



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

Skechers

Ticker	SKX		2022A	2023E	2024E	2025E	2026E
Price	\$47	Hedgeye EPS	\$ 2.50	\$ 3.79	\$ 5.28	\$ 5.85	\$ 6.46
Market Cap	7.24 bn	Street EPS		\$ 3.42	\$ 4.08	\$ 4.88	\$ 5.03
Enterprise Value	7.05 bn	Variance		11%	29%	20%	28%
Short Interest	3.7%	P/E		12.3x	8.9x	8.0x	7.2x
Net Debt/EBITDA		Target P/E		15.0x	16.0x	17.0x	18.0x
Sell Side Target	\$62	Implied Price		\$57	\$85	\$100	\$116
Return to SS Tgt	33%	Price Variance %		21.6%	80.7%	112.7%	148.6%

HEDGEYE EDGE | Executing While Competitive Set Is Weakening

SKX is historically known as a poor quality footwear company and stock with poor corporate governance that used to be good for a blow-up once every 2-years. That has dramatically changed. Along with changes in the C-Suite and at the Board level, this company has been executing on its strategy exceptionally well, and is now the third largest athletic footwear company in the US behind Nike and Adidas (and it might overtake ADDYY). Aside from far superior execution, what we like is that other brands are going dratically higher in price point leaving SKX as the sole legit brand with relevant fashion styles priced below \$100 (\$60-\$80 is its sweet spot). This is happening at the same time the consumer is strapped for cash, and is likely trading down in price point. So SKX is emerging as both a cyclical and secular winner, which gets us to EPS 28% above consensus over a TAIL duration. We think its multiple expands as growth surprises to the upside, making this name a 2-3 year double.

NEAR-TERM (TREND) | Another Sandbag Sets Up For A 4Q Beat

3Q EPS came in at \$0.93, spot on with our model and well ahead of the \$0.79 consensus. This is a 'beat and guide down' company, which can be dangerous, as the game always ends poorly someday when the company fails to beat. But we don't think that's in the cards anytime soon. Our 2024 estimate is a full buck ahead of the consensus. If we're right in that regard, this stock could go up 80% in a year.

KEY RISKS TO THE CALL | Performance Shoes Are A Different Ball Game

SKX is great at knock offs. It spends close to zero on R&D, and all discretionary SG&A on marketing. But its gotten into performance running, successfully (amazing), and is now going into soccer and basketball, where the big brands dominate. Can it build a small business there? Yes. But we won't underwrite anything over a few hundred million in Performance sales for SKX without margin risk.

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 its competitors. It's best known as a 'fast follower', knocking off popular designs from other brands and selling at a much lower price.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$ 7,445	\$ 8,130	\$ 8,851	\$ 9,386	\$ 9,960
YY % Change	18.0%	9.2%	8.9%	6.0%	6.1%
Gross Margin %	47.2%	51.6%	52.3%	52.5%	52.7%
EBIT Margin %	7.6%	10.2%	11.4%	12.0%	12.4%
EBITDA	\$ 760	\$ 1,059	\$ 1,260	\$ 1,387	\$ 1,510
Net Debt	\$ (379)	\$ (596)	\$ (1,228)	\$ (2,008)	\$ (2,851)
Net Debt/EBITDA					
FCF/Share	\$ (0.77)	\$ 2.89	\$ 4.05	\$ 5.01	\$ 5.41