

A Work Project, presented as part of the requirements for the Award of a Master Degree in Economics / Finance / Management from the NOVA – School of Business and Economics.

COMPANY REPORT – SKECHERS U.S.A., INC.  
*Facing the future with comfort*

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## Abstract

This Work Project analyses Skechers business and performance inside the Footwear industry and forecasts the results for the following periods given the current context, risks, trends, and expectations. This work project concludes with a BUY recommendation on SKX stock with a target price for FY22 of \$58.83, representing a 36.5% return for an investor holding the stock for a 12-month period.

Skechers Footwear Shoe Sneakers

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This report is part of the company report: Skechers U.S.A., Inc. (annexed) and should be read as an integral part of it.

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# Forecast

## Revenue

In the latest earning release for Q3 2021 we have witnessed a quick recovery in sales. The company estimates to end 2021 with US\$6.2 billion in sales, which would represent an increase of 34,5% from last year, and 18.4% higher than the pre-pandemic record levels. Through the expansion projected in the international markets by the company, mainly by increasing the presence in emerging and non-traditional markets and the e-commerce development, we estimate the company to continue this path in the following years. When forecasting the revenues for the following years, assumptions were made in compliance with the previously mentioned trends, and separately for each business unit.

**Domestic Wholesale:** As mentioned previously, 42% of the revenue is generated inside the United States, a market with lower growth expectations than the rest of the world as it is already developed. The future revenues for this segment were estimated by projecting:

- **Number of stores in the US:** that the company will operate, including Concept Stores, Factory Outlet and Warehouse Outlets. In the US, Skechers has already started focalizing in strategic stores and we have witnessed the closure of stores in the current year translating into a reduction of the total amount of stores, trend we believe will continue given the shift to e-commerce and other sale channels. An annual reduction of 1% of the total amount of stores is projected for the US.
- **Sales per Store:** calculated dividing Domestic Wholesale revenue by the number of stores, adjusted by the expected growth for the US footwear industry<sup>1</sup>.

Domestic Wholesale	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Number of Stores in the US	470	497	523	516	511	506	501	496
Stores Growth		5,7%	5,2%	-1,3%	-1,0%	-1,0%	-1,0%	-1,0%
Sales per Store	\$ 2,7	\$ 2,5	\$ 2,2	\$ 2,9	\$ 3,38	\$ 3,60	\$ 3,68	\$ 3,76
Total Market Revenue	\$ 88.683	\$ 91.187	\$ 79.958	\$ 81.254	\$ 94.527	\$ 100.538	\$ 102.830	\$ 105.123
US Market Growth Rate	2,1%	2,8%	-12,3%	1,6%	16,3%	6,4%	2,3%	2,2%
<b>Domestic Wholesale Revenue</b>	<b>\$ 1.260</b>	<b>\$ 1.248</b>	<b>\$ 1.127</b>	<b>\$ 1.500</b>	<b>\$ 1.728</b>	<b>\$ 1.820</b>	<b>\$ 1.843</b>	<b>\$ 1.865</b>
Segment growth		-1%	-10%	33%	15%	5%	1%	1%

Figure 9: Domestic Wholesale Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

As a result, the Domestic Wholesale Segment would achieve US\$1.87 billion sales by 2025, stabilizing after that with a long-term growth rate of 1,0%. We may see a strong recovery in the two post-pandemic years of the US footwear market recovering the record revenue values achieved in 2019 over US\$90 billion, and strongly slowing down this growth afterwards. Consequently, we estimated the US Footwear's industry CAGR to stabilize at 2,0% from 2026.

**International Wholesale:** The big bet for Skechers is to expand internationally through fully owned stores, joint venture stores and franchised ones. China presents itself as the most important opportunity for the company, as it already represents a fifth of the company's revenue generation, the place where most of the products are manufactured (together with Vietnam), and the market with the highest potential growth (together with India). For this reason, it was estimated separately and added together with the rest of International Wholesale revenues to come with the total forecast of the business unit as whole.

**Estimated US\$6.2 billion revenue for 2021, an all-time record.**

**U.S. number of stores decreasing from 2021.**

**China's market CAGR for 2021-2025 at 16.1%. China already 1/5 of the company's revenues.**

<sup>1</sup> Global Footwear Market Report 2020 - Statista Consumer Market Outlook 2020.  
<https://www.statista.com/outlook/cmo/footwear/united-states#revenue>

**China becoming the first market in 2025, surpassing the US.**

- China:** The Chinese market is expected to grow at a CAGR of 16.1%<sup>2</sup> in the period between 2021-2025. According to Statista, revenue in the footwear market in China will account for US\$59 billion in 2021, and by 2025 China will surpass the US as the biggest market in revenues, comprising revenues of US\$107 billion. Therefore, the revenue in this location was estimated by calculating current Skecher's market share by dividing the revenues reported by Skechers to the projected Chinese total footwear market revenue, and forecasting the future growth of Skechers market share, escalating from 1,91% in 2021 to 1.97% by 2025, where it stabilizes. This growth in the market share can be understood by the previously mentioned trends of people shifting to comfortable, premium shoes and the growing purchasing power experienced by the Chinese population, which positions Skechers as one of the possible winners of people having more cash to spend and consumption preferences directly aligned to the products that Skechers offers. From 2026 onwards, we estimated the footwear market in China to grow at 4.9% annually, in accordance with the GDP growth forecasted for the Asian nation by the International monetary fund.<sup>3</sup>

Moreover, to justify the increase on the Chinese market share, we can analyse the expansion reported in the current period by Skechers. In the latest earnings presentation for November 2021, the company reported a quarter growth for China of 10%, inside the international Wholesale segment. So far in 2021, considering the three quarters revenue, the Asian nation has reached \$845.6 million sales, translating into 19,4% of the company's total revenue. During the nine months ended September 30, 2020, sales in China were \$554.1 million, implying an annual growth of 53%. Therefore, Skechers growth is higher than the one presented by the Chinese footwear market.

**Figure 2: China's revenue forecast**

China (International Wholesale)	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Market CAGR				16,1%	16,1%	16,1%	16,1%	16,1%
Chinese footwear Market			\$ 58.878	\$ 68.357	\$ 79.363	\$ 92.140	\$ 106.975	
China market share			1,91%	1,94%	1,96%	1,97%	1,97%	
China revenue	\$ 744,0	\$ 850,0	\$ 924,5	\$ 1.127,5	\$ 1.329,5	\$ 1.559,4	\$ 1.819,7	\$ 2.112,7
China's growth		14%	9%	22%	18%	17%	17%	16%

Figure 11: China Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

Skechers will generate sales of over US\$2.1 billion by 2025 in China, meaning that this will become the main market for Skechers inside the Wholesale segments.

- Number of International Stores:** that the company will operate outside the US, without counting the Joint Venture stores in China. From the 9% growth shown in the last period, it was estimated a slowing growth rate that consolidates around 1% in 10 years, given that the company will continue opening stores in other countries in the search of penetrating new markets.
- Sales per Store:** Similar method to the one employed to Domestic Wholesale. Calculated dividing International Wholesale revenue by the number of stores (without taking into consideration revenues generated in China nor stores operating in the same country). For the International Wholesale Segment, the sales per store were adjusted by the expected growth for the **Global** footwear industry<sup>4</sup>, which is expected to be

<sup>2</sup> Footwear China, Consumer Markets Statista - <https://www.statista.com/outlook/cmo/footwear/china>

<sup>3</sup> IMF China Inflation Forecast 2026 – International Monetary Fund

<sup>4</sup> Global Footwear Market Report 2020 - Statista Consumer Market Outlook 2020

11.7% for the period 2021-2025.

**Global footwear industry projected to grow at 11.7% for 2021-2025**

International Wholesale	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Number of Retail Stores without China:	2,440	3,050	3,368	3,747	3,722	4,030	4,328	4,610
International Stores	283	303	331	344	358	371	383	394
JV Stores	105	197	222	247	274	302	331	362
JV Stores in China	131	157	245	338	-	-	-	-
Distributor, licensee and franchise stores	1,921	2,393	2,570	2,818	3,090	3,357	3,614	3,854
Total Stores	2,309	2,893	3,123	3,409	3,722	4,030	4,328	4,610
Growth in Number of Retail Stores:								
International Stores		7%	9%	4%	3,9%	3,6%	3,2%	2,9%
JV Stores		88%	13%	11%	10,8%	10,3%	9,8%	9,3%
Distributor, licensee and franchise stores		25%	7%	10%	9,6%	8,6%	7,6%	6,6%
Sales per store	\$ 0,5	\$ 0,5	\$ 0,4	\$ 0,5	\$ 0,59	\$ 0,66	\$ 0,70	\$ 0,74
Global Footwear Market Revenue	\$ 420.486,0	\$ 433.244,0	\$ 369.431,0	\$ 391.350,0	\$ 488.289,0	\$ 543.309,0	\$ 576.038,0	\$ 609.162,0
Global Market Growth Rate		3,0%	-14,7%	5,9%	24,8%	11,3%	6,0%	5,8%
Revenue without China	\$ 1.310,8	\$ 1.612,6	\$ 1.333,3	\$ 1.771,2	\$ 2.195,2	\$ 2.644,7	\$ 3.011,3	\$ 3.392,0
Growth		23%	-17%	33%	24%	20%	14%	13%
International Wholesale Revenue	\$ 2.054,8	\$ 2.462,6	\$ 2.257,8	\$ 2.898,7	\$ 3.524,7	\$ 4.204,1	\$ 4.831,0	\$ 5.504,7
Segment growth		20%	-8%	28%	22%	19%	15%	14%

Figure 12: International Wholesale Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

We estimated the International Wholesale segment to end 2025 with revenues of US\$5.5 billion, led by the Chinese expansion that will represent 38% of the revenues of the segment at that point. After 2030 and in the long run, the segment was projected to grow at a constant 2% rate.

**Direct to Consumer:** In contrast, given the nature of the Direct-to-consumer business unit, we found more appropriate to link the revenue generation to the expectation given to the E-commerce growth projection. Although this segment still relies mainly on domestic sales, large efforts and investments in technology and infrastructure are ongoing for its international expansion and it was more convenient to adjust the revenues by the CAGR projected for E-commerce worldwide rather than just for the projections in the US. The company stated in November's 2021 Investor Presentation that the company made "meaningful investment in digital infrastructure, consumer loyalty and e-commerce to deliver a consumer-centric, omni-channel offering" which included "upgraded e-commerce platform in Canada, and are on track for new platforms across Europe, Japan, South America, and India". Besides, US e-commerce channels are more developed than in the rest of the world, translating to lower growth rates in the long-term, and Skechers globalization process and strategy demand worldwide projections. The e-commerce worldwide CAGR is estimated at 6.29%<sup>5</sup> for the following periods until 2025, when we estimate the expansion to slow down to a rate of 4%. The weight of this business unit in the company is a key aspect, given its expansion has a great impact on the company's EBITDA due to lower costs of shipping products when compared to fixed costs of sales at store making it the most efficient business unit with a gross margin currently above 66%, as reported in the last 3Q 2021 earnings release. By 2025, Direct-to-Consumer revenue will reach US\$2.3 billion.

**E-commerce worldwide CAGR estimated at 6,29% for 2021-2025**

Direct-to-Consumer	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
E-Commerce Growth in the World					6,29%	6,29%	6,29%	6,29%
Direct-to-Consumer revenue	\$ 1.327,7	\$ 1.509,9	\$ 1.213,0	\$ 1.782,7	\$ 1.894,8	\$ 2.014,0	\$ 2.140,7	\$ 2.275,3
Segment growth		14%	-20%	47%	6%	6%	6%	6%

Figure 13: Direct-to-Consumer Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

As a result of this growth, we projected that Skechers will achieve revenues by 2025 of US\$9.6 billion.

<sup>5</sup> Key Figures of E-commerce, Statista - <https://www.statista.com/forecasts/220177/b2c-e-commerce-sales-cagr-forecast-for-selected-countries>

Revenue by Segment:	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Domestic Wholesale	\$ 1.259,6	\$ 1.247,6	\$ 1.126,6	\$ 1.500,0	\$ 1.728,1	\$ 1.820,0	\$ 1.843,1	\$ 1.865,4
International Wholesale	\$ 2.054,8	\$ 2.462,6	\$ 2.257,8	\$ 2.898,7	\$ 3.524,7	\$ 4.204,1	\$ 4.831,0	\$ 5.504,7
Direct to Consumer	\$ 1.327,7	\$ 1.509,9	\$ 1.213,0	\$ 1.782,7	\$ 1.894,8	\$ 2.014,0	\$ 2.140,7	\$ 2.275,3
<b>Total Skechers Revenue</b>	<b>\$ 4.642,1</b>	<b>\$ 5.220,1</b>	<b>\$ 4.597,4</b>	<b>\$ 6.181,3</b>	<b>\$ 7.147,6</b>	<b>\$ 8.038,1</b>	<b>\$ 8.814,8</b>	<b>\$ 9.645,4</b>

Figure 14: Revenue by Segment 2018-2025  
Source: Analyst Estimates

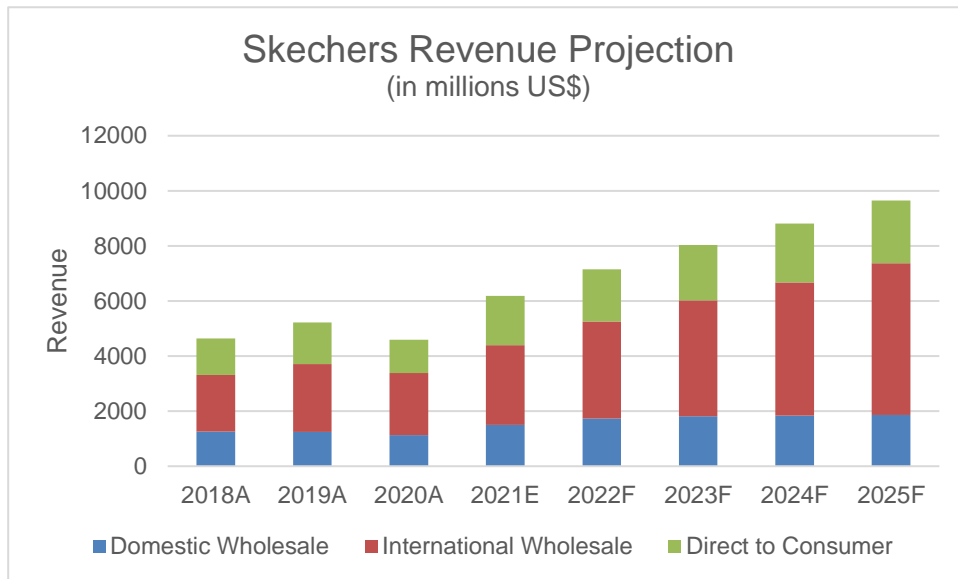


Figure 15: Skechers Revenue 2018-2025  
Source: Analyst Estimates

## Cost of Operations

### Cost of Sales:

**Rising labour costs and freight costs pushing margins.**

There are some factors pressuring the increase in costs, such as the rising labour costs in China, where most of the products of the company are made. According to Statista's, labour costs increased 45% in the period from 2015 to 2019, a material increase if compared to the values reflected by Germany (+24%) and US (12%)<sup>6</sup>. Moreover, oil prices increasing, and growing freight rates will also contribute to push the costs up. A 2021 UN report reveals that "the rate for a single shipping container has skyrocketed over the last 18 months as the coronavirus pandemic disrupted supply chains and trade channels." Consequently, the estimation for the Cost of Sales is to experience an increase in all the segments, where we projected an annual 1% increase for the next three periods, when we believe the supply chain situation globally will normalize and this value will stabilize.

At a company level, although the most inefficient business unit, Domestic Wholesale, is expected to lose weight in the company, the company won't be able to translate this into material downturn in the COGS as percentage of sales, given that International Wholesale expansion cuts-off this effect.

As a result, COGS is expected to grow up to 54.0% of Skechers revenue by 2025. This will represent an important downturn in company's gross margin, given that in 2021 SKX's estimated gross margin was 49,6%.

<sup>6</sup> Footwear Report 2020 - Statista

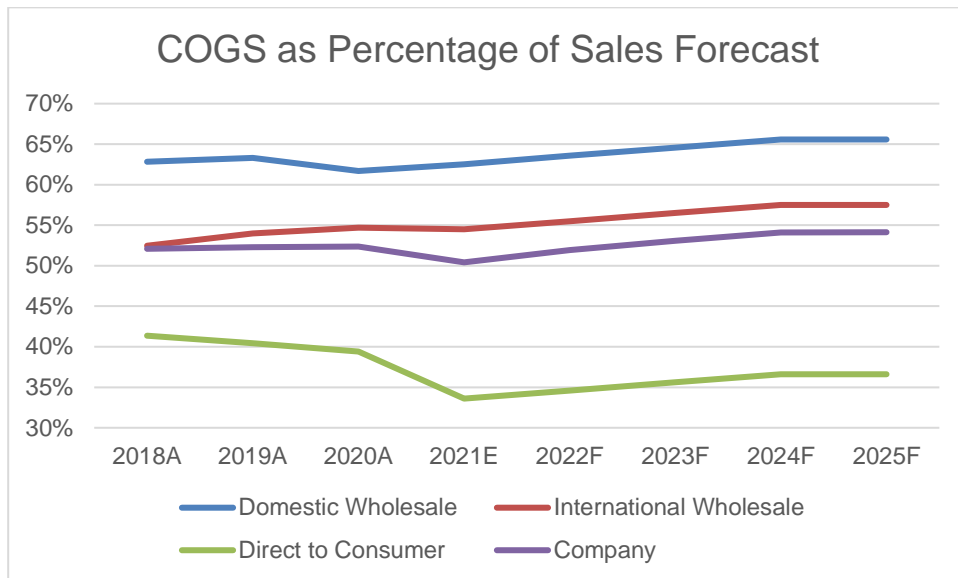


Figure 17: COGS as a percentage of sales by segment 2018-2025, financial statements.  
Source: Analyst Estimates

### Selling, General and Administrative:

The other relevant expense in Skechers activity is SG&A, which represented an average of 41% of the sales in the last three periods. It was estimated by forecasting:

- **Number of employees:** proportionally linked to the revenue growth, given the future human capital that the company's expansion will demand.
- **Cost per employee:** calculated by dividing the actual numbers of SG&A divided by the total number of employees.

As a percentage of sales, SG&A will decrease due to the company opening offices in countries with lower salaries, for example China, and the impact that e-commerce will have with automatization and the ongoing technologies and infrastructure investments for process optimization. The current globalization searched by the Direction of the company with the objective of increasing the presence in emerging and faster growing markets, made Skechers to start building and projecting offices in strategic countries where salaries are lower than in the US, where the bigger portion of the employees are located currently. Therefore, we can expect the SG&A expenses as a percentage of sales to decrease to a stable value of 37% in the next years. In addition, the e-commerce development will also have an impact on reducing these expenses. There is already a decrease in the number of stores operating in the United States, and the sales will slowly start shifting from the stores to the e-commerce.

### Capex and Net Working Capital

Historically, Skechers has produced only through external independent manufacturers to gain in flexibility and capacity in their production, which allows also to keep low the capital expenditures as there are no needs for acquisition, construction, expansion, or maintenance of production plants. Through the last periods we have seen a substantial increase in this subject, almost tripling from 2018 to 2020. In this last period, capital expenditures were US\$309 million, destined to improve worldwide distribution centres and the acquisition of corporate office buildings and new retail stores in China. The company reported that the expected capex for 2021 would represent no material increases and will be realized for costing the expansion of the distribution centres globally and fund the investments in retail and e-commerce technologies and stores, besides the new headquarters in California. As the production is externalized, the

forecasted PPE was estimated proportionally to the growth in number of stores operated globally.

The CAPEX is funded through borrowing and available cash. Liquidity management in Skechers allows the company to dispose with great amounts of cash to destine for Capital Expenditures and there's no real necessity for them to inquire in bank financing. For example, in the last report released it was announced that the company fully repaid the outstanding balance on its revolving credit facility during the second quarter of 2021 (over €450M). The Net Working Capital policy of Skechers enables the company to have flexibility in the decision and investments, as they dispose with great amount of free cash and sustainable capacity to meet the current liabilities with ease. During 2021, there were no material fluctuations in the NWC, keeping values around US\$2.0 billion to be destined for inventory purchases, selling, general and administrative expenses and capital expenditures. The primary source of the operating cash comes from the customer collections.

## Cash Conversion Cycle

When analysing the company's Cash Conversion Cycle (CCC) in the last periods, we may see that it's aligned with the values across the industry. The cash conversion cycle is a metric that measures the length of time, in days, it takes for a company to convert its investments in inventory into cash, post-sale. Essentially, the CCC indicates how efficiently working capital is being managed. In 2020, it took an average of 96 days for Skechers to receive the cash for its sales, compared to 77 days in 2019. This is in line with strong peers like Adidas, Steve Madden and Nike, whose conversion cycles for the same period were 109, 98 and 96 days, respectively. Compared to the selected peers, we can observe that Skechers' CCC is slightly above average, surpassing the selected group of industry companies, driven mostly by higher payable and holding periods. The prediction is that SKX will slightly improve the values reported in 2020 returning to pre-pandemic parameters, especially reducing the **Holding Period** back to 130 days in the long-run, driven by a more efficient management of inventory with the new distributions centres opened in the UK and China to satisfy the operations both in Europe and Asia, and new technologies to help with inventory management. The **Collection Period** is also estimated to remain stable with the values reported in the pre-pandemic periods, neutralizing at 44 days. Besides, the **Payables Period** increased 15% in 2020 to 113 days, a value considerably high for the industry, and that we expect to align with its peers by projecting a reduction down to 90 days in 5 years, given that although the company has great growth prospects, it's still competing against bigger players and we believe is still not able to strengthen its bargaining power with suppliers, given its high dependence on few suppliers (In 2020, it was reported in the annual 10-k that 5 manufacturers accounted for 42.1% of the company's production). **By 2026, the Cash Conversion Cycle will stabilize in 84 days.**

Peers (Last annual report)	ADDYY	SHOO	NKE	SKX	WWW	CROX	DECK	Average
Average Collection Period	36	84	37	55	55	39	31	48
Average Payable Period	87	37	42	113	64	65	72	69
Average Holding Period	161	50	102	154	84	101	87	105
Cash Conversion Cycle	109	98	96	96	75	75	45	85

Figure 18: Skechers vs Peers Cash Conversion Cycle  
Source: Analyst Estimates, Company Reports

## Liquidity Management

**Solid financial position, no liquidity risks.**

In terms of liquidity management, the company has strengthened its financial balance as it disposes of great amounts of cash for flexible decisions and day-to-day action, reaching a current ratio of 2.8, a quick ratio of 1,78 and a cash ratio of 1.1. The ratios shown are aligned with its peers, showing SKX close values to the sample average. These companies count with high amounts of cash and equivalents to have flexibility in daily decisions and in daily expenditures management. Therefore, it was projected a working cash of 5% of the sales for the complete forecasted period. The company presents no liquidity risks currently that could affect materially the valuation for the following periods.

Peers (Last annual report)	DECK	SHOO	SKX	NKE	WWW	ADDYY	CROX	Average
Cash Ratio	2,33	1,05	<b>1,13</b>	1,02	0,86	0,45	0,47	1,04
Quick Ratio	2,79	2,39	<b>1,78</b>	1,85	1,52	0,67	0,98	1,71
Current Ratio	3,52	2,96	<b>2,76</b>	2,72	2,23	1,38	1,69	2,46

Figure 19: Skechers vs Peers Liquidity Ratios  
Source: Analyst Estimates, Company Reports

## Free Cash Flows

The core FCF will experience a high growth rate in the following periods, stabilizing in 2032 with a **2.1% growth expected for the long-term**. The return on invested capital (ROIC) is expected to slowly decrease from the 24.9% reported in 2019 to stabilize at **13,0%** in the same year.

	-2	-1	0	1	2	3	4	5	6	7	8	9	10	11
	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Core Result	136	529	714	756	756	824	849	891	932	971	996	1.016	1.038	1.059
Investment	298	515	608	580	529	562	408	340	318	289	212	157	160	163
Core Free Cash Flow	-162	14	106	176	227	262	440	551	613	683	784	860	878	896
<b>DCF</b>				<b>163</b>	<b>194</b>	<b>208</b>	<b>322</b>	<b>373</b>	<b>385</b>	<b>396</b>	<b>421</b>	<b>427</b>	<b>403</b>	<b>380</b>
Core result Growth			34,9%	5,8%	0,1%	9,0%	3,0%	4,9%	4,6%	4,2%	2,6%	2,0%	<b>2,1%</b>	2,0%
Core FCF Growth			662,6%	65,3%	29,1%	15,5%	67,7%	25,1%	11,4%	11,3%	14,9%	9,6%	<b>2,1%</b>	2,1%
ROIC	5,1%	15,1%	17,6%	16,3%	14,5%	14,4%	13,5%	13,3%	13,3%	13,2%	13,1%	13,0%	13,0%	13,0%
RONIC			35,8%	6,8%	0,1%	12,9%	4,4%	10,3%	12,1%	12,4%	8,7%	9,4%	<b>13,8%</b>	13,0%

Figure 10: DCF  
Source: Analyst Estimates

## Valuation

### Discount Rates

We obtained the weighted average cost of capital (WACC) by estimating each of its components: the cost of equity (Re), the after-tax cost of debt (Rd\* (1-t)) and target debt-to-equity ratio. For its estimation, the following parameters were used:

- **Risk-free rate (1.48%):** US 10-year daily Treasury par yield rate published by the U.S. Department of the Treasury.
- **Equity Market Premium (5.00%):** Calculated as the returns of the broad equity market returns minus the return of long-term government bonds by KPMG<sup>7</sup> as of September 2021. For the estimation, they state to have given more weight to the S&P 500, FTSE and STOXX 600 than other equity markets, as well as to long-term government bonds from the US, Germany, and UK.
- **Comparable companies:** A sample of companies belonging to the industry was selected to use as comparable and to calculate the industry's average. The companies included were NKE, ADDYY, SHOO, WWW, CROX & DECK. The estimations of this

<sup>7</sup> Equity Market Risk Premium – Research Summary. KPMG Corporate Finance. 30 September 2021

sample will be referred as “industry” values.

- **Target D/E (30%):** By estimating the average debt-to-equity of the industry.
- **Effective Tax Rate (15.6%):** Average effective tax rate for Skechers for 2018-2019-2021.
- **Unlevered Beta (1,35):** Calculated by obtaining in first place the levered beta through a linear regression of the excess returns of Skechers against the excess returns of the S&P 500 with historical 5-year monthly data and after deleveraging the betas with the D/E ratio of the company. We also estimated the industry average levered beta at 0.90 but decided to use Skechers unlevered beta given that the industry presents bigger consolidated players with less riskier profiles.
- **Target Levered Beta (1,69):** obtained by leveraging the unlevered beta with the target D/E.

**Cost of Equity (9,95%):** As a result, by computing all the different elements we arrived to the Skecher’s cost of equity of 9,95%.

**Cost of Debt (2.26%):** Skechers doesn’t have any publicly traded debt nor credit rating so to determine the cost of debt, we created a synthetic rating by considering financial ratios, more specifically, the interest coverage ratio. The interest coverage ratios measure a company’s ability to pay its outstanding debt obligations using earnings. The ratio is calculated as follows:

$$\text{Interest Coverage Ratio} = \frac{\text{EBITDA}}{\text{Interest Expense}}$$

Using 2020 financial data, we achieved an interest coverage ratio of 8.19. The interest coverage ratio of 8.19 corresponds to an AA rating according to the to the synthetic rating table published by Aswath Damodaran<sup>8</sup>. The corresponding default spread for the AA rating spread was 0.78%. By adding the risk-free rate to the spread, we estimated a **pre-tax cost of debt of 2.26%**.

After adding up all the components, we arrive to the proper discount rate for Skechers FCF. The company’s **WACC is 8.09%**. The figure below shows a sensitivity analysis for the WACC calculation with different values for the Target Debt-to-Equity ratio and Cost of Equity.

		D/E ratio					
		10,00%	20,00%	30,00%	40,00%	50,00%	60,00%
Cost of Equity	8,45%	7,86%	7,36%	6,94%	6,58%	6,27%	6,00%
	8,95%	8,31%	7,78%	7,33%	6,94%	6,60%	6,31%
	9,45%	8,76%	8,19%	7,71%	7,30%	6,94%	6,62%
	9,95%	9,22%	8,61%	<b>8,09%</b>	7,65%	7,27%	6,93%
	10,45%	9,67%	9,03%	8,48%	8,01%	7,60%	7,25%
	10,95%	10,13%	9,44%	8,86%	8,37%	7,94%	7,56%
	11,45%	10,58%	9,86%	9,25%	8,72%	8,27%	7,87%

Figure 21: WACC Sensitivity Analysis  
Source: Analyst Estimates

## Enterprise Value

The enterprise value was estimated through a Discounted Cash Flow Model (DCF) with a

<sup>8</sup> Ratings, Interest Coverage Ratios and Default Spread. Stern School of Business.  
[http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/ratings.htm](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ratings.htm)

WACC of 8,09%. In period 2032, the company stabilizes with a growth rate of 2,1% and ROIC of 13,0%. The following values were estimated:

**Core Value: US\$10.161 billion.** Sum of DCF generated in 2023-2032 and the terminal value, estimated with the FCF of 2032 where the company stabilizes, and the terminal growth rate of 2.1% and WACC of 8.09%. The sum of this components discounted to the valuation moment (year end 2022), determined the Core Value of the company.

**Non-Core Value: US\$0.357 billion.** As of December 2022, remains stable as the last values reported in 2020 Skecher's annual report.

**Enterprise Value: US\$10.517 billion.** Sum of Core and Non-Core components.

## Equity Value

The Equity value was calculated from subtracting the Net Debt and the Non-Controlling Interest from the Enterprise Value.

**Net Debt: US\$1.131 billion.** Estimated as of December 2022.

**Non-Controlling Interest: US\$0.244 billion.** As of December 2022, remains stable as the last values reported in 2020 Skecher's annual report.

**Equity Value: US\$9.143 billion.** Calculated from subtracting the Net Debt and the Non-Controlling Interest from the Enterprise Value.

**Shares outstanding as of 30/09/2021: 155.413.000** (As reported in 3Q Earnings Release, weighted average common shares outstanding, basic as of September 30, 2021)

**Target Price FY2022: \$58.83.** Calculated from dividing the Equity Value with Shares Outstanding.

## Multiples Valuation

For the Multiple Valuation, companies from the same industry with similar businesses were selected, and values reported in the second quarter of the current period, Q2 2021, were used. In the selected companies were included Nike Inc. (NKE), Adidas A.G.(ADDYY), Steve Madden (SHOO), Crocs (CROX), Wolverine World Wide (WWW) and Deckers (DECK). As a quick overview, Skechers seems to be undervalued under most of the ratios. Given the nature of the business, it is important to study the whole financing structure of this companies, so Enterprise Value ratios were used to understand the intrinsic value of the company without leaving apart any component of the capital structure.

- **EV/EBITDA:** the Target Price for the stock would reach **US\$ 74.34**, with an average ratio in the sample of 17.2. For EBITDA, the trailing 12-months EBITDA reported in 3Q 2021 was considered with a reported value of US\$716 million. If instead, we considered out estimated EBITDA for 2021 of US\$670 million, the implied price would be \$69.18.
- **EV/Sales:** This multiple valuation suggests a valuation for Skechers stock of **US\$96.82** for the sales reported in 2020 (US\$4.6 billion) with an average ratio in the comparable of 3.4x. When estimating for the trailing 12-months revenue of US\$5.9 billion reported in 3Q 2021, the implied stock price valuation increases to \$127.39.

## Sensitivity Analysis

To understand the fluctuations that our valuation could suffer, we ran a sensitivity analysis with the weighted average cost of capital in one of the axes and the growth rate at which the company stabilizes. The results show that that the model is more sensitive to the WACC than the growth. An increase of 1% in the WACC would imply a target price of US\$47.99, and a material increase of 2% would imply a “SELL” recommendation with a target price of US\$39,94. To understand the different results, please refer to the figure below.

At the same time, non-material fluctuations in the growth rate do not affect the recommendation as the target prices generated by the sensitivity analysis still generate a capital gain higher than 10%. For this analysis, the dividend yield was not considered as the company does not pay dividends. As a conclusion, as long as the company does not incur in a drastic change in terms of its capital structure and cost of financing, that could lead to a significant rise in its WACC, the forecast estimates attractive returns for a stockholder.

		Growth					
		0,9%	1,3%	1,7%	2,1%	2,5%	2,9%
WACC	11,09%	\$ 30,86	\$ 31,74	\$ 32,69	\$ 33,73	\$ 34,87	\$ 36,11
	10,09%	\$ 36,05	\$ 37,23	\$ 38,52	\$ 39,94	\$ 41,50	\$ 43,25
	9,09%	\$ 42,58	\$ 44,20	\$ 45,99	\$ 47,99	\$ 50,23	\$ 52,76
	8,09%	\$ 51,02	\$ 53,32	\$ 55,90	\$ 58,83	\$ 62,18	\$ 66,04
	7,09%	\$ 62,29	\$ 65,69	\$ 69,60	\$ 74,13	\$ 79,45	\$ 85,79
	6,09%	\$ 78,05	\$ 83,39	\$ 89,70	\$ 97,27	\$ 106,53	\$ 118,11

		Growth					
		0,9%	1,3%	1,7%	2,1%	2,5%	2,9%
WACC	11,1%	SELL	SELL	SELL	SELL	SELL	SELL
	10,1%	SELL	SELL	SELL	SELL	SELL	HOLD
	9,1%	SELL	HOLD	HOLD	BUY	BUY	BUY
	8,1%	BUY	BUY	BUY	BUY	BUY	BUY
	7,1%	BUY	BUY	BUY	BUY	BUY	BUY
	6,1%	BUY	BUY	BUY	BUY	BUY	BUY

Figure 22: Price Sensitivity Analysis  
Source: Analyst Estimates

## Scenario Analysis

Three scenarios were implemented to understand the behaviour of the valuation under different circumstances. The assumptions and results for each scenario are listed below:

**Base Case Scenario:** under the assumptions detailed throughout the work.

**Worst Case Scenario:**

Domestic Wholesale Segment: meeting saturation by 2026, growing at just 0.2%, with stores closure in US deepening to 1.3% annual and US domestic footwear market long-term growth decreased to 1.5%.

International Wholesale Segment: SKX unable to expand its market share in China, remaining stable at 1,9% of the Chinese footwear market share.

SG&A: International expansion pressures in the workforce demanded, increasing the pressure of this expense on sales reaching a percentage of 40% of sales, considerably affecting profitability.

Valuation:

- Enterprise Value: **US\$4.857 billion**
- Net Debt + Non-Controlling Interests: **US\$1.354 billion**
- Equity Value: **US\$3.504 billion**
- Worst Case Scenario Stock Price: **US\$22.54**
- Capital Gain (Loss): (47.7%)

**Best Case Scenario:**

Domestic Wholesale Segment: Stores closure in US trend reverting to remain with a stable number of stores operating in the domestic segment.

Direct-to-Consumer Segment: E-commerce CAGR worldwide for 2021-2025 expanded to 8%.

COGS: Cost of products sold increase controlled before. Only two periods affected by the labor costs, freight costs, and indirect costs rise. COGS neutralizing at a value representing 53% of the sales by 2023 and remaining stable.

SG&A: Experiencing a decrease due to the “internalization” of the offices and operations to countries with lower salaries and prices. By the end of 2025, this value would be reduced to 34.8% of the sales.

Best Case Scenario Valuation:

- Enterprise Value: **US\$12.733 billion**
- Net Debt + Non-Controlling Interests: **US\$1.131 billion**
- Equity Value: **US\$11.602 billion**
- Best Case Scenario Stock Price: **US\$74.65**
- Capital Gain (loss): **73.2%**

## Recommendation

As of 16/12/2021, Skechers had a stock price of US\$43,11 and a Weighted Average of Shares Outstanding as of September 30, 2021, of 155,413 million. With an estimated Equity Value for FY2022 of US\$9.143 billion, the Target Price for NYSE:STX is of US\$58.83. The recommendation suggested by these analysts is to **BUY**, which would represent a capital gain for an investor holding the stock for a period of 12 months of 36,5%. The company does not pay dividends and is not expected to pay them in the coming periods. Total gain on SKX stock on FY22 would be of 36,5%.

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**“SKECHERS U.S.A., INC.”**

**COMPANY REPORT**

“FOOTWEAR”

JANUARY 2022

STUDENTS: “RACHEL PERDIGAO & PEDRO PARIS”

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**Facing the future with Comfort**

*Trends favoring and old bet for unique products*

Recommendation: This paper concludes with a **BUY** recommendation for Skechers’ stock, with a target price for FY2022 of US\$58.83, representing a capital gain of 36.5% for an investor holding the stock for 12 months.

- Challenging post-pandemic context with labor costs increasing in countries where most of the textile manufacturing is concentrated and freights costs increasing worldwide due to supply chain interruptions, pressuring industry margins.
- Consolidated growth in the last years slightly affected by COVID 19 crisis. Strong growth path in 2021, with Asia and emerging markets as company targets.
- Strong balance with few financial risks doesn’t translate into stock price. Market still expectant on Skechers capacity to “conquer” new markets. Revenue still dependent on domestic segment, with 42,57% of revenues reported in 2021 generated in the U.S.
- Growth driven by expansion in China, which already represents one fifth of the company’s revenue, and is expected to become the biggest geographic segment for the company by 2025 with projected revenues over US\$2.1 billion.

**Company description**

Skechers U.S.A., Inc. is a leading global footwear company based in California and third largest athletic footwear brand in the United States. Currently operates in more than 170 countries and generates annual revenues over \$5bn. Skechers offers more than 3,000 styles and counts with 31 different brands, with its products differentiating from competition for its comfort, style, and value.

**Recommendation:** **BUY**

**Price Target FY22:** **\$58.83**

*Vs Previous Price Target* \$48.00

**Price (as of 6-Feb-22)** **\$46.04**

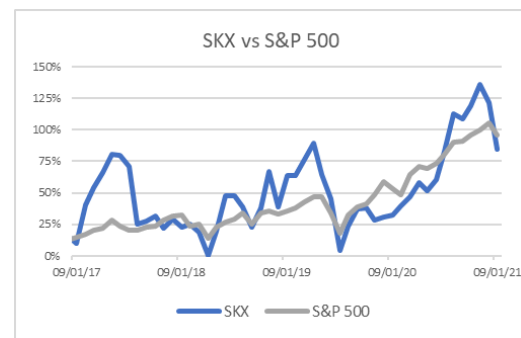
Reuters: SKX.N, Bloomberg: SKX:US

52-week range (\$) 33.80-55.87

Market Cap (\$m) 7.175B

Outstanding Shares (m) 155.413M

Source: Bloomberg, Analyst Estimates



Source: Bloomberg.

(Values in \$ millions)	2020	2021E	2022F
Revenues	4.597	6.181	7.148
EBITDA	134	670	904
EBITDA margin	2,91%	10,48%	12,64%
Net Profit	155	481	738
Net Profit Margin	3,37%	7,77%	10,32%
ROIC	5,30%	15,07%	17,61%
EPS	0.64	2.57	4.23
Enterprise Value	7.212	9.724	10.517
EV/EBITDA	53,95	14,51	11,64

Source: Company Statements, Yahoo Finance, Analyst Information.

**THIS REPORT WAS PREPARED EXCLUSIVELY FOR ACADEMIC PURPOSES BY RACHEL PERDIGAO AND PEDRO PARIS, MASTER IN FINANCE STUDENTS OF THE NOVA SCHOOL OF BUSINESS AND ECONOMICS. THE REPORT WAS SUPERVISED BY A NOVA SBE FACULTY MEMBER, ACTING IN A MERE ACADEMIC CAPACITY, WHO REVIEWED THE VALUATION METHODOLOGY AND THE FINANCIAL MODEL.**

**(PLEASE REFER TO THE DISCLOSURES AND DISCLAIMERS AT END OF THE DOCUMENT)**

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## Business Description

Skechers U.S.A., Inc. (the “Company”) was founded in 1992 by Robert Greenberg and headquartered in Manhattan Beach, California. The company is a relative newcomer in the footwear space, with just under 30 years of operating history, but it has managed to build considerable market share and brand recognition by delivering comfort, style, innovation, and quality at an affordable price.

The versatile footwear company designs and markets more than 3,000 styles of Skechers-branded lifestyle and performance footwear for men, women, and children. Skechers products are sold in more than 170 countries at major department and specialty stores, independent retailers and online. Currently, the footwear giant has 4,170 Company or third-party owned stores worldwide.

Revenue by Segment 2020



Figure 1: Skechers FY2020 Revenue by Segment  
Source: Analyst Estimates

### Distribution Channels and Business Segments

Skechers has three primary distribution channels: Domestic Wholesale, International Wholesale, and Direct-to-Consumer.

The **Domestic Wholesale** segment distributes footwear to various domestic wholesale channels including department stores, wholesale clubs, athletic and specialty stores, independent retailers, and online retailers. In FY2020, this segment reported revenue of US\$1,127 million, accounting for approximately 25% of total revenues.

The **International Wholesale** segment generates revenues from sales via joint ventures and subsidiaries in Mexico, Asia, Europe, and the Middle East. Revenue is also generated from sales to international distributors who deliver products to various department and retail stores as well as third party-owned Skechers’ stores across Asia, South America, Africa, the Middle East, and Australia. Additionally, Skechers collects royalties from licensees for select non-footwear products - such as sports safety gear bicycles, and skateboards - internationally. In FY2020, this segment reported revenue of US\$2,258 million, accounting for approximately 49% of total revenues.

The **Direct-to-Consumer** segment is comprised of three retail formats: concept stores, factory stores, and warehouse outlets.

**Concept stores** are strategically placed in high foot-traffic areas, tourist areas, or malls in metropolitan cities. The stores serve to enhance the customer experience, while simultaneously showcasing new seasonal products and maximizing marketing value. Concept stores also serve as marketing and product

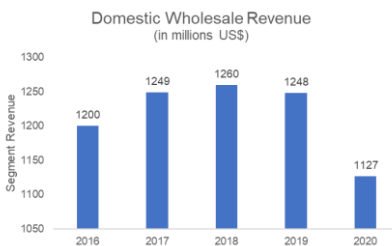


Figure 2: Domestic Wholesale revenue 2016-2022  
Source: financial statements



Figure 3: International Wholesale revenue 2016-2022  
Source: financial statements

testing venues from which useful sell-through information and feedback is gathered for the design, sales, merchandising, and production.

**Factory and warehouse stores** share a similar volume-over-price strategy whereby products are sold at discounted prices to strategically manage down inventory levels in various SKUs for factors such as changes in consumer preference, seasonality, and new product launches. The primary difference between the two models is the sourcing of products offered – where outlet stores tend to offer a wide range of products warehoused under the Skechers brand umbrella, while factory stores typically carry a specific segment of the company’s products manufactured from one central location (factory).

On the online consumer front, the footwear giant promotes and sells products domestically at [www.skechers.com](http://www.skechers.com) and other e-commerce sites in various countries in Asia-Pacific, Europe, Middle East, and North and South America. In FY2020, this segment reported revenue of US\$1,213 million, accounting for approximately 26% of total revenues and is positioned to be a key growth driver in 2022 and beyond.



Figure 4: Direct-to-Consumer revenue 2016-2022  
Source: financial statements

## Key Product Lines

### Lifestyle Brands

Key offerings under the lifestyle brand include Skechers USA, Skechers Sports, Skechers Street and BOBS from Skechers. This line is focused on comfort, style and style and types of footwear sold include casual, casual athletic, sport athletic, trail, sandals, boots, and retro fashion. Collaborations with street artists, boutiques, and others like anime characters fall under the lifestyle segment.

### Performance Brands

The performance line features footwear designed with a focus on maximizing performance and comfort for specific activities. Skechers Performance includes Skechers GOrun, Skechers GOwalk, Skechers GOtrain, Skechers GOtrail, and Skechers GO Golf.

### Skechers Kids

Skechers Kids is comprised of sneakers, boots, casual shoes, and sandals designed using the latest trends and comfort technologies. The Kids line offerings include: Skechers Mega-Craft, S-Lights, SKECH-AIR, Foamies, Twinkle Toes, Z-Strap, Skechers Stretch Fit, and Skechers Street. This line of shoes is designed with intent of achieving quality, comfort, and style, similarly to those offered in the adult collections.

### Skechers Work

The Skechers work line consistently ranks as a top work-footwear brand in the United States. The line is comprised of slip-resistant and safety-toe casual shoes, boots, hikers, and athletic shoes for professionals who require protective footwear in their work environment. This line experiences great success as it appeals to a large demographic of consumers in need of protective, yet functional, footwear at a competitive price.

## Industry Overview

Skechers operates in the multi-billion-dollar Global Footwear Industry which is comprised of companies that manufacture, produce, supply and retail footwear for men, women, and children. Shoes are an important consumer good - they cover and protect our feet. The footwear industry has seen steady growth over the last 5 years, achieving approximately US\$370 billion in FY2020. The future is bright for the industry as it's expected to grow annually at a CAGR of 12% from 2021-2025. The market for footwear can be divided into four segments: sneakers, athletic footwear, leather footwear, and textile and other footwear. Each respective segment is expected to see strong future growth which positively influences our expectation of Skechers' overall sales growth.



Figure 5: Global footwear market revenue projection  
Source: Statista Global Footwear Market Report 2020

## Industry Segmentation

### Sneakers

The sneakers market refers to athleisure footwear and includes everyday shoes with an athletic appearance. In the past few years, the sneakers market has seen strong growth and is the fastest growing segment relative to other types of footwear. The segment accounted for approximately 17% of total footwear revenue in FY2020. According to the Oct 2021 Statista update, the sneakers market is estimated to reach US\$113 billion by 2025, growing annually at a CAGR of about 13%.

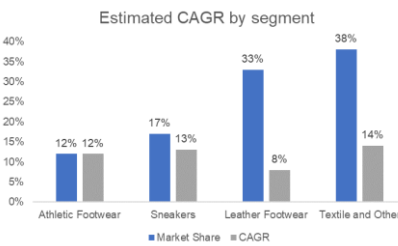


Figure 6: CAGR by segment  
Source: Statista Global Footwear Market Report 2020

### Athletic Footwear

The athletic footwear segment includes footwear designed specifically for practicing sports. Footwear brand giants like Nike, Adidas and New Balance dominate an otherwise fragmented footwear industry. In FY2020, athletic footwear revenues accounted for 12% of total footwear revenue. This market is expected to grow annually at a CAGR of 12% from 2021-2025, reaching revenues of US\$77 billion in 2025.

### Leather Footwear

The leather footwear segment is comprised of casual footwear, boots, sandals, and clogs made with leather uppers. In FY2020, leather footwear revenues represented 33% of total footwear revenues. This established segment is expected to see the slowest growth, growing annually at a CAGR of 8% from 2021-2025 to US\$176 billion in 2025.

### Textile and Other Footwear

This segment represents footwear that is not made of leather or cannot be classified athletic footwear or sneakers. Products include work and safety shoes, flip flops, and rubber boots among others. Textile and other footwear represent the market’s largest segment and accounted for approximately 38% of revenues in FY2020. This segment is expected to grow annually at a CAGR of 14% from 2021-2025, achieving revenues of US\$243 billion in 2025.

### Global Footwear Revenue Share in 2019

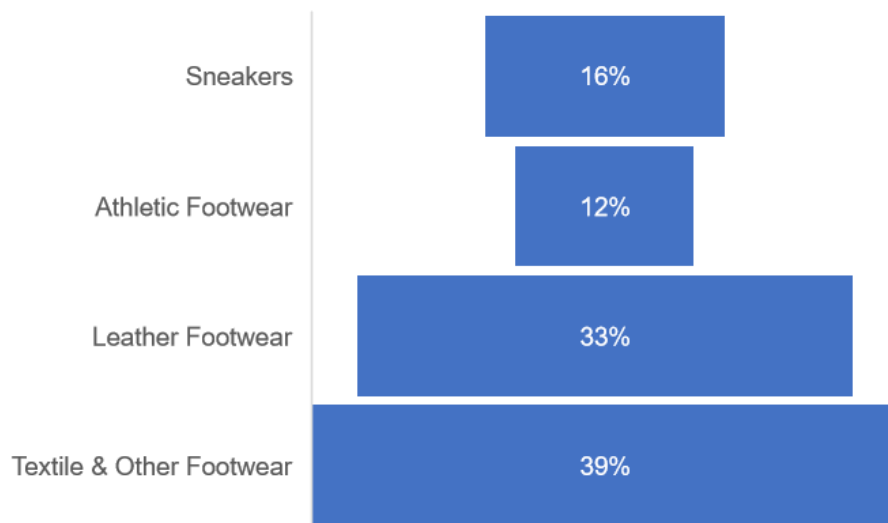


Figure 7: FY2020 Global Footwear Revenue Share by Segment  
Source: Statista

## Competition

The global footwear market is a highly competitive, highly fragmented industry. Companies in this industry must compete internationally with a significant number of footwear and apparel companies. Rapid changes in consumer preferences and technology along with intense competition pose an ongoing threat to players in the industry. Athletic footwear giants like Nike, Adidas and New Balance dominate the global footwear market. These multinational players have greater

operational capacities and resources which puts them at an advantage relative to peers.

## Nike, Inc.

NIKE, Inc. was incorporated in 1967. Nike designs, develops, markets, and sells athletic footwear, apparel, equipment, and accessories. Products are sold through Nike-owned retail stores, digital platforms and a mix of independent distributors, licensees, and sales representatives around the world. Most of Nike's footwear and apparel products are produced outside the United States in 191 footwear factories across 14 countries. The largest supplier accounts for approximately 9% of all production.

NIKE product offerings are focused in six key categories: Running, NIKE Basketball, the Jordan Brand, Football (Soccer), Training and Sportswear. Nike also markets products designed for kids and other athletic and recreational uses. The Jordan Brand and Nike Running are currently their top-selling footwear categories. 41% of revenues Most of Nike's revenues are generated in the US followed by Europe and China.

Nike also wholly-owns the subsidiary brand, Converse which is headquartered in Boston, Massachusetts, and designs, distributes, and licenses casual sneakers, apparel, and accessories under Converse trademarks. Nike is currently the largest footwear company in the world. In FY2020, Nike achieved footwear sales of US\$28.0 billion.

## Adidas AG

Adidas is a German multinational corporation, founded and headquartered in Herzogenaurach, Germany, that designs and manufactures shoes, clothing, and accessories. It is the largest sportswear manufacturer in Europe, and the second largest footwear company in the world, after Nike. The Adidas brand is closely linked to sports and markets clothing for Football, Baseball, Basketball, Cricket, Golf, Gymnastics, Ice Hockey, Lacrosse, Running, Skateboarding and Tennis, among others. Currently counts with more than 2,500 own-retail stores worldwide.

Adidas AG, which also owns Reebok, is a global brand with deep fitness roots. The company differentiates three product categories: footwear, Apparel and Accessories & Gear.

Adidas outsources almost all production to independent manufacturing partners. Most of these manufacturing partners are in Asia. Adidas AG revenue for FY2020 was US\$13.7 billion.

### Steve Madden, Ltd.

Steven Madden, Ltd. was incorporated in New York on July 9, 1990. The company's principal business is designing, sourcing, marketing, and selling fashion-forward footwear and accessories for men, women and children. Steve Madden products are found online and in department stores, national chains and mass merchants throughout the United States, Canada, Mexico and select European countries.

The company has five operating segments: Wholesale Footwear, Wholesale Accessories/Apparel, Retail, First Cost and Licensing. Currently, Steve Madden doesn't have any international manufacturing facilities but sources products from independent manufacturers in China, Cambodia, Mexico, Brazil and select European countries. Steve Madden's revenue in FY2020 was US\$1.19 billion.

### Deckers Outdoor Corporation

Deckers was founded in 1973 in Goleta, California. Their principal business is designing, marketing, and distributing innovative footwear, apparel, and accessories developed for both everyday casual lifestyle uses and high-performance activities. Deckers has five main proprietary brands: UGG, HOKA, Teva, Sanuk, and Koolaburra. They sell their products to domestic and international retailers, international distributors, and directly to global consumers through Direct-to-Consumer (DTC) business, which is comprised of e-commerce websites and retail stores. All products are manufactured by independent manufacturers. Deckers' revenue was US\$2.5 billion in FY2020.

### Wolverine Worldwide

Wolverine Worldwide is an American footwear manufacturer based in Rockford, Michigan. Wolverine brands include: Wolverine Boots and Shoes, Bates, Cat, Chaco, Harley-Davidson, Hush Puppies, Hytest, Keds, Merrell, Saucony and Sperry. It operates in more than 170 countries and territories through owned operations in the US, Canada, UK and select countries in Europe and Asia Pacific. Outside of the US, the company relies on a network of third-party distributors, licensees and joint ventures. In FY2020, Wolverine Worldwide achieved revenues of US\$1.8 billion.

## Macroeconomic Overview

The macroeconomic environment, which has been challenging because of the lingering COVID-19 pandemic, remains uncertain. In response to recommendations and government mandates, Skechers was forced to close a significant number of stores around the world for extended periods of time which had a detrimental impact on sales. Shutdowns in 2020 also caused serious supply chain disruptions that have yet to subside in 2021 due to increased consumer demand and shortage of workers and operating capacities. The mismatch of supply capacity and demand also triggered a spike in freight costs which add to production costs and can impact consumer prices.<sup>1</sup>

Despite growing concerns around the virus, the IMF predicts continued near-term global recovery and a GDP growth of 5.9% for 2021, depicted in the chart below. However, recovery from pandemic-related economic shocks has been uneven across different regions and markets. Consumer spending and gross domestic product (GDP) is expected to shift away from established markets in North America and Central and Western Europe, to the emerging markets in Asia, Eastern Europe, Middle East, Africa, and Latin America. Asia accounted for more than half of the world’s footwear consumption in 2019 and is expected to see significant growth in consumer spending on clothing and footwear relative to the rest of the world. China specifically is expected to see a drastic increase in consumer spend driven by increasing per capita revenue which is estimated to grow annually at a CAGR of 5.5% until 2025. This is a positive outlook for Skechers’ international wholesale segment.

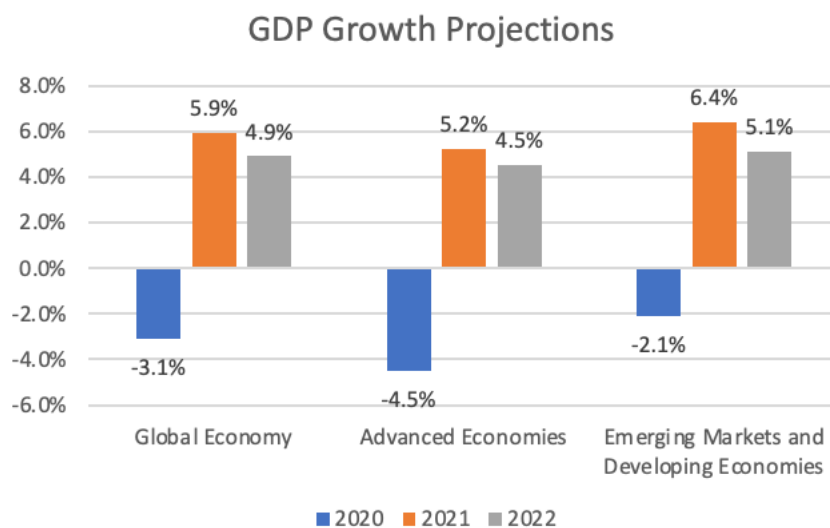


Figure 8: GDP Growth 2020-2022  
Source: International Monetary Fund (IMF)

<sup>1</sup> “High freight rates cast a shadow over economic recovery,” United Nations Conference on Trade and Development.

## Trends and Value Drivers

Long before the COVID-19 pandemic, the retail industry was facing serious challenges related to declining profitability, evolving consumer preferences and the rise of online shopping. The pandemic exacerbated these issues, prompting a more urgent response. A key learning from the COVID-19 pandemic is that the state of the world can change in an instant. Unforeseen changes have an undeniable impact on the way we live, the way we work, and even the way we shop. Identifying and reacting swiftly to changing consumer behaviors is particularly important in the apparel and footwear industries. According to research, 76% of consumers changed stores, brands, or channels in 2020. These challenges are forcing retailers to rethink their strategies

### Digitalization

The integration of modern technologies in retail has become more prevalent and necessary to meet ever-changing consumer needs. From shopping for clothes and shoes to cars and furniture, everyday life is becoming increasingly digitized. The COVID-19 pandemic forced consumers to shift to online shopping because of store closures, lockdowns, and a general fear of contracting the virus. Global retail e-commerce saw healthy growth prior to the pandemic but its growth accelerated in 2020 upwards of 30% above pre-pandemic levels as brands continued to increase their digital presence to generate sales.<sup>2</sup> According to a recent PWC survey, 41% say they shop daily or weekly on their phones compared to just 12% five years ago.<sup>3</sup> Data shows that the digital age of retail is here to stay, subsequently resulting in leading retailers to invest heavily in technology that enhances operational capabilities, as well as optimize end-to-end supply chain needs. This includes building internal software, IP, and application frameworks to access customers through the technology they own and requires a strategic and disciplined approach to investing in the capital assets required for the future.

Skechers has already made great strides in the digital space by investing and implementing new technologies over the past few years and plans to continue doing so in the years to come. In 2020, Skechers implemented a Centric Footwear Product Lifestyle Management ("PLM") in China which is a cloud-based solution for managing the product lifecycle from concept to retail.<sup>4</sup> Other investments have been made in digital infrastructure, consumer loyalty programs

<sup>2</sup> "US consumer sentiment and behaviors during the coronavirus crisis," McKinsey & Company.

<sup>3</sup> "A time for hope: Consumers' outlook brightens despite headwinds," PWC December 2021 Global Consumer Insights Pulse Survey.

<sup>4</sup> Newhouse, Celia. "Skechers China Reinforces Digitalization Strategy with Centric PLM™." Yahoo! Finance.

and e-commerce. The e-commerce platform was upgraded in North America and plans for new platforms across all geographical regions are in the works.

## Omnichannel Retailing

Omnichannel shopping is the new normal of retail and imperative for survival. “Through omnichannel shopping, consumers can shop across multiple sales channels—online using their laptop or phone, in physical brick-and-mortar stores, or at wholesale stores—while benefiting from a seamless, holistic consumer experience.”<sup>5</sup> Conveniences that differentiate omnichannel shopping include order online, pick-up in store, easy returns, direct shopping on social media among others. This will support Skechers’ growth in existing and emerging markets as well as their relatively small e-commerce business given their existing presence and direction of growth.

Despite the revolutionary technological changes across all industries, price and convenience still matter to consumers. A recent PWC study shows that almost 70% of respondents prioritize getting the best deal either online or in-store and more than 50% attest that efficient delivery or collection services is important.<sup>6</sup> Consumers living in major cities such as New York, Chicago, Los Angeles, and San Francisco expect faster delivery services than consumers in a smaller market, directly correlating to population and consumer demand needs in those major cities. Moreover, McKinsey’s consumer insight research shows that approximately 60 percent of consumers plan to continue using home delivery options after the pandemic. These relatively high adoption rates are in part due to the convenient, free, and fast offering on this capability, as best-in-class retailers have orders ready for pickup in under two hours. This can be a compelling alternative to fast ship-to-home delivery, especially in locations where same-day delivery is an option allowing consumers maximize shopping utility.

Skechers recognized the need to adopt more modern, omnichannel solutions to serve the growing needs the business and consumers have now and in the future. Online sales have been an important driver and omnichannel upgrades like Buy Online, Pickup In-Store have boosted sales for the Direct Consumer Segment (“DTC”). In the third quarter of 2020, DTC revenues increased 172% YoY.<sup>7</sup> Skechers is in a growth phase and plans to continue investing in omnichannel capabilities.

<sup>5</sup> Graf, Claudia, Tim Lange, Andreas Seyfert, and Noortje van der Wijden. “*Into the Fast Lane: How to Master the Omnichannel Supply Chain.*” McKinsey & Company.

<sup>6</sup> “*A time for hope: Consumers’ outlook brightens despite headwinds,*” PWC December 2021 Global Consumer Insights Pulse Survey.

<sup>7</sup> Zacks Equity Research. “*Skechers (SKX) to Keep Gaining from e-Commerce Strength in 2021.*”

## Shifting Consumer Preferences

Strong demand for the casual and comfort segments across retail is one of many consumers preference shifts that has resulted in part due to the post pandemic changes many employers have made to their workforce engagement models.

The pandemic accelerated growth of the existing athleisure fashion segment. Combination of athletic and leisure is a fashion trend worldwide, comprising styles that can be used both for physical exercise and general use. The main players in the sports industry (i.e., Nike, Adidas, etc...) still dominate the athleisure scene, but in the last years many fashion and luxury brands started emerging with this concept in their catalogue. Known as the Comfort Technology Company™, Skechers is positioned at an advantage relative to peers. Given their product versatility, and appeal to various consumer preferences, we're confident in our positive outlook for Skechers' sales across all operating segments.

This trend challenges retailers to experiment with new products, shift levels of inventory by category, change pricing strategies, and rapidly measure the impact of their decisions to avoid sinking marketing and development dollars into unprofitable segments.

## Expansion in China

China has seen stable economic growth in the last decade which has brought countless opportunities to the most populated country in the world. The large country has seen an increasing middle-class population with high purchasing power; subsequently resulting in the desire to spend in sectors such as clothing and apparels. According to Statista, the GDP forecast for the following 5 years show a firm growth rate around 5%, favoring to continue this shopping trend.

China has the largest population of online shoppers in the world, a factor in which Skecher's plans maximize by continuing to invest in e-commerce capabilities. Skechers is also planning to construct a second facility in China to keep expanding their presence in Asia. For the new facility, they estimate an investment around of \$279 million for the additional 320 million square meters. As of December 31, 2020, Skechers had 245 joint-venture stores in China compared to 157 stores reported in 2019. Of the 209 new stores opened in 2020 globally, 111 were opened in China. This translates to a 56% increase in the number of stores in China, the highest increment geographically.

According to Statista's consumer market statistics, the Chinese footwear market is estimated to reach US\$59 billion in 2021 and grow annually at a CAGR of 16%

until 2025. By 2025, China is expected to pass the US as the largest footwear market in the world and achieve US\$106 billion in revenues. With the prominent ‘sneaker culture’ paving its way from the western world to China, Skechers is poised for continued success with no end in popularity in sight. As such, they will need to ensure distribution capabilities scale with demand.

## Forecast

### Revenues

In the latest earning release for Q3 2021 we have witnessed a quick recovery in sales. The company estimates to end 2021 with US\$6.2 billion in sales, which would represent an increase of 34,5% from last year, and 18.4% higher than the pre-pandemic record levels. Through the expansion projected in the international markets by the company, mainly by increasing the presence in emerging and non-traditional markets and the e-commerce development, we estimate the company to continue this path in the following years. When forecasting the revenues for the following years, assumptions were made in compliance with the previously mentioned trends, and separately for each business unit.

**Domestic Wholesale:** As mentioned previously, 42% of the revenue is generated inside the United States, a market with lower growth expectations than the rest of the world as it is already developed. The future revenues for this segment were estimated by projecting:

- Number of stores in the US:** that the company will operate, including Concept Stores, Factory Outlet and Warehouse Outlets. In the US, Skechers has already started focalizing in strategic stores and we have witnessed the closure of stores in the current year translating into a reduction of the total amount of stores, trend we believe will continue given the shift to e-commerce and other sale channels. An annual reduction of 1% of the total amount of stores is projected for the US.
- Sales per Store:** calculated dividing Domestic Wholesale revenue by the number of stores, adjusted by the expected growth for the US footwear industry<sup>8</sup>.

Domestic Wholesale	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Number of Stores in the US	470	497	523	516	511	506	501	496
Stores Growth		5.7%	5.2%	-1.3%	-1.0%	-1.0%	-1.0%	-1.0%
Sales per Store	\$ 2.7	\$ 2.5	\$ 2.2	\$ 2.9	\$ 3.38	\$ 3.60	\$ 3.68	\$ 3.76
Total Market Revenue	\$ 88.683	\$ 91.187	\$ 79.958	\$ 81.254	\$ 94.527	\$ 100.538	\$ 102.830	\$ 105.123
US Market Growth Rate	2.1%	2.8%	-12.3%	1.6%	16.3%	6.4%	2.3%	2.2%
<b>Domestic Wholesale Revenue</b>	<b>\$ 1.260</b>	<b>\$ 1.248</b>	<b>\$ 1.127</b>	<b>\$ 1.500</b>	<b>\$ 1.728</b>	<b>\$ 1.820</b>	<b>\$ 1.843</b>	<b>\$ 1.865</b>
Segment growth		-1%	-10%	33%	15%	5%	1%	1%

Figure 9: Domestic Wholesale Forecasted Revenue  
 Source: Analyst Estimates, Statista, Company Reports

<sup>8</sup> Global Footwear Market Report 2020 - Statista Consumer Market Outlook 2020. <https://www.statista.com/outlook/cmo/footwear/united-states#revenue>

As a result, the Domestic Wholesale Segment would achieve US\$1.87 billion sales by 2025, stabilizing after that with a long-term growth rate of 1,0%. We may see a strong recovery in the two post-pandemic years of the US footwear market recovering the record revenue values achieved in 2019 over US\$90 billion, and strongly slowing down this growth afterwards. Consequently, we estimated the US Footwear’s industry CAGR to stabilize at 2,0% from 2026.

**International Wholesale:** The big bet for Skechers is to expand internationally through fully owned stores, joint venture stores and franchised ones. China presents itself as the most important opportunity for the company, as it already represents a fifth of the company’s revenue generation, the place where most of the products are manufactured (together with Vietnam), and the market with the highest potential growth (together with India). For this reason, it was estimated separately and added together with the rest of International Wholesale revenues to come with the total forecast of the business unit as whole.



Figure 10: Total Stores forecast including franchised, Source: Analyst estimate.

- China:** The Chinese market is expected to grow at a CAGR of 16.1%<sup>9</sup> in the period between 2021-2025. According to Statista, revenue in the footwear market in China will account for US\$59 billion in 2021, and by 2025 China will surpass the US as the biggest market in revenues, comprising revenues of US\$107 billion. Therefore, the revenue in this location was estimated by calculating current Skecher’s market share by dividing the revenues reported by Skechers to the projected Chinese total footwear market revenue, and forecasting the future growth of Skechers market share, escalating from 1,91% in 2021 to 1.97% by 2025, where it stabilizes. This growth in the market share can be understood by the previously mentioned trends of people shifting to comfortable, premium shoes and the growing purchasing power experienced by the Chinese population, which positions Skechers as one of the possible winners of people having more cash to spend and consumption preferences directly aligned to the products that Skechers offers. From 2026 onwards, we estimated the footwear market in China to grow at 4.9% annually, in accordance with the GDP growth forecasted for the Asian nation by the International monetary fund.<sup>10</sup>

Moreover, to justify the increase on the Chinese market share, we can analyse the expansion reported in the current period by Skechers. In the latest earnings presentation for November 2021, the company reported a quarter growth for China of 10%, inside the international Wholesale

<sup>9</sup> Footwear China, Consumer Markets Statista - <https://www.statista.com/outlook/cmo/footwear/china>

<sup>10</sup> IMF China Inflation Forecast 2026 – International Monetary Fund

segment. So far in 2021, considering the three quarters revenue, the Asian nation has reached \$845.6 million sales, translating into 19,4% of the company’s total revenue. During the nine months ended September 30, 2020, sales in China were \$554.1 million, implying an annual growth of 53%. Therefore, Skechers growth is higher than the one presented by the Chinese footwear market.

China (International Wholesale)	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Market CAGR				16,1%	16,1%	16,1%	16,1%	16,1%
Chinese footwear Market			\$	58.878	68.357	79.363	92.140	106.975
China market share				1,91%	1,94%	1,96%	1,97%	1,97%
China revenue	\$ 744,0	\$ 850,0	\$ 924,5	\$ 1.127,5	\$ 1.329,5	\$ 1.559,4	\$ 1.819,7	\$ 2.112,7
China's growth		14%	9%	22%	18%	17%	17%	16%

Figure 11: China Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

Skechers will generate sales of over US\$2.1 billion by 2025 in China, meaning that this will become the main market for Skechers operations inside the Wholesale segments.

- **Number of International Stores:** that the company will operate outside the US, without counting the Joint Venture stores in China. From the 9% growth shown in the last period, it was estimated a slowing growth rate that consolidates around 1% in 10 years, given that the company will continue opening stores in other countries in the search of penetrating new markets.
- **Sales per Store:** Similar method to the one employed to Domestic Wholesale. Calculated dividing International Wholesale revenue by the number of stores (without taking into consideration revenues generated in China nor stores operating in the same country). For the International Wholesale Segment, the sales per store were adjusted by the expected growth for the **Global** footwear industry<sup>11</sup>, which is expected to be 11.7% for the period 2021-2025.

International Wholesale	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Number of Retail Stores without China:	2.440	3.050	3.368	3.747	3.722	4.030	4.328	4.610
International Stores	283	303	331	344	358	371	383	394
JV Stores	105	197	222	247	274	302	331	362
JV Stores in China	131	157	245	338	-	-	-	-
Distributor, licensee and franchise stores	1.921	2.393	2.570	2.818	3.090	3.357	3.614	3.854
Total Stores	2.309	2.893	3.123	3.409	3.722	4.030	4.328	4.610
Growth in Number of Retail Stores:								
International Stores		7%	9%	4%	3,9%	3,6%	3,2%	2,9%
JV Stores		88%	13%	11%	10,8%	10,3%	9,8%	9,3%
Distributor, licensee and franchise stores		25%	7%	10%	9,6%	8,6%	7,6%	6,6%
Sales per store	\$ 0,5	\$ 0,5	\$ 0,4	\$ 0,5	\$ 0,59	\$ 0,66	\$ 0,70	\$ 0,74
Global Footwear Market Revenue	\$ 420.486,0	\$ 433.244,0	\$ 369.431,0	\$ 391.350,0	\$ 488.289,0	\$ 543.309,0	\$ 576.038,0	\$ 609.162,0
Global Market Growth Rate		3,0%	-14,7%	5,9%	24,8%	11,3%	6,0%	5,8%
Revenue without China	\$ 1.310,8	\$ 1.612,6	\$ 1.333,3	\$ 1.771,2	\$ 2.195,2	\$ 2.644,7	\$ 3.011,3	\$ 3.392,0
Growth		23%	-17%	33%	24%	20%	14%	13%
International Wholesale Revenue	\$ 2.054,8	\$ 2.462,6	\$ 2.257,8	\$ 2.898,7	\$ 3.524,7	\$ 4.204,1	\$ 4.831,0	\$ 5.504,7
Segment growth		20%	-8%	28%	22%	19%	15%	14%

Figure 12: International Wholesale Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

<sup>11</sup> Global Footwear Market Report 2020 - Statista Consumer Market Outlook 2020

We estimated the International Wholesale segment to end 2025 with revenues of US\$5.5 billion, led by the Chinese expansion that will represent 38% of the revenues of the segment at that point. After 2030 and in the long run, the segment was projected to grow at a constant 2% rate.

**Direct to Consumer:** In contrast, given the nature of the Direct-to-consumer business unit, we found more appropriate to link the revenue generation to the expectation given to the E-commerce growth projection. Although this segment still relies mainly on domestic sales, large efforts and investments in technology and infrastructure are ongoing for its international expansion and it was more convenient to adjust the revenues by the CAGR projected for E-commerce worldwide rather than just for the projections in the US. The company stated in November’s 2021 Investor Presentation that the company made “meaningful investment in digital infrastructure, consumer loyalty and e-commerce to deliver a consumer-centric, omni-channel offering” which included “upgraded e-commerce platform in Canada, and are on track for new platforms across Europe, Japan, South America, and India”. Besides, US e-commerce channels are more developed than in the rest of the world, translating to lower growth rates in the long-term, and Skechers globalization process and strategy demand worldwide projections. The e-commerce worldwide CAGR is estimated at 6.29%<sup>12</sup> for the following periods until 2025, when we estimate the expansion to slow down to a rate of 4%. The weight of this business unit in the company is a key aspect, given its expansion has a great impact on the company’s EBITDA due to lower costs of shipping products when compared to fixed costs of sales at store making it the most efficient business unit with a gross margin currently above 66%, as reported in the last 3Q 2021 earnings release.

Direct-to-Consumer	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
E-Commerce Growth in the World					6.29%	6.29%	6.29%	6.29%
Direct-to-Consumer revenue	\$ 1,327.7	\$ 1,509.9	\$ 1,213.0	\$ 1,782.7	\$ 1,894.8	\$ 2,014.0	\$ 2,140.7	\$ 2,275.3
Segment growth		14%	-20%	47%	6%	6%	6%	6%

Figure 13: Direct-to-Consumer Forecasted Revenue  
Source: Analyst Estimates, Statista, Company Reports

As a result of this growth, we projected that Skechers will achieve revenues by 2025 of US\$9.6 billion.

Revenue by Segment:	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
Domestic Wholesale	\$ 1,259.6	\$ 1,247.6	\$ 1,126.6	\$ 1,500.0	\$ 1,728.1	\$ 1,820.0	\$ 1,843.1	\$ 1,865.4
International Wholesale	\$ 2,054.8	\$ 2,462.6	\$ 2,257.8	\$ 2,898.7	\$ 3,524.7	\$ 4,204.1	\$ 4,831.0	\$ 5,504.7
Direct to Consumer	\$ 1,327.7	\$ 1,509.9	\$ 1,213.0	\$ 1,782.7	\$ 1,894.8	\$ 2,014.0	\$ 2,140.7	\$ 2,275.3
<b>Total Skechers Revenue</b>	<b>\$ 4,642.1</b>	<b>\$ 5,220.1</b>	<b>\$ 4,597.4</b>	<b>\$ 6,181.3</b>	<b>\$ 7,147.6</b>	<b>\$ 8,038.1</b>	<b>\$ 8,814.8</b>	<b>\$ 9,645.4</b>

Figure 14: Revenue by Segment 2018-2025

<sup>12</sup> Key Figures of E-commerce, Statista - <https://www.statista.com/forecasts/220177/b2c-e-commerce-sales-cagr-forecast-for-selected-countries>

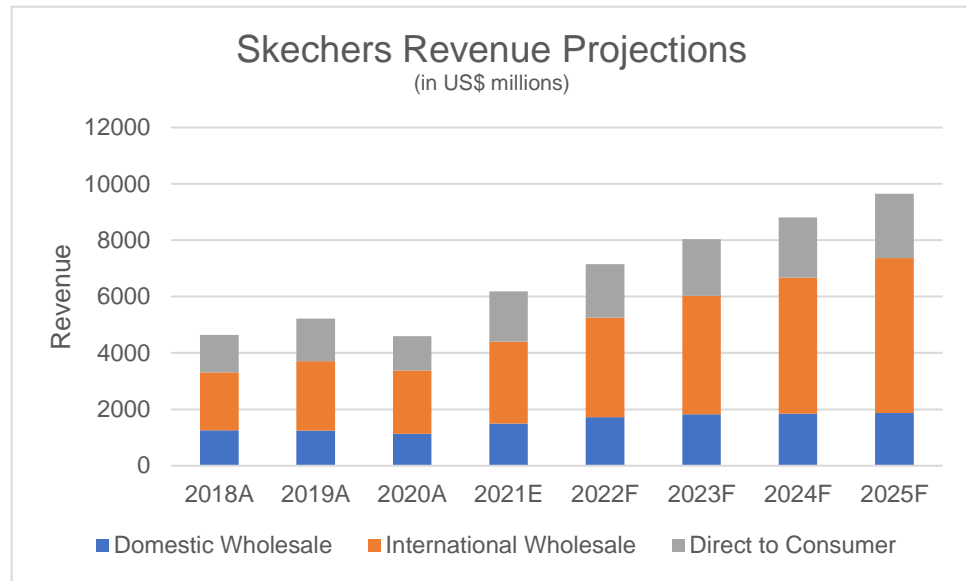


Figure 15: Skechers Revenue 2018-2025  
Source: Analyst Estimates

## Cost of Operations

### Cost of Sales:

There are some factors pressuring the increase in costs, such as the rising labor costs in China, where most of the products of the company are made. According to Statista, labour costs increased 45% in the period from 2015 to 2019, a material increase if compared to the values reflected by Germany (+24%) and US (12%)<sup>13</sup>. Moreover, oil prices are increasing, and rising freight rates will also contribute to push the costs up. The 2021 UN report for Maritime reveals that, “the rate for a single shipping container has skyrocketed over the last 18 months as the coronavirus pandemic disrupted supply chains and trade channels.” Consequently, the estimation for the Cost of Sales is to experience an increase in all the segments, where we projected an annual 1% increase for the next three periods, when we believe the supply chain situation globally will normalize and this value will stabilize.

At a company level, although the most inefficient business unit, Domestic Wholesale, is expected to lose weight in the company. The company won't be able to translate this into material downturn in the COGS as percentage of sales, given that International Wholesale expansion cuts-off this effect.

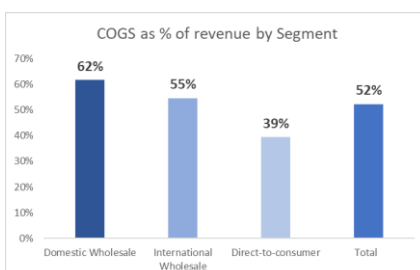


Figure 16: Skechers COGS as a % of Revenue in 2021 (by segment)  
Source: Analyst Estimates, Company Reports

<sup>13</sup> Footwear Report 2020 - Statista

As a result, COGS is expected to grow up to 54.0% of Skechers revenue by 2025. This will represent an important downturn in company’s gross margin, given that in 2021 SKX’s estimated gross margin was 49,6%.

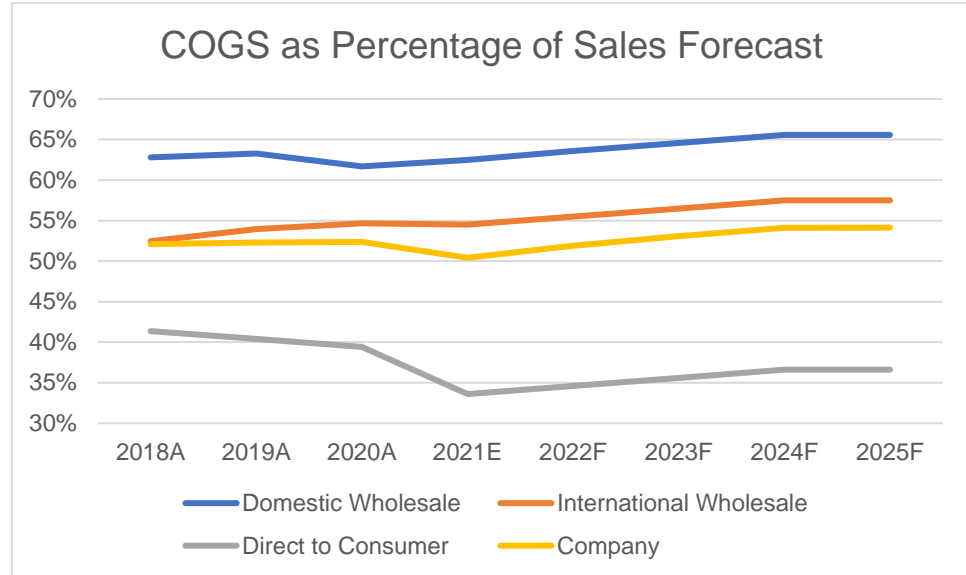


Figure 17: COGS as a percentage of sales by segment 2018-2025, financial statements. Source: Analyst Estimates

**Selling, General and Administrative:**

The other relevant expense in Skechers activity is SG&A, which represented an average of 41% of the sales in the last three periods. It was estimated by forecasting:

- **Number of employees:** proportionally linked to the revenue growth, given the future human capital that the company’s expansion will demand.
- **Cost per employee:** calculated by dividing the actual numbers of SG&A divided by the total number of employees.

As a percentage of sales, SG&A will decrease due to the company opening offices in countries with lower salaries, for example China, and the impact that e-commerce will have with automatization and the ongoing technologies and infrastructure investments for process optimization. The current globalization searched by the direction of the company with the objective of increasing the presence in emerging and faster growing markets, made Skechers to start building and projecting offices in strategic countries where salaries are lower than in the US, where the bigger portion of the employees are located currently. Therefore, we can expect the SG&A expenses as a percentage of sales to decrease to a stable value of 37% in the next years. In addition, the e-commerce

development will also have an impact on reducing these expenses. There is already a decrease in the number of stores operating in the United States, and the sales will slowly start shifting from the stores to the e-commerce.

- **CAPEX and Net Working Capital**

Historically, Skechers has produced only through external independent manufacturers to gain in flexibility and capacity in their production, which allows also to keep low the capital expenditures as there are no needs for acquisition, construction, expansion, or maintenance of production plants. Through the last periods we have seen a substantial increase in this subject, almost tripling from 2018 to 2020. In this last period, capital expenditures were US\$309 million, destined to improve worldwide distribution centres and the acquisition of corporate office buildings and new retail stores in China. The company reported that the expected capex for 2021 would represent no material increases and will be realized for costing the expansion of the distribution centres globally and fund the investments in retail and e-commerce technologies and stores, besides the new headquarters in California. As the production is externalized, the forecasted PPE was estimated proportionally to the growth in number of stores operated globally.

The CAPEX is funded through borrowing and available cash. Liquidity management in Skechers allows the company to dispose with great amounts of cash to destine for Capital Expenditures and there's no real necessity for them to inquire in bank financing. For example, in the most recent earnings release it was announced that the company fully repaid the outstanding balance on its revolving credit facility during the second quarter of 2021 (over €450M). The Net Working Capital policy of Skechers enables the company to have flexibility in the decision and investments, as they dispose with great amount of free cash and sustainable capacity to meet the current liabilities with ease. During 2021, there were no material fluctuations in the NWC, keeping values around US\$2.0 billion to be destined for inventory purchases, selling, general and administrative expenses and capital expenditures. The primary source of the operating cash comes from the customer collections.

- **Cash Conversion Cycle**

When analysing the company's Cash Conversion Cycle (CCC) in the last periods, we see that it's aligned with the values across the industry. The cash conversion cycle is a metric that measures the length of time, in days, it takes for a company to convert its investments in inventory into cash, post-sale. Essentially, the CCC indicates how efficiently working capital is being managed.

In 2020, it took an average of 96 days for Skechers to receive the cash for its sales, compared to 77 days in 2019. This is in line with strong peers like Adidas, Steve Madden and Nike, whose conversion cycles for the same period were 109, 98 and 96 days, respectively. Compared to the selected peers, we can observe that Skechers' CCC is slightly above average, surpassing the selected group of industry companies, driven mostly by higher payable and holding periods. The prediction is that Skechers will slightly improve, returning to pre-pandemic levels, especially by reducing the **Holding Period** back to 130 days in the long-run. This is driven by a more efficient management of inventory with the new distributions centres opened in the UK and China to satisfy the operations both in Europe and Asia, and new technologies to help with inventory management. The **Collection Period** is also estimated to remain stable with the values reported in the pre-pandemic periods, neutralizing at 44 days. The **Payables Period** increased 15% in 2020 to 113 days, a value considerably high for the industry, and that we expect to align with its peers by projecting a reduction down to 90 days in 5 years given that although the company has great growth prospects. However they are still competing against bigger players and we believe they will not able to strengthen bargaining power with suppliers given their high dependence on few suppliers (In 2020, it was reported in the annual 10-K that 5 manufacturers accounted for 42.1% of the company's production). **By 2026, the Cash Conversion Cycle will stabilize in 84 days.**

Peers (Last annual report)	ADDYY	SHOO	NKE	SKX	WWW	CROX	DECK	Average
Average Collection Period	36	84	37	55	55	39	31	48
Average Payable Period	87	37	42	113	64	65	72	69
Average Holding Period	161	50	102	154	84	101	87	105
Cash Conversion Cycle	109	98	96	96	75	75	45	85

Figure 18: Skechers vs Peers Cash Conversion Cycle FY2020  
Source: Analyst Estimates, Company Reports

- **Liquidity Management**

In terms of liquidity management, the company has strengthened its financial position as it disposes of great amounts of cash for flexible decisions and day-to-day operations, reaching a current ratio of 2.8, a quick ratio of 1.78 and a cash ratio of 1.1. The ratios are aligned with peers, showing Skechers close values to the sample average. These companies maintain great amounts of cash and equivalents to have flexibility in daily decisions and in daily expenditures management. Therefore, it was projected a working cash of 5% of the sales for the complete forecasted period. The company presents no liquidity risks currently that could affect materially the valuation for the following periods.

Peers (Last annual report)	DECK	SHOO	SKX	NKE	WWW	ADDYY	CROX	Average
Cash Ratio	2,33	1,05	1,13	1,02	0,86	0,45	0,47	1,04
Quick Ratio	2,79	2,39	1,78	1,85	1,52	0,67	0,98	1,71
Current Ratio	3,52	2,96	2,76	2,72	2,23	1,38	1,69	2,46

Figure 19: Skechers vs Peers Liquidity Ratios FY2020  
Source: Analyst Estimates, Company Reports

▪ Free Cash Flow

The core FCF will experience a high growth rate in the following periods, stabilizing in 2032 with a **2.1% growth expected for the long-term**. The return on invested capital (**ROIC**) is expected to slowly decrease from the 24.9% reported in 2019 to stabilize at **13.0%** in the same year.

	2020A	2021E	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	2033F
Core Result	136	529	714	756	756	824	849	891	932	971	996	1,016	1,038	1,059
Investment	298	515	608	580	529	562	408	340	318	289	212	157	160	163
Core Free Cash Flow	-162	14	106	176	227	262	440	551	613	683	784	860	878	896
DCF				163	194	208	322	373	385	396	421	427	403	380
Core result Growth			34.9%	5.8%	0.1%	9.0%	3.0%	4.9%	4.6%	4.2%	2.6%	2.0%	2.1%	2.0%
Core FCF Growth			662.6%	65.3%	29.1%	15.5%	67.7%	25.1%	11.4%	11.3%	14.9%	9.6%	2.1%	2.1%
ROIC	5.1%	15.1%	17.6%	16.3%	14.5%	14.4%	13.5%	13.3%	13.3%	13.2%	13.1%	13.0%	13.0%	13.0%
RONIC			35.8%	6.8%	0.1%	12.9%	4.4%	10.3%	12.1%	12.4%	8.7%	9.4%	13.8%	13.0%

Figure 20: DCF  
Source: Analyst Estimates

## Valuation

### Discount Rates

We obtained the weighted average cost of capital (WACC) by estimating each of its components: the cost of equity (Re), the after-tax cost of debt (Rd\* (1-t)) and target debt-to-equity ratio. For its estimation, the following parameters were used:

- **Risk-free rate (1.48%):** US 10-year daily Treasury par yield rate published by the U.S. Department of the Treasury.
- **Equity Market Premium (5.00%):** Calculated as the returns of the broad equity market returns minus the return of long-term government bonds by KPMG<sup>14</sup> as of September 2021. For the estimation, they state to have given more weight to the S&P 500, FTSE and STOXX 600 than other equity markets, as well as to long-term government bonds from the US, Germany, and UK.
- **Comparable companies:** A sample of companies belonging to the industry was selected to use as comparable and to calculate the industry’s average. The companies included were NKE, ADDYY, SHOO, WWW, CROX & DECK. The estimations of this sample will be referred

<sup>14</sup> Equity Market Risk Premium – Research Summary. KPMG Corporate Finance. 30 September 2021

as "industry" values.

- **Target D/E (30%):** By estimating the average debt-to-equity of the industry.
- **Effective Tax Rate (15.6%):** Average effective tax rate for Skechers for 2018-2019-2021.
- **Unlevered Beta (1,35):** Calculated by obtaining in first place the levered beta through a linear regression of the excess returns of Skechers against the excess returns of the S&P 500 with historical 5-year monthly data and after deleveraging the betas with the D/E ratio of the company. We also estimated the industry average levered beta at 0.90 but decided to use Skechers unlevered beta given that the industry presents bigger consolidated players with less riskier profiles.
- **Target Levered Beta (1,69):** obtained by leveraging the unlevered beta with the target D/E.

**Cost of Equity (9,95%):** As a result, by computing all the different elements we arrived to the Skecher's cost of equity of 9,95%.

**Cost of Debt (2.26%):** Skechers doesn't have any publicly traded debt nor credit rating so to determine the cost of debt, we created a synthetic rating by considering financial ratios, more specifically, the interest coverage ratio. The interest coverage ratios measure a company's ability to pay its outstanding debt obligations using earnings. The ratio is calculated as follows:

$$\text{Interest Coverage Ratio} = \frac{\text{EBITDA}}{\text{Interest Expense}}$$

Using 2020 financial data, we achieved an interest coverage ratio of 8.19. The interest coverage ratio of 8.19 corresponds to a "AA" rating according to the synthetic rating table published by Aswath Damodaran<sup>15</sup>. The corresponding default spread for a AA rating was 0.78%. By adding the risk-free rate to the spread, we estimated a **pre-tax cost of debt of 2.26%**.

After adding up all the components, we arrive to the proper discount rate for Skechers FCF. The company's **WACC is 8.09%**. The figure below shows a sensitivity analysis for the WACC calculation with different values for the Target Debt-to-Equity ratio and Cost of Equity.

<sup>15</sup> Ratings, Interest Coverage Ratios and Default Spread. Stern School of Business. [http://pages.stern.nyu.edu/~adamodar/New\\_Home\\_Page/datafile/ratings.htm](http://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ratings.htm)

		D/E ratio					
		10,00%	20,00%	30,00%	40,00%	50,00%	60,00%
Cost of Equity	8,45%	7,86%	7,36%	6,94%	6,58%	6,27%	6,00%
	8,95%	8,31%	7,78%	7,33%	6,94%	6,60%	6,31%
	9,45%	8,76%	8,19%	7,71%	7,30%	6,94%	6,62%
	9,95%	9,22%	8,61%	<b>8,09%</b>	7,65%	7,27%	6,93%
	10,45%	9,67%	9,03%	8,48%	8,01%	7,60%	7,25%
	10,95%	10,13%	9,44%	8,86%	8,37%	7,94%	7,56%
	11,45%	10,58%	9,86%	9,25%	8,72%	8,27%	7,87%

Figure 21: WACC Sensitivity Analysis  
Source: Analyst Estimates

## Enterprise Value

The enterprise value was estimated using a Discounted Cash Flow Model (DCF) with a WACC of 8.09%. In period 2032, the company stabilizes with a growth rate of 2.1% and ROIC of 13.0%. The following values were estimated:

**Core Value: US\$10.161 billion.** Sum of DCF generated in 2023-2032 and the terminal value, estimated with the FCF of 2032 where the company stabilizes, and the terminal growth rate of 2.1% and WACC of 8.09%. The sum of these components discounted to the valuation moment (year-end 2022), determined the Core Value of the company.

**Non-Core Value: US\$0.357 billion.** As of December 2022, remains stable as the last values reported in 2020 Skecher’s annual report.

**Enterprise Value: US\$10.517 billion.** Sum of Core and Non-Core components.

## Equity Value

The Equity value was calculated by subtracting the Net Debt and the Non-Controlling Interest from the Enterprise Value.

**Net Debt: US\$1.131 billion.** Estimated as of December 2022.

**Non-Controlling Interest: US\$0.244 billion.** As of December 2022, remains stable as the last values reported in 2020 Skecher’s annual report.

**Equity Value: US\$9.143 billion.** Calculated from subtracting the Net Debt and the Non-Controlling Interest from the Enterprise Value.

**Shares outstanding as of 30/09/2021: 155.413.000** (As reported in 3Q Earnings Release, weighted average common shares outstanding, basic as of September 30, 2021)

**Target Price FY2022: \$58.83.** Calculated from dividing the Equity Value with Shares Outstanding.

## Multiples Valuation

For the Multiple Valuation, companies from the same industry with similar businesses were selected, and values reported in the second quarter of the current period, Q2 2021, were used. In the selected companies were included Nike Inc. (NKE), Adidas A.G.(ADDYY), Steve Madden (SHOO), Crocs (CROX), Wolverine World Wide (WWW) and Deckers (DECK). As a quick overview, Skechers seems to be undervalued according to most of the ratios. Given the nature of the business, it is important to study the whole financing structure of these companies, so Enterprise Value ratios were used to understand the intrinsic value of the company without leaving apart any component of the capital structure.

- **EV/EBITDA:** the Target Price for the stock would reach **US\$ 74.34**, with an average ratio in the sample of 17.2. For EBITDA, the trailing 12-months EBITDA reported in 3Q 2021 was considered with a reported value of US\$716 million. If instead, we considered out estimated EBITDA for 2021 of US\$670 million, the implied price would be \$69.18.
- **EV/Sales:** This multiple valuation suggests a valuation for Skechers stock of **US\$96.82** for the sales reported in 2020 (US\$4.6 billion) with an average ratio in the comparable of 3.4x. When estimating for the trailing 12-months revenue of US\$5.9 billion reported in 3Q 2021, the implied stock price valuation increases to \$127.39.

## Sensitivity Analysis

To understand the fluctuations that our valuation could suffer, we ran a sensitivity analysis on price using the weighted average cost of capital and the growth rate at which the company stabilizes. The results show that that the model is more sensitive to the WACC than the growth rate. An increase of 1% in the WACC would imply a target price of US\$47.99, and a material increase of 2% would imply a "SELL" recommendation with a target price of US\$39.94. To see the different results, please refer to the figure below.

At the same time, non-material fluctuations in the growth rate do not affect the recommendation as the target prices generated by the sensitivity analysis still generate a capital gain higher than 10%. For this analysis, the dividend yield was not considered as the company does not pay dividends. In conclusion, as long as the company does not undergo a drastic change in terms of its capital structure and cost of financing that could lead to a significant rise in its WACC, the forecast estimates attractive returns for a stockholder.

		Growth					
		0,9%	1,3%	1,7%	2,1%	2,5%	2,9%
WACC	11,09%	\$ 30,86	\$ 31,74	\$ 32,69	\$ 33,73	\$ 34,87	\$ 36,11
	10,09%	\$ 36,05	\$ 37,23	\$ 38,52	\$ 39,94	\$ 41,50	\$ 43,25
	9,09%	\$ 42,58	\$ 44,20	\$ 45,99	\$ 47,99	\$ 50,23	\$ 52,76
	8,09%	\$ 51,02	\$ 53,32	\$ 55,90	\$ 58,83	\$ 62,18	\$ 66,04
	7,09%	\$ 62,29	\$ 65,69	\$ 69,60	\$ 74,13	\$ 79,45	\$ 85,79
	6,09%	\$ 78,05	\$ 83,39	\$ 89,70	\$ 97,27	\$ 106,53	\$ 118,11

		Growth					
		0,9%	1,3%	1,7%	2,1%	2,5%	2,9%
WACC	11,1%	SELL	SELL	SELL	SELL	SELL	SELL
	10,1%	SELL	SELL	SELL	SELL	SELL	HOLD
	9,1%	SELL	HOLD	HOLD	BUY	BUY	BUY
	8,1%	BUY	BUY	BUY	BUY	BUY	BUY
	7,1%	BUY	BUY	BUY	BUY	BUY	BUY
	6,1%	BUY	BUY	BUY	BUY	BUY	BUY

Figure 22: Price Sensitivity Analysis  
Source: Analyst Estimates

## Scenario Analysis

Three scenarios were implemented to understand the behaviour of the valuation under different circumstances. The assumptions and results for each scenario are listed below:

**Base Case Scenario:** under the assumptions detailed throughout the work.

### Worst Case Scenario:

**Domestic Wholesale Segment:** meeting saturation by 2026, growing at just 0.2%, with stores closure in US deepening to 1.3% annual and US domestic footwear market long-term growth decreased to 1.5%.

**International Wholesale Segment:** SKX unable to expand its market share in China, remaining stable at 1,9% of the Chinese footwear market share.

**SG&A:** International expansion pressures in the workforce demanded, increasing the pressure of this expense on sales reaching a percentage of 40% of sales, considerably affecting profitability.

Valuation:

- Enterprise Value: **US\$4.857 billion**
- Net Debt + Non-Controlling Interests: **US\$1.354 billion**
- Equity Value: **US\$3.504 billion**
- Worst Case Scenario Stock Price: **US\$22.54**
- Capital Gain (Loss): (47.7%)

### Best Case Scenario:

**Domestic Wholesale Segment:** Stores closure in US trend reverting to remain with a stable number of stores operating in the domestic segment.

**Direct-to-Consumer Segment:** E-commerce CAGR worldwide for 2021-2025 expanded to 8%.

**COGS:** Cost of products sold increase controlled before. Only two periods affected by the labor costs, freight costs, and indirect costs rise. COGS

neutralizing at a value representing 53% of the sales by 2023 and remaining stable.

SG&A: Experiencing a decrease due to the "internalization" of the offices and operations to countries with lower salaries and prices. By the end of 2025, this value would be reduced to 34.8% of the sales.

Best Case Scenario Valuation:

- Enterprise Value: **US\$12.733 billion**
- Net Debt + Non-Controlling Interests: **US\$1.131 billion**
- Equity Value: **US\$11.602 billion**
- Best Case Scenario Stock Price: **US\$74.65**
- Capital Gain (loss): **73.2%**

## Recommendation

As of 16/12/2021, Skechers had a stock price of US\$43.11 and Weighted Average Shares Outstanding as of Q3 2021 of 155,413 million. With an estimated Equity Value for FY2022 of US\$9.143 billion, the Target Price for NYSE:STX is US\$58.83. The recommendation suggested by these analysts is to **BUY**, which would represent a capital gain for an investor holding the stock for a period of 12 months of 36.5%. The company does not pay dividends and is not expected to pay them in the coming periods. Total gain on SKX stock in FY22 would be 36.5%.

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# Appendix

## Financial Statements

Historical & Forecast Ratios and Key Assumptions								
	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
<b>Revenue by Segment:</b>								
Domestic Wholesale	\$ 1,259.6	\$ 1,247.6	\$ 1,126.6	\$ 1,500.0	\$ 1,728.1	\$ 1,820.0	\$ 1,843.1	\$ 1,865.4
International Wholesale	\$ 2,054.8	\$ 2,462.6	\$ 2,257.8	\$ 2,898.7	\$ 3,524.7	\$ 4,204.1	\$ 4,831.0	\$ 5,504.7
Direct to Consumer	\$ 1,327.7	\$ 1,509.9	\$ 1,213.0	\$ 1,782.7	\$ 1,894.8	\$ 2,014.0	\$ 2,140.7	\$ 2,275.3
<b>Total Skechers Revenue</b>	<b>\$ 4,642.1</b>	<b>\$ 5,220.1</b>	<b>\$ 4,597.4</b>	<b>\$ 6,181.3</b>	<b>\$ 7,147.6</b>	<b>\$ 8,038.1</b>	<b>\$ 8,814.8</b>	<b>\$ 9,645.4</b>
<b>Domestic Wholesale</b>								
Number of Stores in the US	470	497	523	516	511	506	501	496
Stores Growth		5.7%	5.2%	-1.3%	-1.0%	-1.0%	-1.0%	-1.0%
Sales per Store	\$ 2.7	\$ 2.5	\$ 2.2	\$ 2.9	\$ 3.38	\$ 3.60	\$ 3.68	\$ 3.76
Total Market Revenue	\$ 88.683	\$ 91.187	\$ 79.958	\$ 81.254	\$ 94.527	\$ 100.538	\$ 102.830	\$ 105.123
US Market Growth Rate	2.1%	2.8%	-12.3%	1.6%	16.3%	6.4%	2.3%	2.2%
<b>Domestic Wholesale Revenue</b>	<b>\$ 1,260</b>	<b>\$ 1,248</b>	<b>\$ 1,127</b>	<b>\$ 1,500</b>	<b>\$ 1,728</b>	<b>\$ 1,820</b>	<b>\$ 1,843</b>	<b>\$ 1,865</b>
Segment growth		-1%	-10%	33%	15%	5%	1%	1%
<b>International Wholesale</b>								
Number of Retail Stores without China:	2,440	3,050	3,368	3,747	3,722	4,030	4,328	4,610
International Stores	283	303	331	344	358	371	383	394
JV Stores	105	197	222	247	274	302	331	362
JV Stores in China	131	157	245	338	-	-	-	-
Distributor, licensee and franchise stores	1,921	2,393	2,570	2,818	3,090	3,357	3,614	3,854
Total Stores	2,309	2,893	3,123	3,409	3,722	4,030	4,328	4,610
Growth in Number of Retail Stores:								
International Stores		7%	9%	4%	3.9%	3.6%	3.2%	2.9%
JV Stores		88%	13%	11%	10.8%	10.3%	9.8%	9.3%
Distributor, licensee and franchise stores		25%	7%	10%	9.6%	8.6%	7.6%	6.6%
Sales per store	\$ 0.5	\$ 0.5	\$ 0.4	\$ 0.5	\$ 0.59	\$ 0.66	\$ 0.70	\$ 0.74
Global Footwear Market Revenue	\$ 420,486.0	\$ 433,244.0	\$ 369,431.0	\$ 391,350.0	\$ 488,289.0	\$ 543,309.0	\$ 576,038.0	\$ 609,162.0
Global Market Growth Rate		3.0%	-14.7%	5.9%	24.8%	11.3%	6.0%	5.8%
<b>Revenue without China</b>	<b>\$ 1,310.8</b>	<b>\$ 1,612.6</b>	<b>\$ 1,333.3</b>	<b>\$ 1,771.2</b>	<b>\$ 2,195.2</b>	<b>\$ 2,644.7</b>	<b>\$ 3,011.3</b>	<b>\$ 3,392.0</b>
Growth		23%	-17%	33%	24%	20%	14%	13%
<b>International Wholesale Revenue</b>	<b>\$ 2,054.8</b>	<b>\$ 2,462.6</b>	<b>\$ 2,257.8</b>	<b>\$ 2,898.7</b>	<b>\$ 3,524.7</b>	<b>\$ 4,204.1</b>	<b>\$ 4,831.0</b>	<b>\$ 5,504.7</b>
Segment growth		20%	-8%	28%	22%	19%	15%	14%
Stores in China	131	157	245					
<b>China (International Wholesale)</b>								
Market CAGR				16.1%	16.1%	16.1%	16.1%	16.1%
Chinese footwear Market			\$ 58.878	\$ 68.357	\$ 79.363	\$ 92.140	\$ 106.975	
China market share			1.91%	1.94%	1.96%	1.97%	1.97%	
<b>China revenue</b>	<b>\$ 744.0</b>	<b>\$ 850.0</b>	<b>\$ 924.5</b>	<b>\$ 1,127.5</b>	<b>\$ 1,329.5</b>	<b>\$ 1,559.4</b>	<b>\$ 1,819.7</b>	<b>\$ 2,112.7</b>
China's growth		14%	9%	22%	18%	17%	17%	16%
<b>Direct-to-Consumer</b>								
E-Commerce Growth in the World					6.29%	6.29%	6.29%	6.29%
<b>Direct-to-Consumer revenue</b>	<b>\$ 1,327.7</b>	<b>\$ 1,509.9</b>	<b>\$ 1,213.0</b>	<b>\$ 1,782.7</b>	<b>\$ 1,894.8</b>	<b>\$ 2,014.0</b>	<b>\$ 2,140.7</b>	<b>\$ 2,275.3</b>
Segment growth		14%	-20%	47%	6%	6%	6%	6%
<b>Industry and Market indicators:</b>								
Skechers Market Share	1.1%	1.2%	1.2%	1.6%	1.5%	1.5%	1.5%	1.6%
Retail E-commerce revenue in the US	\$ 88,331.0	\$ 102,542.0	\$ 110,602.0	\$ 124,427.0	\$ 136,683.0	\$ 146,619.0	\$ 153,613.0	\$ 159,757.5
E-commerce Growth in the US		16%	8%	12%	10%	7%	5%	4%

Forecasted Income Statement								
	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
<b>Core Result</b>								
<b>Revenues:</b>								
Domestic Wholesale	\$ 1.260	\$ 1.248	\$ 1.127	\$ 1.500	\$ 1.728	\$ 1.820	\$ 1.843	\$ 1.865
International Wholesale	\$ 2.055	\$ 2.463	\$ 2.258	\$ 2.899	\$ 3.525	\$ 4.204	\$ 4.831	\$ 5.505
Direct-to-consumer	\$ 1.328	\$ 1.510	\$ 1.213	\$ 1.783	\$ 1.895	\$ 2.014	\$ 2.141	\$ 2.275
<b>Total Revenue</b>	<b>\$ 4.642</b>	<b>\$ 5.220</b>	<b>\$ 4.597</b>	<b>\$ 6.181</b>	<b>\$ 7.148</b>	<b>\$ 8.038</b>	<b>\$ 8.815</b>	<b>\$ 9.645</b>
% Growth		12,5%	-11,9%	34,5%	15,6%	12,5%	9,7%	9,4%
<b>Cost of Sales:</b>								
Domestic Wholesale	\$ 791	\$ 790	\$ 695	\$ 938	\$ 1.099	\$ 1.175	\$ 1.209	\$ 1.223
% of Sales	63%	63%	62%	62,5%	63,6%	64,6%	65,6%	65,6%
International Wholesale	\$ 1.078	\$ 1.329	\$ 1.235	\$ 1.580	\$ 1.956	\$ 2.375	\$ 2.778	\$ 3.165
% of Sales	52%	54%	55%	54,5%	55,5%	56,5%	57,5%	57,5%
Direct-to-consumer	\$ 549	\$ 610	\$ 478	\$ 599	\$ 656	\$ 717	\$ 783	\$ 833
% of Sales	41%	40%	39%	33,6%	34,6%	35,6%	36,6%	36,6%
<b>Total Cost of Sales</b>	<b>\$ 2.418</b>	<b>\$ 2.729</b>	<b>\$ 2.408</b>	<b>\$ 3.116</b>	<b>\$ 3.710</b>	<b>\$ 4.268</b>	<b>\$ 4.770</b>	<b>\$ 5.221</b>
% of Sales	52,1%	52,3%	52,4%	50,4%	51,9%	53,1%	54,1%	54,1%
<b>Gross Profit:</b>								
Domestic Wholesale	\$ 468	\$ 458	\$ 432	\$ 563	\$ 629	\$ 645	\$ 634	\$ 642
Gross Margin	37,2%	36,7%	38,3%	37,5%	36,4%	35,4%	34,4%	34,4%
International Wholesale	\$ 977	\$ 1.134	\$ 1.023	\$ 1.319	\$ 1.568	\$ 1.829	\$ 2.053	\$ 2.339
Gross Margin	47,5%	46,0%	45,3%	45,5%	44,5%	43,5%	42,5%	42,5%
Direct-to-consumer	\$ 779	\$ 900	\$ 735	\$ 1.184	\$ 1.239	\$ 1.297	\$ 1.357	\$ 1.443
Gross Margin	58,6%	59,6%	60,6%	66,4%	65,4%	64,4%	63,4%	63,4%
<b>Total Gross Profit</b>	<b>\$ 2.224</b>	<b>\$ 2.491</b>	<b>\$ 2.190</b>	<b>\$ 3.065</b>	<b>\$ 3.437</b>	<b>\$ 3.771</b>	<b>\$ 4.045</b>	<b>\$ 4.424</b>
Gross Margin	47,9%	47,7%	47,6%	49,6%	48,1%	46,9%	45,9%	45,9%
<b>Royalty Income</b>	<b>\$ 21</b>	<b>\$ 22</b>	<b>\$ 16</b>	<b>\$ 20</b>	<b>\$ 20</b>	<b>\$ 20</b>	<b>\$ 20</b>	<b>\$ 20</b>
<b>Gross Profit + Royalty Inc.</b>	<b>\$ 2.244</b>	<b>\$ 2.514</b>	<b>\$ 2.206</b>	<b>\$ 3.085</b>	<b>\$ 3.457</b>	<b>\$ 3.790</b>	<b>\$ 4.065</b>	<b>\$ 4.444</b>
<b>SG&amp;A</b>	<b>\$ 1.806</b>	<b>\$ 1.995</b>	<b>\$ 2.072</b>	<b>\$ 2.415</b>	<b>\$ 2.553</b>	<b>\$ 2.834</b>	<b>\$ 3.108</b>	<b>\$ 3.401</b>
# employees	12600	13100	11700	12987	14416	16001	17547	19201
Cost per employee	\$ 0,14	\$ 0,15	\$ 0,18	\$ 0,18	\$ 0,18	\$ 0,18	\$ 0,18	\$ 0,18
<b>Core result before taxes</b>	<b>\$ 438</b>	<b>\$ 518</b>	<b>\$ 134</b>	<b>\$ 670</b>	<b>\$ 904</b>	<b>\$ 956</b>	<b>\$ 957</b>	<b>\$ 1.043</b>
<b>Statutory taxes</b>	<b>\$ 92</b>	<b>\$ 109</b>	<b>\$ 27</b>	<b>\$ 141</b>	<b>\$ 190</b>	<b>\$ 201</b>	<b>\$ 201</b>	<b>\$ 219</b>
Statutory tax rate	21%	21%	21%	21%	21%	21%	21%	21%
Tax adjustments	\$ -27	\$ -32	\$ -30	\$ -	\$ -	\$ -	\$ -	\$ -
% of statutory taxes	29%	30%	109%	0,0%	0,0%	0,0%	0,0%	0,0%
<b>Core result</b>	<b>\$ 373</b>	<b>\$ 442</b>	<b>\$ 136</b>	<b>\$ 529</b>	<b>\$ 714</b>	<b>\$ 756</b>	<b>\$ 756</b>	<b>\$ 824</b>
<b>Non core result:</b>								
Other non-operating income/expense	\$ -10	\$ -7	\$ 31	\$ 31	\$ 31	\$ 31	\$ 31	\$ 31
Interest Income	\$ 10	\$ 12	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6	\$ 6
<b>Non-core result before taxes and O</b>	<b>\$ -0</b>	<b>\$ 5</b>	<b>\$ 37</b>	<b>\$ 37</b>	<b>\$ 37</b>	<b>\$ 37</b>	<b>\$ 37</b>	<b>\$ 37</b>
Statutory taxes	\$ -0	\$ 1	\$ 9	\$ 8	\$ 8	\$ 8	\$ 8	\$ 8
Statutory tax rate	21%	21%	21%	21%	21%	21%	21%	21%
Tax adjustments	\$ -3	\$ 13	\$ 6	\$ -	\$ -	\$ -	\$ -	\$ -
<b>OCI</b>	<b>\$ -25</b>	<b>\$ 1</b>	<b>\$ 12</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Non core result</b>	<b>\$ -22</b>	<b>\$ -7</b>	<b>\$ 34</b>	<b>\$ 30</b>	<b>\$ 30</b>	<b>\$ 30</b>	<b>\$ 30</b>	<b>\$ 30</b>
<b>Financing result</b>								
Finance costs	\$ -6	\$ -8	\$ -16	\$ -99	\$ -7	\$ -7	\$ -7	\$ -7
(%financial liabilities previous year)		8%	13%	13,5%	13,5%	13,5%	13,5%	13,5%
<b>Financing result before taxes</b>	<b>\$ -6</b>	<b>\$ -8</b>	<b>\$ -16</b>	<b>\$ -99</b>	<b>\$ -7</b>	<b>\$ -7</b>	<b>\$ -7</b>	<b>\$ -7</b>
Statutory taxes	\$ -1	\$ -2	\$ -3	\$ -21	\$ -2	\$ -2	\$ -2	\$ -2
Statutory tax rate	21%	21%	21%	21%	21%	21%	21%	21%
<b>Financing result</b>	<b>\$ -5</b>	<b>\$ -6</b>	<b>\$ -13</b>	<b>\$ -78</b>	<b>\$ -6</b>	<b>\$ -6</b>	<b>\$ -6</b>	<b>\$ -6</b>
<b>Comprehensive income</b>	<b>\$ 346</b>	<b>\$ 429</b>	<b>\$ 157</b>	<b>\$ 481</b>	<b>\$ 738</b>	<b>\$ 779</b>	<b>\$ 780</b>	<b>\$ 848</b>

Forecasted Reformulated Balance Sheet	2018A	2019A	2020A	2021E	2022F	2023F	2024F	2025F
<b>Core Invested Capital</b>								
Working Cash	\$ 232	\$ 261	\$ 230	\$ 309	\$ 358	\$ 402	\$ 441	\$ 483
% Sales	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Total Receivables	\$ 558	\$ 699	\$ 689	\$ 744	\$ 860	\$ 968	\$ 1,061	\$ 1,161
Collection Period	44	44	55	44	44	44	44	44
Inventory	\$ 863	\$ 1,070	\$ 1,017	\$ 2,202	\$ 2,546	\$ 2,863	\$ 3,140	\$ 3,435
Holding Period	130	129	158	130	130	130	130	130
Prepaid Expenses	\$ 79	\$ 114	\$ 167	\$ 155	\$ 179	\$ 201	\$ 221	\$ 241
% Sales	1.7%	2.2%	3.6%	2.5%	2.5%	2.5%	2.5%	2.5%
PPE	\$ 585	\$ 739	\$ 935	\$ 965	\$ 1,080	\$ 1,192	\$ 1,300	\$ 1,405
Number of stores (in thousands)	2.3	2.9	3.1	3.4	3.7	4.0	4.3	4.6
PPE value per store	\$ 254	\$ 255	\$ 300	\$ 283	\$ 290	\$ 296	\$ 300	\$ 305
Inflation				5.0%	2.5%	2.0%	1.5%	1.5%
Operating Lease assets	\$ -	\$ 1,074	\$ 1,172	\$ 1,423	\$ 1,646	\$ 1,851	\$ 2,030	\$ 2,221
% Sales	0.0%	20.6%	25.5%	23.0%	23.0%	23.0%	23.0%	23.0%
Goodwill	\$ -	\$ 71	\$ 93	\$ 42	\$ 49	\$ 55	\$ 60	\$ 66
% Sales	0.0%	1.4%	2.0%	0.7%	0.7%	0.7%	0.7%	0.7%
Accounts Payables	\$ 680	\$ 765	\$ 744	\$ 1,694	\$ 1,919	\$ 2,114	\$ 2,270	\$ 2,431
Payables Period	103	97	114	100	98	96	94	92
Accrued expenses	\$ 162	\$ 210	\$ 209	\$ 281	\$ 324	\$ 365	\$ 400	\$ 438
% Sales	-3.5%	-4.0%	-4.5%	-4.5%	-4.5%	-4.5%	-4.5%	-4.5%
<b>Core Invested Capital</b>	\$ 1,476	\$ 3,053	\$ 3,350	\$ 3,866	\$ 4,473	\$ 5,053	\$ 5,582	\$ 6,143
<b>Non Core</b>								
ST investments	\$ 100	\$ 112	\$ 101	\$ 101	\$ 101	\$ 101	\$ 101	\$ 101
Deferred tax assets	\$ 39	\$ 49	\$ 64	\$ 64	\$ 64	\$ 64	\$ 64	\$ 64
Long-term investments	\$ 94	\$ 95	\$ 108	\$ 108	\$ 108	\$ 108	\$ 108	\$ 108
Other assets, net	\$ 37	\$ 46	\$ 95	\$ 95	\$ 95	\$ 95	\$ 95	\$ 95
Deferred tax liabilities	\$ 0	\$ 0	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11	\$ 11
<b>Non Core Invested Capital</b>	270	301	357	357	357	357	357	357
<b>Total Invested Capital</b>	\$ 1,746	\$ 3,354	\$ 3,707	\$ 4,223	\$ 4,830	\$ 5,410	\$ 5,939	\$ 6,500
<b>Financing</b>								
Excess Cash	\$ 640	\$ 564	\$ 1,141	\$ 427	\$ 557	\$ 756	\$ 1,007	\$ 1,293
Current installments of long-term borrowings	\$ -2	\$ -66	\$ -52	\$ -52	\$ -52	\$ -52	\$ -52	\$ -52
Short-term borrowings	\$ -7	\$ -6	\$ -3	\$ -3	\$ -3	\$ -3	\$ -3	\$ -3
Long-term borrowings, excluding current install	\$ -88	\$ -49	\$ -679	\$ -	\$ -	\$ -	\$ -	\$ -
Operating lease liabilities	\$ -	\$ -191	\$ -204	\$ -204	\$ -204	\$ -204	\$ -204	\$ -204
LT operating lease liabilities	\$ -	\$ -966	\$ -1,065	\$ -1,065	\$ -1,065	\$ -1,065	\$ -1,065	\$ -1,065
Other long-term liabilities	\$ -100	\$ -103	\$ -118	\$ -118	\$ -118	\$ -118	\$ -118	\$ -118
Noncontrolling interests	\$ -154	\$ -221	\$ -244	\$ -244	\$ -244	\$ -244	\$ -244	\$ -244
<b>Total Financing</b>	\$ 289	\$ -1,039	\$ -1,226	\$ -1,261	\$ -1,131	\$ -931	\$ -680	\$ -394
D/E	0.14	0.45	0.49	0.43	0.31	0.21	0.13	0.06
<b>Equity</b>	2,035	2,315	2,481	2,962	3,700	4,479	5,258	6,106
<b>Total Equity and Financing</b>	\$ 1,746	\$ 3,354	\$ 3,707	\$ 4,223	\$ 4,830	\$ 5,410	\$ 5,939	\$ 6,500

Cash Flow Map	2020A	2021E	2022F	2023F	2024F	2025F
Core Result	136	529	714	756	756	824
Change in Core IC	298	515	608	580	529	562
<b>Core CF</b>	<b>-162</b>	<b>14</b>	<b>106</b>	<b>176</b>	<b>227</b>	<b>262</b>
Non core result	34	30	30	30	30	30
Change in Non Core IC	56	0	0	0	0	0
<b>Non Core CF</b>	<b>-22</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>	<b>30</b>
Total Result	170	559	744	785	785	854
Change in Total IC	354	515	608	580	529	562
<b>FCF investing</b>	<b>\$ -184</b>	<b>\$ 43</b>	<b>\$ 136</b>	<b>\$ 205</b>	<b>\$ 257</b>	<b>\$ 292</b>
Financing Result	-13	-78	-6	-6	-6	-6
Change in Net Debt	-187	-35	130	200	251	286
<b>Debt CF</b>	<b>174</b>	<b>-43</b>	<b>-136</b>	<b>-205</b>	<b>-257</b>	<b>-292</b>
Comprehensive income	157	481	738	779	780	848
Change in Equity	167	481	738	779	780	848
<b>Equity CF</b>	<b>10</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>FCF financing</b>	<b>\$ 184</b>	<b>\$ -43</b>	<b>\$ -136</b>	<b>\$ -205</b>	<b>\$ -257</b>	<b>\$ -292</b>

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### Report Recommendations

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<b>Buy</b>	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
<b>Hold</b>	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
<b>Sell</b>	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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