

# EARNINGS BUSTERS

A SABRIENT PORTFOLIO

January 7, 2016

## PORTFOLIO REVIEW

We are replacing Express Scripts Holding Company (ESRX) with Skechers U.S.A., Inc. (SKX).

Skechers is a designer and manufacturer of footwear. The company markets owns and operates over 300 outlet and concept stores worldwide and sells its own brand of shoes through both wholesale and retail channels. . Analysts are projecting increased brand awareness and demand for the product, along with a reduction in manufacturing costs to help the company increase profits moving forward. SKX is currently undervalued compared to the overall market and is projected to grow at an attractive rate during 2016, making it a good candidate for Earnings Busters.

During 2015, SKX experienced rapid growth in the international market that is projected to continue into 2016. The international segment, which currently creates 35% of the company's sales revenue, grew revenues 45% in 2015. SKX appears to be a dominate brand in emerging markets, while also increasing its market share in western Europe. China is projected to be a main source of growth going forward as its middle class continues to expand. Management believes that as wages and consumer spending in China increase, SKX will be able to capture a greater share of the footwear market, and plans to increase its presence in the region.

The long-term economic development in China is somewhat of a double-edged sword for SKX, as a vast majority of the company's manufacturing is currently done in China. This growth in the economy and growth in wages will, in time, lead to increased manufacturing costs for SKX. To combat this issue the company plans to shift production to India, which will decrease production costs and ultimately increase margins. A transition of that scale is not to take place right away, but management hopes to fully transition out of China and into India in the next 5 years.

SKX is currently undervalued compared to the overall market with a price-to-earnings ratio of 13.9 compared to the S&P 500's average valuation of 21.3. SKX's projected EPS growth rate of 43.5% over the next year is double the S&P 500's projected growth rate of 21.5% for the same period. Together, the valuation and projected growth create an attractive buying opportunity.

## **EXIT (SELL)**

Express Scripts Holding Company (ESRX)

## **BUY**

Skechers U.S.A., Inc. (SKX)

Market Cap: Mid

Sector: Consumer Discretionary

Industry: Footwear

Earnings Quality Rank (out of 5): 2

Dividend Yield: 0.0%

Forward P/E Ratio (Next 12 months): 13.9

Price When Picked: \$27.94 (closing price on 1/7/16)

## **BUSINESS SUMMARY**

Skechers U.S.A., Inc. designs, develops, markets, and distributes footwear for men, women, and children, as well as performance footwear for men and women under the Skechers GO brand name worldwide. It operates through four segments: Domestic Wholesale Sales, International Wholesale Sales, Retail Sales, and E-commerce Sales. The company offers casual footwear, including boots, shoes, and sandals for men, as well as oxfords and slip-ons, lug outsole and fashion boots, and casual sandals for women; dress casuals, seasonal sandals and boots, and relaxed fit casuals for men and women; casual fusion line for young men and women under the Skechers USA brand. It also provides footwear for men and women comprising Skechers memory foam styles, lightweight performance-inspired athletics, classic athletic-inspired styles, and sport sandals and boots under the Skechers Sport brand name; casual sneakers for females and sporty styles sneakers under the Skechers Active and Skechers Sport Active brand; and footwear for kids, men, and young women under the BOBS from Skechers name.

In addition, the company offers technical footwear under the Skechers Performance brand; boots, shoes, sneakers, and sandals for infants, toddlers, boys, and girls under the name of Skechers Kids brand. Further, it provides men's and women's casuals, such as field boots, hikers, and athletic shoes under the Skechers Work brand. The company sells its products through department stores and specialty retail stores, mid-tier retailers, boutiques, and distributor and licensee-owned international retail stores, as well as through its own retail stores and e-commerce Website. As of October 28, 2015, it operated approximately 1,210 SKECHERS retail stores.

The company was founded in 1992 and is headquartered in Manhattan Beach, California.

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**Editor's Note:** The *Sabrient Earnings Busters* newsletter is written by Daniel Vickers, analyst at Sabrient. Daniel also assists in the selection of stocks and maintenance of the portfolio. He can be reached at [dvickers@gradientanalytics.com](mailto:dvickers@gradientanalytics.com)

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