-0.68	0.57	-0.91	0.29	-0.38	0.38	0.7	0.75	1.57
Price to Free Cash Flow	12.58	—	17.09	—	13.77	—	28.93	26.14	40.48	15.65
Cash Flow to Net Income	1.34	-0.39	2.1	-0.35	—	-0.36	1.81	1.18	1	1.49

APPENDIX IV: STOCK PRICE APPRECIATION



APPENDIX V: Competitive Analysis

	Skechers	Nike	Adidas	Steve Madden	Crocs	Industry Avg.
P/E	15.9	21.88	35.61	17.88	23.6	19.6
P/B	2.47	7.3	5.53	2.96	2.05	5
Price/Sales	1.13	2.74	1.85	1.55	0.44	1.4
EPS	1.57	2.16	4.9	2.03	-0.34	1.45
Operating Margin	10%	14%	7%	12%	0%	12%
Market Cap	4.04B	92.88B	35.75B	2.16B	452.5M	1.17B
Net Income Growth	7%	12%	36%	7%	-44%	14%
Sales Growth	13%	6%	14%	0%	-5%	1%
EBITDA Growth	7%	8%	23%	-2%	105%	-6%
PEG Ratio	1.42	1.96	NA	1.86	-15.23	1.54

Appendix VI: Profitability Analysis

(%)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Returns										
Return on Common Equity	14.07	8.55	7.73	16.46	-7.67	1.1	6.07	13.84	19.3	16.61
Return on Assets	9.67	6.5	5.84	11.84	-5.22	0.73	3.99	9	12.49	10.98
Return on Capital	13.12	8.64	7.29	15.43	-6.07	1.83	6.42	13.73	19.86	18.03
Return on Invested Capital	12.06	7.76	7.2	15.14	-6.64	1.72	6.34	13.94	20.07	18.09
Margins										
Gross Margin	43.04	41.36	43.23	45.44	38.84	43.79	44.35	45.08	45.25	45.87
EBITDA Margin	9.37	5.25	6.49	11.12	-6.14	4.15	7.42	10.83	12.83	12.25
Operating Margin	8.1	4.02	5.05	9.8	-8.33	1.43	5.07	8.79	11.15	10.4
Incremental Operating Margin	0.2	—	—	21.77	-82.46	—	24.92	21.74	18.42	4.73
Pretax Margin	8.49	4.22	4.95	9.8	-8.16	0.67	4.45	8.05	10.6	10.09
Income before XO Margin	5.43	3.71	3.54	6.8	-4.21	0.67	3.3	6.4	8.29	8.01
Net Income Margin	5.43	3.84	3.81	6.78	-4.2	0.61	2.97	5.84	7.37	6.83
Net Income to Common Margin	5.43	3.84	3.81	6.78	-4.2	0.61	2.97	5.84	7.37	6.83
Additional										
Effective Tax Rate	36.02	11.95	28.45	30.62	—	—	25.96	20.47	21.72	20.62
Dvd Payout Ratio	0	0	0	0	—	0	0	0	0	0
Sustainable Growth Rate	14.07	8.55	7.73	16.46	—	1.1	6.07	13.84	19.3	16.61

Appendix VII: Credit and Liquidity Analysis

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Cash Ratio	1.64	0.61	1.28	0.76	1.14	1.11	1.2	0.92	0.88	1.16
Current Ratio	3.83	3.2	3.42	3.17	2.88	3.21	3.27	2.54	2.68	2.94
Quick Ratio	2.55	1.54	2.24	1.63	1.71	1.84	1.93	1.46	1.48	1.68
CFO/Avg Current Liab	0.55	-0.12	0.55	-0.18	0.54	-0.01	0.33	0.4	0.43	0.6
Common Equity/Total Assets	75.69	76.31	74.93	69.61	66.51	65.36	66.05	64.2	65.08	66.99
Long-Term Debt/Equity	2.63	2.41	2.09	5.46	8.57	13.98	11.89	1.33	5.01	3.98
Long-Term Debt/Capital	2.56	2.35	2.04	5.03	7.43	12.1	10.51	1.2	4.72	3.81
Long-Term Debt/Total Assets	1.99	1.85	1.57	3.96	5.97	9.59	8.27	0.9	3.38	2.81
Total Debt/Equity	2.7	2.49	2.43	8.67	15.35	15.52	13.12	10.43	6.15	4.45
Total Debt/Capital	2.63	2.43	2.37	7.98	13.31	13.43	11.6	9.45	5.8	4.26
Total Debt/Total Assets	2.04	1.91	1.83	6.28	10.69	10.64	9.13	7.06	4.15	3.13
Total Debt/T12M EBITDA	0.13	0.22	0.19	0.37	—	2.2	0.94	0.46	0.21	0.17
Net Debt/EBITDA	-2.2	-1.3	-2.98	-0.68	—	-2.83	-1.78	-1.35	-1.05	-1.47
Total Debt/EBIT	0.15	0.29	0.25	0.42	—	6.39	1.37	0.57	0.24	0.2
Net Debt/EBIT	-2.54	-1.7	-3.82	-0.77	—	-8.21	-2.6	-1.67	-1.21	-1.74
EBITDA to Interest Expense	27.42	16.42	30.61	73.84	-12.55	4.86	11.52	20.65	37.64	69.63
EBITDA-CapEx/Interest Expense	17.55	0.57	11.03	27.5	-18.32	0.92	8.04	16.08	26.63	50.58
EBIT to Interest Expense	23.71	12.57	23.84	65.1	-17.04	1.68	7.87	16.77	32.7	59.09
EBITDA/Cash Interest Paid	27.7	15.43	20.97	64.9	-12.81	5.48	12.89	23.78	40.82	76.28
EBITDA-CapEx/Cash Interest Paid	21.09	0.65	13.02	40.97	-28.71	1.04	9	18.52	28.88	55.4
EBIT/Cash Interest Paid	23.96	11.81	16.33	57.23	-17.39	1.89	8.81	19.32	35.47	64.73
CFO/Total Liabilities	50.35	-10.68	46.76	-13.2	42.36	-0.82	23.09	30.3	34.96	51.07
CFO/CapEx	3.25	-0.3	3.26	-0.58	1.35	-0.07	2.4	2.88	1.97	3.03
Altman's Z-Score (Millions)	6.15	4.82	6.37	4.91	2.97	3.7	5.08	6.23	7.61	6.61
Total Debt	16.9	16.8	18.2	82	137	142.6	128.6	118.3	84.7	75
Short-Term Debt	0.4	0.6	2.5	30.3	60.5	14.1	12.1	103.2	15.7	7.9
Long Term Debt	16.5	16.2	15.6	51.7	76.5	128.5	116.5	15.1	68.9	67.2
Total Line of Credit	150	150	250	250	250	250	250	250	250	250
Total Available Line Of Credit	50	50	245.9	228.3	113	107.4	—	—	—	—
Total Credit Lines Drawn	100	100	4.1	21.7	137	142.6	4	3.5	4.1	2.1

Appendix VIII: DuPont Analysis

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Tax Burden										
Net Inc to Comn/Pre-Tax Profit	63.98	91.2	76.92	69.25	51.5	90.82	66.64	72.53	69.54	67.73
Adjustment Factor										
Normlzd Net Inc/Net Inc to Cm	1	1	1	1	—	1.07	1.02	1.01	1.02	1
Interest Burden										
Pre-Tax Profit/EBIT %	96.13	92.95	95.89	98.49	106.37	44.01	87.37	93.88	96.88	98.29
Operating Margin										
EBIT/Revenue %	8.83	4.54	5.16	9.95	-7.67	1.53	5.1	8.57	10.94	10.26
Asset Turnover										
Revenue/Avg Assets	1.78	1.69	1.53	1.74	1.24	1.19	1.34	1.54	1.69	1.61
Leverage Ratio										
Avg Assets/Avg Equity	1.45	1.32	1.32	1.39	1.47	1.52	1.52	1.54	1.55	1.51
Adjusted Return on Equity										
Adjusted Return on Equity	14.07	8.55	7.73	16.46	-4.26	1.18	6.19	13.99	19.62	16.63
5 Year Average Adj ROE										
5 Year Average Adj ROE	10.03	12.62	12.45	12.95	8.51	5.93	5.46	6.71	7.34	11.52
Payout Ratio										
Payout Ratio	0	0	0	0	—	0	0	0	0	0
Sustainable Growth Rate										
Sustainable Growth Rate	14.07	8.55	7.73	16.46	—	1.1	6.07	13.84	19.3	16.61

Appendix IX: Weighted Average Cost of Capital

R(f) =	2.18%
R(m) =	9.49%
1 Beta (from VLIS) =	1.25
2 Cost of Equity (CAPM) =	11.32%
3 Cost of debt =	3.70%
4 Market Cap (Value of Equ \$	4,000 m
5 Lt Term Debt =	\$ 68 m
6 Total Value of firm =	\$ 4,068 m
7 % of Equity =	98.34%
8 % of Debt =	1.66%
9 Tax Rate =	22.0%
10 WACC =	11.18%

Appendix X: Growth Analysis

YOY Growth	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	3 year Average
Revenue	15.66	3.34	-0.3	39.71	-19.97	-2.85	18.33	28.77	32.38	13.22	24.79
EBITDA	1.04	-42.08	23.24	139.38	—	—	111.4	87.98	56.89	8.13	51.00
Operating Income	0.34	-48.74	25.37	171.06	—	—	319.41	123.34	67.8	5.61	65.58
Net Income to Common	6.61	-26.81	-1.26	148.9	—	—	475.99	153.36	67.07	4.99	75.14
EPS Diluted	2.52	-26.99	-2.52	139.66	—	—	468.42	151.85	65.44	4.67	73.99
Free Cash Flow		-234.33	-184.62	-262.41	-132.95	-230.91	-203.22	85.44	6.64	112.27	68.12

Appendix XI: DCF Model

3-5 year Growth Rate	25.00%
5-10 year Growth Rate	5.00%
Terminal Growth Rate	2.00%
Discount Rate	11.18%

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Terminal Value
# of Years	1	2	3	4	5	6	7	8	9	10	10
Cash Flow	\$ 256.40	\$ 329.20	\$ 411.50	\$ 514.38	\$ 642.97	\$ 675.12	\$ 708.87	\$ 744.32	\$ 781.53	\$ 820.61	\$ 9,117.88
PV	\$ 230.62	\$ 266.32	\$ 299.43	\$ 336.65	\$ 378.49	\$ 357.45	\$ 337.58	\$ 318.82	\$ 301.10	\$ 284.36	\$ 3,159.56
Value of Firm	\$ 6,270										
Debt	\$ 68										
Value of Equity	\$ 6,202										
Shares Outstanding	157.876										
Target Price	\$ 39.29										
Expected Return	57.3%										

Appendix XII: Multiples Analysis

Name	Mkt Cap	BF P/E	LF P/BV	BF EV/EBITDA	BF EV/EBIT	BF EV/Rev
Skechers U.S.A. Inc	3.97B	13.6x	2.4x	6.8x	7.6x	0.8x
Current Premium to Comps Mean		-27%	-18%	-33%	-43%	-35%
Mean (Including SKX US)	11.89B	18.8x	3.0x	10.1x	13.4x	1.3x
Steven Madden Ltd	2.18B	16.3x	3.0x	9.4x	10.2x	1.3x
Columbia Sportswear Co	4.03B	20.2x	2.6x	10.4x	12.7x	1.4x
Deckers Outdoor Corp	1.79B	14.7x	1.8x	6.9x	8.8x	0.9x
Wolverine World Wide Inc	2.30B	15.0x	2.4x	9.7x	12.2x	1.2x
NIKE Inc	91.35B	21.7x	7.2x	15.0x	17.2x	2.4x

Multiple Analysis

Skechers Market Cap	\$ 3,907
Skechers EV	\$ 3,975
Skechers Debt	\$ 68

Name	BF P/E	LF P/BV	BF EV/EBITDA	BF EV/EBIT	BF EV/Rev
Skechers U.S.A. Inc	13.6x	2.4x	6.8x	7.6x	0.8x
Current Premium to Comps Mean	-27%	-18%	-33%	-43%	-35%
Mean (Including SKX US)	18.8x	3.0x	10.1x	13.4x	1.3x

Calculated Enterprise Value			\$ 5,904	\$ 7,009	\$ 6,459
Calculated Equity Value	\$ 5,401	\$ 4,884	\$ 5,836	\$ 6,941	\$ 6,391
Average Equity Value	\$ 5,891				
Shares Outstanding	157.88				
Target Price	\$ 37.31				