



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Skechers

Ticker	SKX		2022A	2023E	2024E	2025E	2026E
Price	\$48	Hedgeye EPS	\$ 2.50	\$ 3.60	\$ 4.80	\$ 5.51	\$ 6.41
Market Cap	7.5 bn	Street EPS		\$ 3.42	\$ 4.08	\$ 4.90	\$ 4.97
Enterprise Value	7.31 bn	Variance		5%	18%	13%	29%
Short Interest	4.0%	P/E		13.4x	10.1x	8.8x	7.6x
Debt/EBITDA	0.5x	Target P/E		15.0x	15.0x	15.0x	15.0x
Sell Side Target	\$62	Implied Price		\$54	\$72	\$83	\$96
Return to SS Tgt	28%	Price Variance %		11.6%	48.8%	70.8%	98.4%

HEDGEYE EDGE | Strengthening Competitive Moat

This is the first time in my (McGough) career I have liked SKX -- and I like it a lot. The crux of the change in tone on our part is that we're seeing traditional competitors go materially higher in price point -- well outside of the SKX \$70-\$80 sweet spot. This is happening at the same time where the consumer is trading down in price point, and though still a 'fast follower' brand (quickly knocks off what's hot and selling), the brand is more relevant than it used to be given the strides it's made in performance footwear in recent years. We think that the upshift in price points in the industry will give way to SOME pricing power at SKX -- we're talking like \$2-3 per pair -- at the same time its volume increases due to company-specific (share gain) and macro (trade down) dynamics. We're 30% ahead of the Street over a TAIL duration, which at a 15x multiple, is good for a \$90 stock -- nearly double where it is today. Don't ignore the stellar balance sheet here, or the capacity to repo stock.

NEAR-TERM (TREND) | 3Q Should Show Notable Upside

We're confident that SKX is gaining share -- particularly at wholesale. And while that might hurt Gross Margins (DTC is higher GM) it should result in more gross profit dollars. Also, the company is around \$300mm lighter on inventory than it was at this point last year, which should mean less discounting which should pad margins. Ultimately, we're looking for \$0.93 in the quarter vs the Street at \$0.79.

KEY RISKS TO THE CALL | Recession Risk

Though we think that SKX will gain share in a recession due to its lower price points, the reality is that wholesale accounts are likely to be much more conservative with fall orders if we're sitting in a recession in 1H24 (which we think will be the case). This will mean they're going to have to 'chase' product in the fall as the consumer rebounds, suggesting that SKX might have to get heavier in inventory without commitments from retailers for the product. That could hurt GM.

COMPANY DESCRIPTION

Skechers designs, develops, and sells footwear for men, women, and children. It operates both through wholesale and DTC channels. It is a value retailer, offering lower priced footwear than its competitors. SKX is a 'fast second' meaning that instead of innovating, it knocks off what others have innovated and sells at a fraction of the price.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$ 7,445	\$ 8,071	\$ 8,650	\$ 9,145	\$ 9,671
YY % Change	18.0%	8.4%	7.2%	5.7%	5.8%
Gross Margin %	47.2%	50.6%	51.2%	51.5%	51.8%
EBIT Margin %	7.6%	9.5%	10.3%	11.0%	11.5%
EBITDA	\$ 760	\$ 983	\$ 1,143	\$ 1,265	\$ 1,396
Net Debt	\$ 379	\$ 538	\$ 908	\$ 1,198	\$ 1,211
Net Debt/EBITDA	0.5x	0.5x	0.8x	0.9x	0.9x
FCF/Share	\$ (0.77)	\$ 2.36	\$ 3.74	\$ 3.99	\$ 4.34