

NYSE: SKX

Current Price: \$28

Intrinsic Value: \$43

Implied Return: 54%

April 19, 2016

Recommendation

BUY

Key Statistics

Sector: Consumer Discretionary

Industry: Footwear & Accessories

Market Cap: \$4.4B

52 Week High: \$54.53

52 Week Low: \$23.33

Trailing P/E: 18.8x

Forward P/E: 10.9x

P/S: 1.4x

EV/EBITDA: 11.4x

P/B: 3.3x

Beta: 0.8

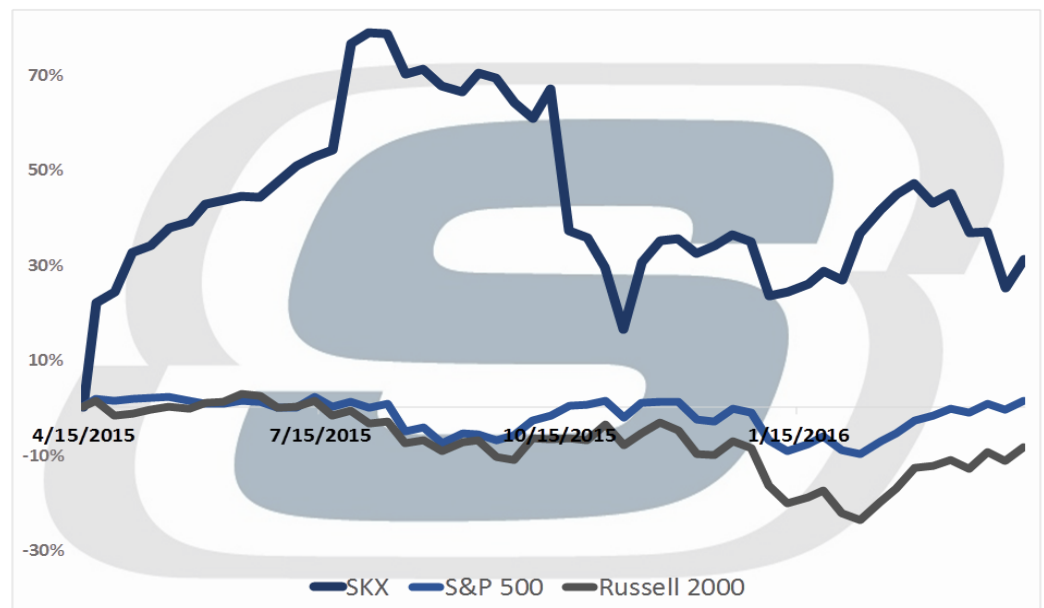
ROA: 12.2%

ROE: 18.7%

Source: Morningstar

Investment Thesis

- Aggressive growth in footwear market share by specializing in the lifestyle category for children and young teenagers
- Growing economies of scale and healthy financials not fully appreciated by the market
- Negative stigma attached to brand popularity

Price Performance


Source: Yahoo! Finance

Company Overview

Skechers U.S.A. Inc. (SKX), designs and markets its branded lifestyle footwear for men, women and children, and performance footwear for men and women under the Skechers GO brand name.

Skechers-brands are sold through department and specialty stores, athletic and independent retailers, boutiques and Internet retailers. Skechers-brands are also sold at the Skechers e-commerce websites and its own retail stores.

Catalysts

- New market capture initiative and building of loyal long-term customers
- International revenue growth in China
- Margin improvements through changes in geographic manufacturing
- Future endorsements segmented in both athlete and celebrity personalities

Risks

- Foreign currency devaluation
- Disruption in distribution lines
- Shareholder voting rights



Investment Thesis Expansion

Aggressive growth of footwear market share by specializing in the lifestyle category

Skechers is a market leader in the lifestyle category among the footwear industry’s largest competitors including: Nike, Adidas, and Puma. Skechers established its identity in 2014 after signing pop-star Demi Lovato shortly followed by vocal artist, Meghan Trainor, and shifted its focus to advertising footwear to children and teenaged demographics. Following the success of the endorsements, the company began enhancing the product offering to the younger end-market by offering popular styles with a variety of bright color schemes. Skechers has grown considerably because of the strategic capture of this market, and now threatens competitors’ market share of total footwear going forward.

DEMI COLLECTION.



SPORT.

MEGHAN COLLECTION.



Growing economies of scale and healthy financials not fully appreciated by the market

Operational efficiencies illustrated by increases in asset turnover have caused margins to gradually expand over time. The benefits from a sustained increase of orders to foreign manufacturers will ultimately drive lower costs per unit for Skechers through factory pricing competition. We expect that volume increases in the future can also influence quality of factory manufacturing while limiting overhead costs. Skechers’ stock should eventually command industry average multiples with continued growth and market share capture.

Negative stigma attached to brand popularity

Skechers historically has gained its competitive advantage through offering a cost effective alternative to premium footwear brands while offering style and modern design elements. The company had limited success in the early stages of development and quickly became unpopular among the brands in the footwear industry. Skechers hadn’t discovered its identity and struggled to capture consistent cash flows. As Skechers popularity remained low, the company strategically targeted a new market in the footwear industry: children and teenagers. The stigma attached to Skechers influences its current position in the competitive landscape of footwear investments when the focus should be on the growth capture and brand development for a new younger audience.

Skechers 1990’s design



Catalysts

New market capture initiative and building of loyal long-term customers

Skechers has taken part in numerous philanthropy efforts for kids programs and other initiatives over the last decade. The efforts not only help fund these programs, but also act as networking events for Skechers to partner with other companies who have significant exposure to children’s entertainment markets. Partnerships with entertainment companies like Nickelodeon, have emerged through continued mutual

support of children’s initiatives. Skechers’ strategy has been to develop a lasting relationship with new markets. The new targeted teenage marketing is developing Skechers into more than just a children’s shoe company, and should ultimately develop brand loyalty and long-term customers.

Foundation / Charity	Amount Donated
Friendship Foundation	\$434,000
Best Friends Animal Society	\$3,000,000
Pier Friendship Walk	\$1,100,000

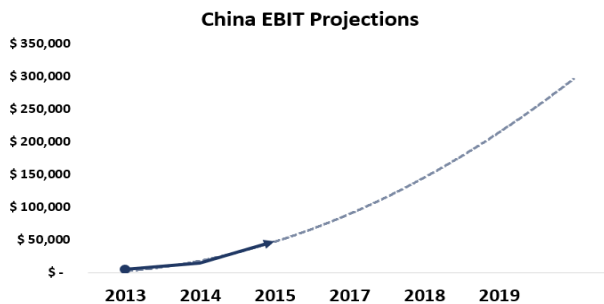
International revenue growth in China

International growth is an important factor for justifying our growth assumptions for Skechers’ valuation. As a percentage of sales historically the United States has dominated with over 75% attributed to total revenues from 2013-2015. Overall growth in the United States was high in the past few years, but China had +100% growth year over year in earnings before interest and taxes. We expect sales in China to increase as a percentage of overall sales in the future. China’s growth rates of 147% from 2013-2014 and 223% from 2014-2015 represent an international growth catalyst going forward.

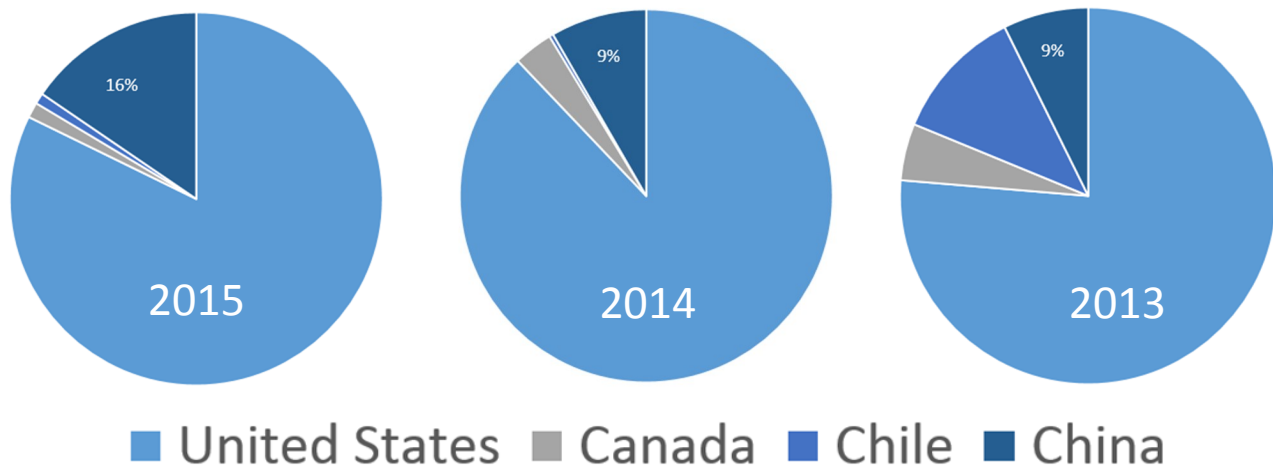
Store locations in major Chinese cities



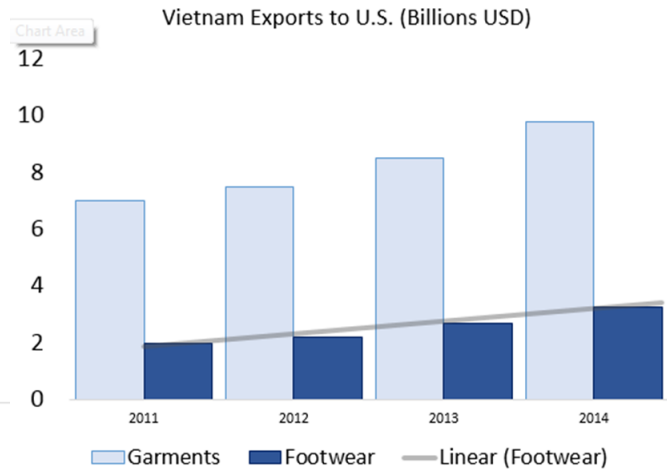
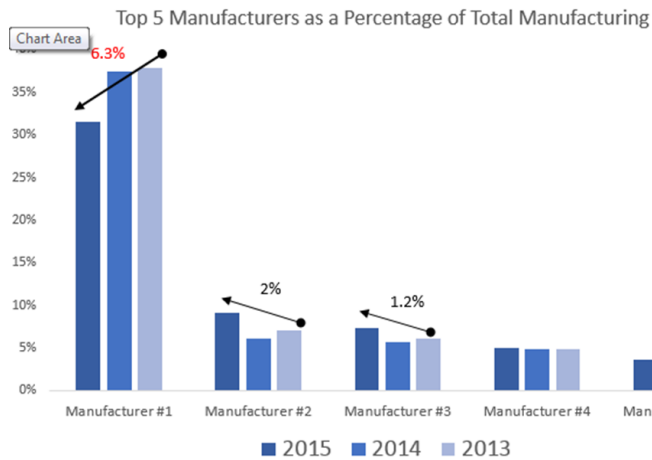
Source: Google Maps



Chinese % of total revenue from 2013-2015



Margin improvements through geographic changes in manufacturing



Skechers products are manufactured by independently contracted factories located primarily in China and Vietnam. The manufacturing facilities help to limit exposure to capital expenditures, and avoid costs in managing a large production force. Skechers builds long-term relationships with factories that have historically manufactured the company's footwear and apparel products in an effort to keep quality control high and reduce overhead costs.

In recent years there has been a push to relocate factories from China, where historically manufacturing of US garments and footwear took place. With Chinese economic activity spurring up wage increases among certain factories the manufacturing companies have relocated to Vietnam and other Asian countries, such as Indonesia and Malaysia. We expect that these recent increases and decreases in the top five largest manufacturers for Skechers garments and footwear were strategic and avoid margin deterioration.

Future endorsements segmented in both athlete and celebrity personalities

Skechers has been successful in its endorsements strategy in the past few years, which has helped drive tremendous revenue growth. Demi Lovato and Meghan Trainor have built a new image for Skechers, and as a result, have increased the brand strength into new markets. Future endorsements and sponsorships are expected to drive growth and market capture in international and new athletic audiences. Over the last several months, Skechers has signed LPGA Golf Pro Belén Mozo, K-Pop girl group Sistar, based in Singapore, and Meb Keflezighi, an Eritrean-born American long distance runner. These artists and athletes have an unorthodox fan following that Skechers hopes to capture with its endorsement and sponsorship strategies that have proven successful historically.



Industry

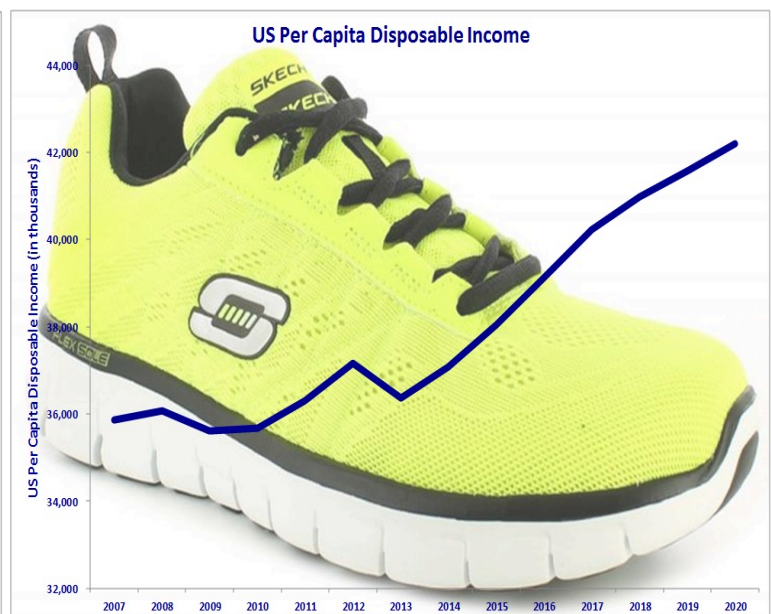
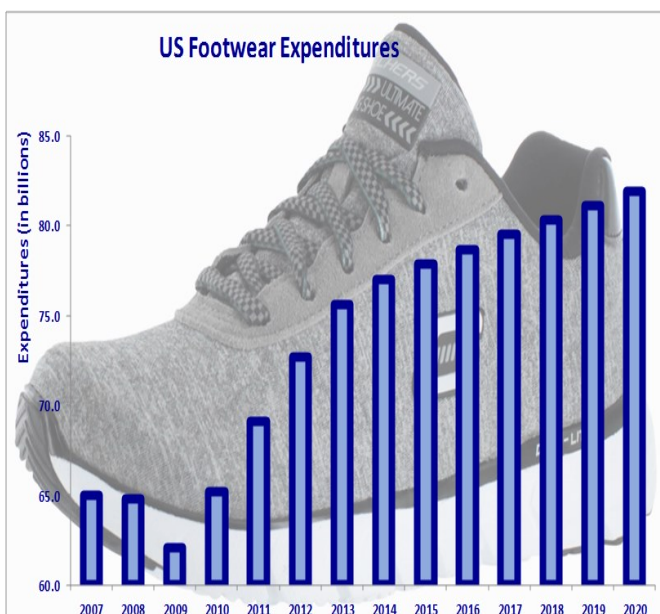
Skechers competes in the Footwear Industry. This industry is relatively mature with a large number of competitors. Since the Footwear industry is mature, we project the industry to grow moderately over our investment horizon, and generally with the overall population. There are many different categories of shoes in the market today for companies to take advantage of, and as the tastes of consumers evolve, the different footwear styles will evolve as well.

This industry is positioned to take advantage of several tailwinds such as, increasing disposable income and the increasing popularity of athleisure. The current low unemployment rate suggests consumers have a larger disposable income. In fact, disposable income has increased about 5% since 2013. Consequently, as consumers gain more disposable income, they will be willing to spend more on footwear and apparel.

The Footwear Industry is in the consumer discretionary sector, and is heavily tied to retail sales. Attractively, retail sales are strong, and are projected to remain stable throughout our investment horizon. To be specific, retail sales have improved roughly 4% year-over-year, and are projected to remain strong with steady real income growth. We expect consumer spending to grow modestly with income growth, rising consumer confidence, and low interest rates. We predict limited downside to our projection of steady consumer spending as the “smarter” U.S. consumer is saving more; retail sales are strong even as the savings rate is roughly 5%.

Athleisure is a trend that the Footwear Industry has currently been experiencing. Consumers are becoming more active and health-conscious, and the athletic style is increasing in popular. Companies that produce these styles of footwear within this trend are seeing growth in revenues.

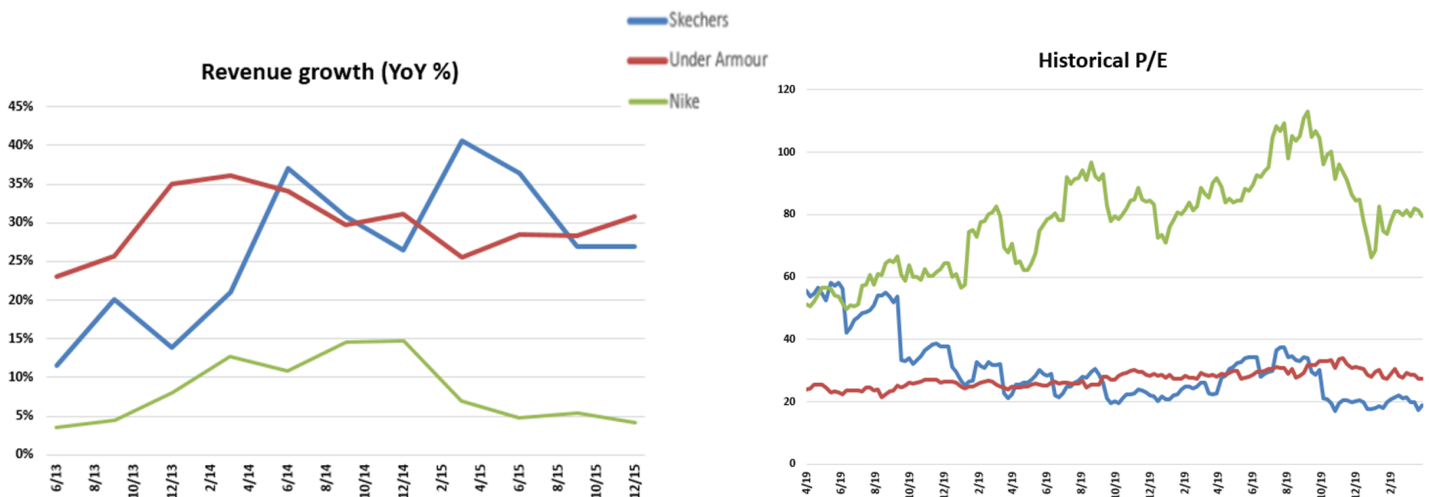
Competitors in the shoe industry are expanding their global footprint. As emerging market consumers grow their disposable income, they will be able to afford more of these companies’ products. Companies in the Footwear Industry have a large potential to take advantage of the international markets.



Competition

Skechers competes in a highly competitive industry. It does not compete directly with any single company with respect to its entire range of products, however products compete within their respective category, as well with private label products sold by retailers, including some of Skechers customers. The casual and utility footwear segments competes with companies such as; Columbia Sportswear, Converse by Nike, Decker's Outdoor Corporation, Kenneth Cole Productions Inc., Steve Madden, Timberland Company, V.F. Corporation, and Wolverine World Wide. Skechers-brand athletic lifestyle and performance shoes compete with footwear offered by; Nike, Adidas, Reebok International, Puma SE, ASICS America Corporation, New Balance Athletic Shoe Inc. and Under Armor.

Competitors in the shoe and apparel industry compete on the basis of price, style, quality, comfort, and brand name prestige. Companies in this industry compete for low-cost production by implementing efficiency initiatives. It is also imperative for companies in this industry to stay current with quickly changing consumer trends. Companies must also remain innovative, and continue to keep pace with competition when it comes to product development. The companies in this industry compete for shelf space; with the additional shelf space they are able to attain from their customers the more market shares they will ultimately take.



Competitive Moat

Skechers has a diverse product portfolio that other competitors do not have. It has footwear styles spanning from infants, kids, sports, high performance, lifestyle, utility, work and others. They have the ability to capture customers at a young age, and from diverse demographics. As the consumer style changes, Skechers is able to meet the consumers' new style preference with another one of its product offerings. It targets an audience from infants to seniors.

Skechers does not target the same market as its top competitors such as Nike, Adidas and Under Armour. Skechers aims at a diverse consumer base that is more lifestyle focused. Its products focus on a casual style and comfort at an affordable price. Skechers also markets to kids more exclusively than Nike, Under Armour and Adidas.

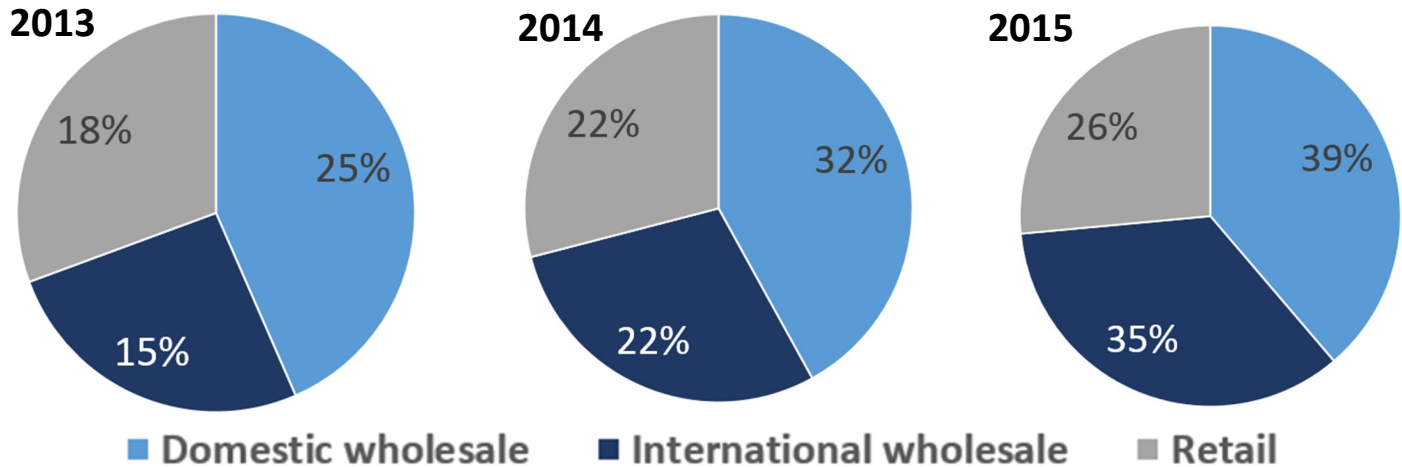
Skechers has a diverse number of endorsees that include athletes, television personalities, and musicians. With this diverse endorsee base, it is able to market to customers with a diverse set of tastes.

Skechers is a socially responsible company that has taken many philanthropic initiatives. It sells a shoe called BOBS, they use the sales of this shoe to donate to help support the foundation Best Friends Animal society. Last year they donated \$3 million to this foundation to help save dogs and cats. Also they donated 13 million shoes to their charity partners SolesforSouls and Fashion Deliverers since the initiatives launch. The social responsibility that Skechers undertakes is positive marketing for the company, therefore increases sales and customer loyalty.

Segments

Skechers sells its shoes through three market segments, Retail/ E-commerce, Domestic Wholesale, and International Wholesale, which makes up 26%, 38%, and, 36% of Skechers sales respectively. Of the three segments, Retail/ E-commerce has the highest profit margin just under 60% while the other two segments each have approximately 40% profit margins. All three segments contribute roughly equal amounts of gross profit to the company, and going forward we are expecting the international wholesale segment to continue being the highest growing segment.

Revenue breakdown by segment



Risks

Foreign currency devaluation

Approximately 40% of Skechers revenue comes from foreign countries. Due to this, a large shift in foreign currency valuations could materially affect Skechers current sales growth because of increasing costs for foreign distributors and retailers. This is a risk that the company continues to face as the U.S. dollar continues to appreciate against foreign currencies, requiring a much higher sales volume abroad to earn equal amounts of revenue. Going forward, Skechers is increasing its prices in countries, such as Brazil, Canada and Chile in order to help offset currency impact on revenues.

Disruption in distribution lines

Skechers relies on multiple distribution lines to support its domestic and foreign wholesale and retail operations. A disruption in its distribution line, foreign or domestic, will cause significant headwinds for its growth in the respective region. In the past, Skechers has experienced capacity issues with foreign distribution lines, and while it was still able to grow despite these headwinds, it did depress its growth. These capacity issues have been resolved by its recent increase in infrastructure in its foreign distribution lines. If this were to happen again, it could materially hurt Skechers' ability to meet foreign demand.

Shareholder voting rights

More than 65% of the overall shareholder voting rights belongs to CEO and Executive Chairman Robert Greenberg, his immediate family, and their estate trustee. While Mr. Greenberg does hold a large amount of the overall voting rights through his family and other means, he is the founder of the company and has a good track record for acting to return value to shareholders.

Management

The executive management team of Skechers has extensive experience within the footwear industry. Most notably, Robert and Michael Greenberg, along with David Weinberg, all served many years in management positions ranging from President and Chairman of the Board to VP, Credit and Collections at LA Gear, an athletic and casual footwear company. This experience is evident as management continues to improve the Skechers brand with innovation of its lifestyle and performance product lines. Management believes the Skechers styles resonate with customers worldwide and the growing team of brand ambassadors, such as Sugar Ray Leonard, Ringo Star, Demi Lovato, and Matt Kuchar, gives a broad appeal for the product.

Robert Greenberg – Chairman of the Board and CEO

Robert Greenberg has served as the Chairman of the Board and Chief Executive Officer of Skechers since October 1993. Prior to joining Skechers, Mr. Greenberg served as Chairman and President of an athletic and casual footwear company.



Michael Greenberg – President and Director

Michael Greenberg has served as the President and a member of the Board of Directors of Skechers since its inception in 1992, and briefly served as the Chairman of the Board from June 1992 to October 1993.



David Weinberg – Executive VP, COO, CFO, and Director

Weinberg has served as the Chief Operating Officer of Skechers since January 2006 and has been an Executive VP and member of the Board of Directors of the Company since July 1998; also, from October 1993 to January 2006, Weinberg served as Chief Financial Officer of Skechers



Mark Nason – Executive VP, Production Development

Nason has served as Executive VP, Product Development of Skechers since March 2002. From January 1998 to March 2002, Mr. Nason served as Skechers VP, Retail and Merchandising, and from December 1993 to January 1998, he served as the Director, Merchandising and Retail Development.





Valuation

Free Cash Flow to Equity Model						
	2016	2017	2018	2019	2020	Terminal Value
EPS	\$ 2.11	\$ 2.56	\$ 2.88	\$ 3.17	\$ 3.50	\$ 62.98
Depreciation/shares	\$ 0.38	\$ 0.25	\$ 0.20	\$ 0.20	\$ 0.18	
Capex/shares	\$ 0.87	\$ 0.59	\$ 0.47	\$ 0.40	\$ 0.42	
NWC/shares	\$ 1.19	\$ 2.84	\$ 2.39	\$ 2.93	\$ 3.24	
FCFE	\$ 0.43	\$ 0.61	\$ 0.22	\$ 0.04	\$ 0.01	
PV of FCFE	\$ 0.39	\$ 0.55	\$ 0.19	\$ 0.03	\$ 43.03	
Intrinsic value	\$ 43.09					
<i>Implied return</i>	<i>54%</i>					
Market price	\$ 28.00					

Discount Rate	
Beta	0.8
MRP	10.00%
RFR	2.00%
CAPM	10.00%

Above is a Free Cash Flow to Equity Valuation model. We found a 2020 terminal value of \$62.98 using an EV/EBITDA model. We used an EV/EBITDA 2020 exit multiple of 11x. This multiple is the same multiple that Skechers is currently trading at. We looked at historical multiples and found that Skechers' EV/EBITDA multiple has been relatively stable.

Our terminal value accounts for our assumptions of large revenue growth as Skechers takes market share from its major competitors and expands into international markets. Our 2020 terminal value also includes margin expansion as Skechers starts to receive benefits from economies of scale as it increases sales volume. We also held share count constant because we have not seen evidence of share buybacks or the issuance of new shares in the future.

Our terminal value was discounted back to 2016 from 2020 using the forecasted future cash flows. We used a discount rate of 10% because we believe this company to be of similar risk compared to the market. We found this to be reasonable because Skechers already has an established brand name and is growing organically. Skechers does not have a substantial amount of debt so the company will face less headwinds than the overall economy if it goes through a downturn.

Below is a sensitivity analysis that shows what our intrinsic value would be if the discount rate or terminal value is changed. In our sensitivity analysis, there is not a discount rate or terminal value that would result in the company to be valued at the current market price.

FCFE Model Sensitivity Analysis								
		Discount rate						
		13.0%	12.0%	11.0%	10.0%	9.0%	8.0%	7.0%
Terminal value	47.98	29.50	30.57	31.68	32.85	34.06	35.34	36.68
	52.98	32.57	33.74	34.97	36.26	37.61	39.02	40.49
	57.98	35.63	36.92	38.27	39.68	41.15	42.69	44.31
	62.98	38.70	40.10	41.56	43.09	44.69	46.37	48.12
	67.98	41.77	43.28	44.85	46.51	48.23	50.04	51.94
	72.98	44.83	46.45	48.15	49.92	51.78	53.72	55.75
	77.98	47.90	49.63	51.44	53.34	55.32	57.39	59.56



Valuation

EV/EBITDA Model															
	2016			2017			2018			2019			2020		
	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull	Bear	Base	Bull
Revenue	3,399,108.84	3,713,841.14	4,028,573.44	3,862,394.79	4,233,778.90	4,605,163.01	4,233,778.90	4,657,156.79	5,080,534.68	4,564,013.65	5,029,729.33	5,495,445.01	4,929,134.75	5,432,107.68	5,935,080.61
Growth	8.00%	18.00%	28.00%	4.00%	14.00%	24.00%	0.00%	10.00%	20.00%	-2.00%	8.00%	18.00%	-2.00%	8.00%	18.00%
Operating income	293,174.98	431,736.05	589,181.05	362,101.61	523,932.44	708,046.31	407,503.52	587,968.57	793,836.30	450,698.83	647,580.38	872,404.88	499,077.57	712,967.08	957,034.97
Margin	8.63%	11.63%	14.63%	9.38%	12.38%	15.38%	9.63%	12.63%	15.63%	9.88%	12.88%	15.88%	10.13%	13.13%	16.13%
Dep	58,044.50	58,044.50	58,044.50	39,123.60	39,123.60	39,123.60	30,789.42	30,789.42	30,789.42	30,789.42	30,789.42	30,789.42	27,958.61	27,958.61	27,958.61
EBITDA	351,219.48	489,780.54	647,225.55	401,225.21	563,056.04	747,169.91	438,292.94	618,757.99	824,625.72	481,488.25	678,369.80	903,194.30	527,036.18	740,925.70	984,993.58
EV/EBITDA multiple	10.00	11.00	12.00	10.00	11.00	12.00	10.00	11.00	12.00	10.00	11.00	12.00	10.00	11.00	12.00
Enterprise value	3,512,195	5,387,586	7,766,707	4,012,252	6,193,616	8,966,039	4,382,929	6,806,338	9,895,509	4,814,882	7,462,068	10,838,332	5,270,362	8,150,183	11,819,923
Less debt	131,759.42	131,759.42	131,759.42	136,008.20	136,008.20	136,008.20	106,998.92	106,998.92	106,998.92	110,043.47	110,043.47	110,043.47	113,331.59	113,331.59	113,331.59
Plus cash	571,069.71	571,069.71	571,069.71	793,026.84	793,026.84	793,026.84	1,043,264.96	1,043,264.96	1,043,264.96	1,355,850.49	1,355,850.49	1,355,850.49	1,674,887.58	1,674,887.58	1,674,887.58
Market cap	3,951,505	5,826,896	8,206,017	4,669,271	6,850,635	9,623,058	5,319,195	7,742,604	10,831,775	6,060,689	8,707,875	12,084,139	6,831,918	9,711,739	13,381,479
Shares outstanding	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00	154,200.00
Equity value/share	25.63	37.79	53.22	30.28	44.43	62.41	34.50	50.21	70.24	39.30	56.47	78.37	44.31	62.98	86.78

Price/Earnings Constant Model

	2016	2017	2018	2019	2020
EPS	2.11	2.56	2.88	3.17	3.50
P/E	18.00	18.00	18.00	18.00	18.00
Price	37.95	46.16	51.84	57.14	62.95

Price/Earnings Expansion Model

	2016	2017	2018	2019	2020
EPS	2.11	2.56	2.88	3.17	3.50
P/E	18.00	18.36	18.73	19.10	19.48
Price	37.95	47.09	53.94	60.64	68.14

Price/Earnings Contraction Model

	2016	2017	2018	2019	2020
EPS	2.11	2.56	2.88	3.17	3.50
P/E	18.00	16.20	15.39	15.08	14.78
Price	37.95	41.55	44.32	47.88	51.69

Using an EV/EBITDA model we maintained a constant multiple throughout the five year investment horizon. We expect the market will offer higher or lower multiples based on earnings performance going forward but we expect the multiple to be relatively range bound between its historical bounds. The base case scenario has a 2020 price target of approximately \$63 using a constant EV/EBITDA multiple of 11x.

The bull case suggests a 10% increase in sales, a 3% expansion of the operating margin and an adjustment of the EV/EBITDA multiple increase of one for each year. The bear case illustrates a

revenue reduction of 10%, operating margin contraction of 3%, and a reduction in the EV/EBITDA multiple by one per year. We expect the 3-5 year range of Skechers price performance between \$44 and \$87 with certainty.

We also conducted a P/E model to capture a price target for 2020 to compare alongside the results of the EV/EBITDA model. The base case for the P/E model maintains a multiple of 18x throughout the five year investment horizon. Multiple expansion and contraction scenarios were also used to illustrate the range of possible margin movements in our investment horizon. The P/E scenarios resulted in a range of price targets in 2020 from approximately \$51 to \$68. The base case P/E model resulted in a price target in 2020 of \$63.

The EV/EBITDA and P/E base case scenarios 2020 price targets converged at approximately \$63.

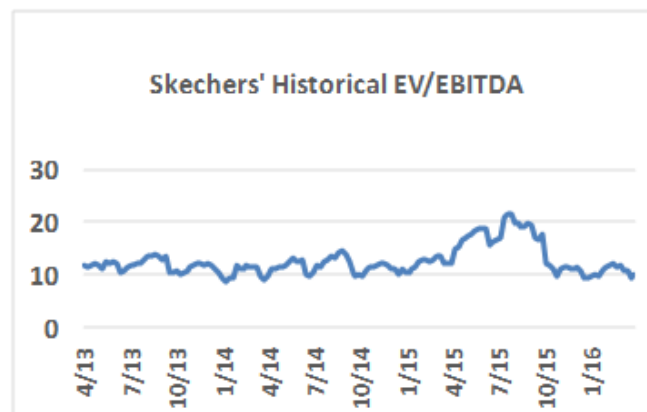
Valuation

P/E 2020 Price Target Sensitivity Analysis								
		EPS						
		2.30	2.70	3.10	3.50	3.90	4.30	4.70
P/E Multiple	9	20.68	24.28	27.88	31.48	35.08	38.68	42.28
	12	27.57	32.37	37.17	41.97	46.77	51.57	56.37
	15	34.46	40.46	46.46	52.46	58.46	64.46	70.46
	18	41.35	48.55	55.75	62.95	70.15	77.35	84.55
	21	48.24	56.64	65.04	73.44	81.84	90.24	98.64
	24	55.13	64.73	74.33	83.93	93.53	103.13	112.73
	27	62.03	72.83	83.63	94.43	105.23	116.03	126.83

Our 2020 Price Target of \$63 is based on our earnings forecast of \$3.50 EPS in 2020 and a terminal P/E multiple of 18x. The sensitivity analysis above shows that even if Skechers earn 20% less than we are forecasting over our holding period, the Student Managed Investment Fund should see more than a 40% return over the next five years.

EV/EBITDA Multiple Price Target 2020 Analysis								
		EBITDA						
		620,926	660,926	700,926	740,926	780,926	820,926	860,926
EV/EBITDA Multiple	8.00	42.34	44.42	46.49	48.57	50.64	52.72	54.79
	9.00	46.37	48.70	51.04	53.37	55.71	58.04	60.38
	10.00	50.39	52.99	55.58	58.18	60.77	63.36	65.96
	11.00	54.42	57.27	60.13	62.98	65.83	68.69	71.54
	12.00	58.45	61.56	64.67	67.79	70.90	74.01	77.12
	13.00	62.47	65.85	69.22	72.59	75.96	79.34	82.71
	14.00	66.50	70.13	73.76	77.40	81.03	84.66	88.29

The chart above shows our sensitivity analysis on our EV/EBITDA multiple analysis of Skechers. Our base case EBITDA of \$740 million with an EV/EBITDA exit multiple of 11x gives us a price target of about \$63 in 2020. Our sensitivity analysis shows that if Skechers actual 2020 EBITDA comes in 20% lower than our forecasted amount of \$740 million, the firm is still substantially undervalued. Due to the large margin of safety in our P/E multiple and EV/EBITDA multiple we are comfortable with our valuation of Skechers.





Auxiliary files

Income Statement								
	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Net sales	\$ 1,846,361	\$ 2,377,561	\$ 3,147,323	\$ 3,713,841	\$ 4,233,779	\$ 4,657,157	\$ 5,029,729	\$ 5,432,108
Cost of sales	1,027,569	1,305,656	1,723,315	\$ 2,033,512	\$ 2,318,203	\$ 2,550,024	\$ 2,754,026	\$ 2,974,348
Gross profit	\$ 1,424,008	\$ 1,071,905	\$ 1,424,008	\$ 1,680,329	\$ 1,915,576	\$ 2,107,133	\$ 2,275,704	\$ 2,457,760
Royalty income	7,734	9,107	11,745	\$ 14,113	\$ 16,088	\$ 17,697	\$ 19,113	\$ 20,642
Operating income	826,526	1,081,012	1,435,753	\$ 1,694,442	\$ 1,931,664	\$ 2,124,830	\$ 2,294,817	\$ 2,478,402
Operating expenses:								
Selling	153,491	181,018	235,586	\$ 297,107	\$ 349,287	\$ 372,573	\$ 389,804	\$ 407,408
General and administrative	579,426	690,923	849,343	\$ 965,599	\$ 1,058,445	\$ 1,164,289	\$ 1,257,432	\$ 1,358,027
Total operating expenses	\$ 732,917	\$ 871,941	\$ 1,084,929	\$ 1,262,706	\$ 1,407,731	\$ 1,536,862	\$ 1,647,236	\$ 1,765,435
Earnings from operations	\$ 93,609.00	\$ 209,071.00	\$ 350,824.00	\$ 431,736	\$ 523,932	\$ 587,969	\$ 647,580	\$ 712,967
Other income (expense):								
Interest income	841	837	722	\$ 852	\$ 971	\$ 1,068	\$ 1,154	\$ 1,246
Interest expense	(11,890)	(12,466)	(10,728)	\$ 8,639	\$ 9,848	\$ 10,833	\$ 11,700	\$ 12,636
Other, net	(345)	(6,062)	(7,321)	\$ 8,639	\$ 9,848	\$ 10,833	\$ 11,700	\$ 12,636
Total other expense	(11,394)	(17,691)	(17,327)	\$ 16,426	\$ 18,725	\$ 20,598	\$ 22,246	\$ 24,025
Earnings before income tax expense	\$ 82,215	\$ 191,380	\$ 333,497	\$ 415,310	\$ 505,207	\$ 567,371	\$ 625,335	\$ 688,942
Income tax expense	\$ 21,347	\$ 39,184	\$ 72,450	\$ 90,223	\$ 109,753	\$ 123,258	\$ 135,850	\$ 149,668
Net income	\$ 60,868	\$ 152,196	\$ 261,047	\$ 325,087	\$ 395,454	\$ 444,113	\$ 489,485	\$ 539,274
Net income per share:								
Basic	\$ 0.36	\$ 0.91	\$ 1.52					
Diluted	\$ 0.36	\$ 0.91	\$ 1.50	\$ 2.11	\$ 2.56	\$ 2.88	\$ 3.17	\$ 3.50
Weighted average shares outstanding:								
Basic	151,090	151,839	152,847	152,847	152,847	152,847	152,847	152,847
Diluted	151,690	153,079	154,200	154,200	154,200	154,200	154,200	154,200

Common Size Income Statement								
	2013	2014	2015	2016E	2017E	2018E	2019E	2020E
Net sales	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of sales	55.65%	54.92%	54.75%	54.75%	54.75%	54.75%	54.75%	54.75%
Gross profit	77.13%	45.08%	45.25%	45.25%	45.25%	45.25%	45.25%	45.25%
Operating expenses:								
Selling	8.31%	7.61%	7.49%	8.00%	8.25%	8.00%	7.75%	7.50%
General and administrative	31.38%	29.06%	26.99%	26.00%	25.00%	25.00%	25.00%	25.00%
Total operating expenses	39.70%	36.67%	34.47%	34.00%	33.25%	33.00%	32.75%	32.50%
Earnings from operations	5.07%	8.79%	11.15%	11.63%	12.38%	12.63%	12.88%	13.13%
Other income (expense):								
Interest income	0.05%	0.04%	0.02%	0.02%	0.02%	0.02%	0.02%	0.02%
Interest expense	-0.64%	-0.52%	-0.34%	-0.23%	-0.23%	-0.23%	-0.23%	-0.23%
Other, net	-0.02%	-0.25%	-0.23%	-0.23%	-0.23%	-0.23%	-0.23%	-0.23%
Total other expense	-0.62%	-0.74%	-0.55%	-0.44%	-0.44%	-0.44%	-0.44%	-0.44%
Earnings before income tax expense	4.45%	8.05%	10.60%	11.18%	11.93%	12.18%	12.43%	12.68%
Income tax expense	1.16%	1.65%	2.30%	2.43%	2.59%	2.65%	2.70%	2.76%
Net income	3.30%	6.40%	8.29%	8.75%	9.34%	9.54%	9.73%	9.93%



Auxiliary files

Balance Sheet							
	2014	2015	2016E	2017E	2018E	2019E	2020E
Cash and cash equivalents	\$ 466,685	\$ 507,991	\$ 571,070	\$ 760,558	\$ 1,043,265	\$ 1,355,850	\$ 1,674,888
Excess Cash				\$ 106,514	\$ 155,209	\$ 195,944	\$ 369,785
Trade accounts receivable	272,103	343,930	\$ 405,837	\$ 462,655	\$ 508,920	\$ 549,634	\$ 593,604
Other receivables	16,510	18,661	\$ 18,661	\$ 18,661	\$ 18,661	\$ 18,661	\$ 18,661
Inventories	453,837	620,247	\$ 742,768	\$ 857,340	\$ 943,074	\$ 1,056,243	\$ 1,140,743
Prepaid expenses and other current assets	831,177	57,363	\$ 67,688	\$ 77,165	\$ 84,881	\$ 91,672	\$ 99,005
Deferred tax assets	18,864	22,275	\$ 48,420	\$ 55,199	\$ 60,719	\$ 65,576	\$ 70,822
Total current assets	\$ 1,285,014	\$ 1,570,467	\$ 1,854,445	\$ 2,338,091	\$ 2,814,729	\$ 3,333,580	\$ 3,967,508
Property and equipment, net	\$ 373,183	\$ 435,907	\$ 511,264	\$ 563,295	\$ 604,243	\$ 639,382	\$ 676,564
Other assets	\$ 16,721	\$ 41,034	\$ 48,420	\$ 55,199	\$ 60,719	\$ 65,576	\$ 70,822
Total long term assets	\$ 389,904	\$ 476,941	\$ 559,684	\$ 618,494	\$ 664,962	\$ 704,958	\$ 747,387
Total assets	\$ 1,674,918	\$ 2,047,408	\$ 2,414,129	\$ 2,956,586	\$ 3,479,691	\$ 4,038,539	\$ 4,714,895
Current installments of long-term borrowings	101,407	15,653	\$ 15,653	\$ 1,783	\$ 1,801	\$ 1,666	\$ 63,692
Short-term borrowings	1,810	59	\$ 70	\$ 79	\$ 87	\$ 94	\$ 102
Accounts payable	352,815	473,983	\$ 559,300	\$ 637,602	\$ 701,362	\$ 757,471	\$ 818,069
Accrued expenses	49,705	87,318	\$ 103,035	\$ 117,460	\$ 129,206	\$ 139,543	\$ 150,706
Total current liabilities	\$ 505,737	\$ 577,013	\$ 678,058	\$ 756,924	\$ 832,457	\$ 898,774	\$ 1,032,569
External funds needed			\$ 32,469				
Long-term borrowings, excluding current installments	15,081	68,942	\$ 68,942	\$ 68,942	\$ 68,942	\$ 68,942	\$ 68,942
Other long-term liabilities	19,993	25,719	\$ 30,348	\$ 34,597	\$ 38,057	\$ 41,101	\$ 44,390
Total non-current liabilities	35,074	94,661	\$ 131,759	\$ 103,539	\$ 106,999	\$ 110,043	\$ 113,332
Total liabilities	\$ 540,811	\$ 671,674	\$ 809,817	\$ 860,464	\$ 939,456	\$ 1,008,818	\$ 1,145,901
Additional paid-in capital	\$ 355,535	\$ 386,156	\$ 386,156	\$ 386,156	\$ 386,156	\$ 386,156	\$ 386,156
Accumulated other comprehensive loss	\$ 16,077	\$ 26,305	\$ 26,305	\$ 26,305	\$ 26,305	\$ 26,305	\$ 26,305
Retained earnings	\$ 735,640	\$ 967,552	\$ 1,292,639	\$ 1,688,093	\$ 2,132,207	\$ 2,621,692	\$ 3,160,966
Noncontrolling interests	\$ 58,858	\$ 48,178	\$ 48,178	\$ 48,178	\$ 48,178	\$ 48,178	\$ 48,178
Total shareholders' equity	\$ 1,134,107	\$ 1,375,734	\$ 1,604,312	\$ 2,096,122	\$ 2,540,236	\$ 3,029,721	\$ 3,568,995
Total liabilities and shareholders' equity	\$ 1,674,918	\$ 2,047,408	\$ 2,414,129	\$ 2,956,586	\$ 3,479,691	\$ 4,038,538	\$ 4,714,895

Common Size Balance Sheet							
	2014	2015	2016E	2017E	2018E	2019E	2020E
Current assets:							
Cash and cash equivalents	27.86%	24.81%	23.66%	25.72%	29.98%	33.57%	35.52%
Trade accounts receivable, less allowances of \$24,260 in 2015 and \$21,007 in 2014	16%	17%	17%	16%	15%	14%	13%
Other receivables	1%	1%	1%	1%	1%	0%	0%
Inventories	27%	30%	31%	29%	27%	26%	24%
Prepaid expenses and other current assets	50%	3%	3%	3%	2%	2%	2%
Deferred tax assets	1%	1%	2%	2%	2%	2%	2%
Total current assets	77%	77%	77%	79%	81%	83%	84%
Property and equipment, net	22%	21%	21%	19%	17%	16%	14%
Other assets	1%	2%	2%	2%	2%	2%	2%
Total long term assets	23%	23%	23%	21%	19%	17%	16%
Total assets	100%	100%	100%	100%	100%	100%	100%
Current liabilities:							
Current installments of long-term borrowings	6%	1%	1%	0%	0%	0%	1%
Short-term borrowings	0%	0%	0%	0%	0%	0%	0%
Accounts payable	21%	23%	23%	22%	20%	19%	17%
Accrued expenses	3%	4%	4%	4%	4%	3%	3%
Total current liabilities	32%	33%	34%	29%	27%	25%	24%
External funds needed	0%	0%	1%	0%	0%	0%	0%
Long-term borrowings, excluding current installments	1%	3%	3%	2%	2%	2%	1%
Other long-term liabilities	1%	1%	1%	1%	1%	1%	1%
Total non-current liabilities	2%	5%	5%	4%	3%	3%	2%
Total liabilities	32%	33%	34%	29%	27%	25%	24%
Shareholders' equity:							
Additional paid-in capital	21%	19%	16%	13%	11%	10%	8%
Accumulated other comprehensive loss	-1%	-1%	-1%	-1%	-1%	-1%	-1%
Retained earnings	44%	47%	54%	57%	61%	65%	67%
Noncontrolling interests	-4%	-2%	-2%	-2%	-1%	-1%	-1%
Total shareholders' equity	68%	67%	66%	71%	73%	75%	76%
Total liabilities and shareholders' equity	100%	100%	100%	100%	100%	100%	100%



Auxiliary files

Statement of Cash Flows					
	2016E	2017E	2018E	2019E	2020E
Cash flows from operating activities:					
Net income	\$ 261,047	\$ 325,087	\$ 395,454	\$ 444,113	\$ 489,485
Accounts receivable	\$ 61,907	\$ 56,817	\$ 46,265	\$ 40,714	\$ 43,971
Other receivables	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Inventories	\$ 122,521	\$ 114,572	\$ 85,734	\$ 113,169	\$ 84,499
Depreciation and amortization of PP&E	\$ 58,044	\$ 39,124	\$ 30,789	\$ 30,789	\$ 27,959
Prepaid expenses and other current assets	\$ 10,325	\$ 9,476	\$ 7,716	\$ 6,790	\$ 7,334
Deferred tax assets, net	\$ 26,145	\$ 6,779	\$ 5,520	\$ 4,858	\$ 5,246
Current instalments of long term borrowing	\$ 0	\$ 13,870	\$ 18	\$ 135	\$ 62,026
Short term borrowings	\$ 11	\$ 10	\$ 8	\$ 7	\$ 8
Accounts payable	\$ 85,317	\$ 78,302	\$ 63,760	\$ 56,109	\$ 60,598
Accrued expenses	\$ 15,717	\$ 14,425	\$ 11,746	\$ 10,336	\$ 11,163
Net cash provided by (used in) operating activities	\$ 61,810	\$ 41,914	\$ 38,950	\$ 68,154	\$ 103,349
Cash flows from investing activities:					
Property and equipment, net	\$ 133,402	\$ 91,155	\$ 71,737	\$ 61,561	\$ 65,141
Other assets	\$ 7,386	\$ 6,779	\$ 5,520	\$ 4,858	\$ 5,246
Net cash used in investing activities	\$ 140,788	\$ 97,934	\$ 77,257	\$ 66,419	\$ 70,387
Cash flows from financing activities:					
Long- term borrowings, excluding current installments	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
other long term liabilities	\$ 4,629	\$ 4,249	\$ 3,460	\$ 3,045	\$ 3,288
Additional paid-in capital	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Accumulated other comprehensive loss	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Non controlling interest	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Net cash provided by (used in) financing activities	\$ 4,629	\$ 4,249	\$ 3,460	\$ 3,045	\$ 3,288
Starting Cash Balance	\$ 507,991	\$ 571,070	\$ 760,558	\$ 1,043,265	\$ 1,355,850
Net Change in Cash	\$ 63,079	\$ 189,488	\$ 282,707	\$ 312,586	\$ 319,037
Ending Cash Balance	\$ 571,070	\$ 760,558	\$ 1,043,265	\$ 1,355,850	\$ 1,674,888

Competitor Analysis									
Ticker	SKX	NKE	UA	WWW	DECK	ADS	PUMMAF	VFC	
Company	Skechers	Nike	Under Armour	Wolverine WW	Decker's Outdoor	Adidas AG	Puma SE	VF Corpooation	Industry
P/E	19.1	27.6	81.8	15.4	13.0	24.3	75.3	22.5	34.9
Price/CashFlow	19.1	32.0	-	8.6	15.8	7.8	-	24.2	17.9
Price/Sales	1.4	3.3	4.8	0.7	1.0	2.1	0.8	2.2	2.0
Price/Book	3.4	8.1	5.6	1.9	1.8	6.3	1.7	5.1	4.2
Yield	-	1.0%	-	1.3%	-	-	0.3%	2.2%	1.2%
ROE	19.3%	30.6%	15.4%	12.7%	14.4%	25.0%	2.3%	22.4%	17.8%
ROA	12.4%	18.2%	9.4%	4.9%	10.4%	2.6%	1.4%	12.6%	9.0%
Gross Margin	45.4%	46.3%	48.1%	39.1%	45.9%	40.8%	45.5%	48.3%	44.9%
Operating Margin	11.1%	14.0%	10.3%	7.5%	10.4%	19.6%	2.8%	13.4%	11.1%
Profit Margin	7.3%	11.8%	5.9%	4.5%	8.0%	8.6%	1.1%	10.0%	7.1%
Total Debt/Equity	0.05	0.17	0.38	0.83	0.03	5.04	0.63	0.26	0.92

Source: Morningstar



Auxiliary files

	Ratio Analysis						
	2014	2015	2016	2017	2018	2019	2020
Income Statement:							
Gross Margin	45.1%	45.2%	45.2%	45.2%	45.2%	45.2%	45.2%
EBIT Margin	8.79%	11.15%	11.63%	12.38%	12.63%	12.88%	13.13%
Net Margin	6.40%	8.29%	8.75%	9.34%	9.54%	9.73%	9.93%
ROE	13.42%	18.98%	20.26%	18.87%	17.48%	16.16%	15.11%
ROA	9.09%	12.75%	13.47%	13.38%	12.76%	12.12%	11.44%
Balance Sheet:							
Quick Ratio	1.64	1.65	1.64	1.96	2.25	2.53	2.74
Current Ratio	2.54	2.72	2.73	3.09	3.38	3.71	3.84
Total Debt to Equity	47.69%	48.82%	50.48%	41.05%	36.98%	33.30%	32.11%
Total Debt to Assets	30.19%	28.18%	28.09%	25.60%	23.92%	22.25%	21.90%
Days Sales Outstanding	2.53459	2.16415	1.83402	1.60879	1.46254	1.3542	1.25389
Days Inventory Outstanding	126.871	131.369	133.321	134.988	134.988	139.987	139.987
Days Payable Outstanding	98.6305	100.39	100.39	100.39	100.39	100.39	100.39
Receivables Turnover	8.238	8.680	8.749	8.796	8.827	8.851	8.872
Inventory Turnover	2.88	2.78	2.74	2.70	2.70	2.61	2.61
Asset Turnover	1.42	1.54	1.54	1.43	1.34	1.25	1.15