



Retail

# ELEVATOR PITCH

Presented by Hedgeye Retail Sector

LONG

Skechers

Ticker	SKX	LONG	2023A	2024E	2025E	2026E	2027E
Price	\$58	Hedgeye EPS	\$ 3.39	\$ 4.34	\$ 5.57	\$ 6.45	\$ 7.68
Market Cap	9.79 bn	Street EPS		\$ 3.70	\$ 4.94	\$ 5.39	\$ 5.96
Enterprise Value	9.47 bn	Variance		17%	13%	20%	29%
Short Interest	1.7%	P/E		13.3x	10.3x	8.9x	7.5x
Net Debt/EBITDA		Target P/E		15.0x	16.0x	17.0x	18.0x
Sell Side Target	\$73	Implied Price		\$65	\$89	\$110	\$138
Return to SS Tgt	26%	Price Variance %		13%	55%	91%	140%

## HEDGEYE EDGE | Executing While Competitive Set Is Weakening

SKX was 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 changed. Along with changes in the C-Suite and at the Board level, this company is 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 drastically 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 29% 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) | '24 Sandbag Sets Up for a Bullish Year

SKX came in weak on revs with a penny beat in 4Q23 and guided a weak FY24 citing a continued soft consumer. Mr. Market did not like this and promptly slashed the stock by -10%. However, the company noted some key bullish developments, and in updating our model, we are still well ahead of consensus over both a TREND and TAIL duration. With domestic wholesale reaccelerating to growth in FY24 after a dismal '23 and high DD growth in DTC on an expanding global store base and added efficiencies from 3 new dist. centers (which we think pressures DTC mgn near term -- and we're STILL above the Street), the weak guide is hard to believe. We think SKX is set up for multiple beats in '24 and will continue to benefit from their competitive moat in a challenging footwear environment.

## 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

	2023A	2024E	2025E	2026E	2027E
Revenue	\$ 8,000	\$ 9,004	\$ 9,813	\$ 10,693	\$ 11,603
YY % Change		12.5%	9.0%	9.0%	8.5%
Gross Margin %	47.2%	51.9%	52.1%	52.7%	53.1%
EBIT Margin %	7.6%	9.8%	9.5%	11.1%	11.1%
EBITDA	\$ 760	\$ 1,032	\$ 1,124	\$ 1,385	\$ 1,506
Net Debt	\$ (379)	\$ (961)	\$ (1,182)	\$ (1,672)	\$ (2,156)
Net Debt/EBITDA	NA	NA	NA	NA	NA
FCF/Share	\$ 5.74	\$ 2.48	\$ 4.31	\$ 4.85	\$ 6.01