LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

MASTER IN
FINANCE

MASTERS FINAL WORK
PROJECT

EQUITY RESEARCH:
SKECHERS U.S.A. INC.

NICKY SALGADO

OCTOBER 2019

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SUPERVISOR:
Ana Venâncio

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Abstract

The elaborated work consists on an Equity Research of Skechers U.S.A. Inc. for the end of 2019F, according to ISEG's master's in finance final work project. This report was based on the assumptions that I consider to be available for the next five years based on the historical performance of the last three years, industry's trends and macroeconomic projections. The entire study is done through the CFA Institute format. The decision to evaluate Skecher's came for personal relish and for my personal interest to know more about the industry and trends associated. The price target was obtained through an absolute valuation method, the Discounted cash Flow, more specifically the Free Cash Flow to the Firm. In addition, to support our recommendation, we performed the Adjusted Present Value method. We used a relative valuation method, the Comparable multiples, using EV/EBITDA and EV/SALES. A sensitivity analysis and a Monte Carlo simulation were performed to complement the analysis. Our final recommendation for Skechers U.S.A. Inc. is to STRONG BUY, with a price target of 43.38 dollars per share, representing an upside potential of 27.01%, in comparison with the closing price of 31.66 dollars per share in August 30st, 2019. Our risk assessment estimates a medium risk for the company. For this recommendation, we consider that the mains risks are related to perpetual growth rate, tax rate, risk-free rate and market risk premium.

Keywords: Skechers USA, Inc.; Equity Research; Valuation; Discounted Cash Flow method; Free Cash Flow to the Firm; Adjusted Present Value; Relative Valuation method; Footwear Industry; Internationalization.

Resumo

O trabalho elaborado consiste numa avaliação do preço por ação da Skechers U.S.A. Inc. para o final de 2019FY, de acordo com o projeto final do Mestrado em Finanças do ISEG. Este relatório tem por base pressupostos que considero futuramente viáveis para os próximos cinco anos de atividade e que baseiam no histórico da performance dos últimos três anos, das tendências da indústria e de projeções macroeconómicas. Todo o estudo é feito através do formato CFA Institute. A decisão de avaliar a empresa adveio do gosto pessoal e do interesse associado à indústria e às tendências associadas. O preço-alvo foi obtido através de um método de avaliação absoluto do Discounted Cash Flow, especificamente Free Cash Flow to the Firm. Adicionalmente, para complementar a nossa recomendação, foi utilizado o método do Adjusted Present Value. Foi utlizado o método de avaliação relativa, o método dos Múltiplos Comparáveis, foram usados o EV/EBITDA e o EV/SALES. A análise de sensibilidade e uma simulação de Monte Carlo foi realizada para complementar a análise. A recomendação final para a Skechers U.S.A. Inc é de STRONG BUY, com um preço alvo de 43.38 dólares por ação, representando um potencial de valorização de 27.01%, face ao valor atual de 31.66 dólares por ação no dia 30 de Agosto de 2019. A nossa avaliação de risco estima um risco médio para a empresa. Para esta recomendação, considero que os principais riscos vão para a taxa de crescimento perpétua, a taxa de imposto, a taxa de retorno sem risco e para o prémio de risco de mercado.

Palavras-Chave: Skechers USA, Inc.; Equity Research; Avaliação de Empresas; Discounted Cash Flow method; Free Cash Flow to the Firm; Relative Valuation method; Indústria do Calçado; Internacionalização.

Acknowledgements

Since this project represent the end of a long and hard journey, this space will be used to thank all those who directly or indirectly help me to complete the final master’s thesis and who support me throughout my academic journey.

A first mention of gratefulness to my tutor, Professor Ana Venâncio for the time and patience during the realization of this project.

Second, to my friends for the flexibility and for all of the amazing moments during this long journey.

Finally, the biggest thank to my parents and my sister: António Salgado, Esmeraldina Salgado and Kelly Salgado, for all of the support and flexibility.

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Skechers U.S.A. Inc.

STRONG BUY

Medium risk

October 2019

Portugal

SKECHERS U.S.A. Inc.

(YE 2019 Price target of **$43.38**; **27.01% Upside Potential**; **Medium Risk**; Financial Recommendation: **STRONG BUY**)

1. Research Snapshot

Skechers U.S.A. Inc. (SKX) is headquartered in Manhattan, California, and it is listed on The New York Stock Exchange (NYSE: SKX). The company is organized into three big geographic markets: United States (US), Canada and Other international. The company performed **strong investments** over the last years to penetrate new markets, and expands its **markets share internationally**.

Figure 1: Historical Share Price

Source: Author; Company Data

Our r**ecommendation** for SKX, using the **Free Cash Flow to the Firm (FCFF)** and taking into consideration our risk assessment, stands for **STRONG BUY**, with a price target of **$43.38 per share**, representing an upside potential of **27.01%** in comparison with the closing price of $31.66 on August 30st, 2019. Using the relative valuation through the multiples, our **STRONG BUY** recommendation is supported, with a **price target of $62.21**, representing an **upside potential of 49.11%.** According to the risk assessment, we concluded that SKX had a **medium ris**k of investment, due to the fact that the company operates into a **highly competitive industry**. For the next years we expected and increase in **sales**, from $5 013.4 millions in 2019F to $6 820.7 millions in 2023F, representing a **CAGR of 8%.** We predict that **EBIT/Sales** will remain constant over the years, with a value around 10%. We expect an increase in **net income** from **$**361.2 millions to $486.0 millions, due to an increase in **revenues** and also a constant percentage of **cost of goods sold** over **sales**.

Table 1: Analyst's Risk Assessment

Low	**Medium**	High

Source: Author

Table 2: Investment Grade and Risk Classification Matrix

	Low risk	Medium Risk	High Risk
Strong Buy	>20%	**>30%**	>45%
Buy	>10% & >20%	>15% & <=30%	>20% & <=45%
Neutral	>0% <=10%	>5% & <=15%	>10% & <=20%
Reduce	<=-10% & 0%	>-5% & <=15%	> 0% & <=10%
Sell	<=-10%	<-5%	<0%

Source: BPI Rating Scheme

Table 3: Market Profile

Market Profile	
Ticker Bloomberg	SKX
Shares outstanding (M)	150
Open price	$31.64
Close price	$31.66
52-wk High	$40.50
52-wk Low	$21.45
Market capitalization (B)	$5.756

Source: Bloomberg, Author

2. Business Description

SKX was founded in 1992 and is headquartered in Manhattan Beach, California. SKX's a global footwear and apparel brand. The company designs develop and markets more than 3,000 lifestyle and athletic footwear styles. SKX offers to the consumers a stylish and comfortable footwear that satisfies the consumers active, casual, dress casual and athletic footwear needs. In the US, the company owns and manage 113 concept stores, 170 factory outlet stores and 187 warehouse outlet stores. In the rest of the word, the company owns and manage 134 concept stores, 78 factory outlet stores and 10 warehouse outlet stores. SKX have approximately 12,600 employees. The company reputation is due to style, quality, comfort, innovation, and affordability.

SKX revenue is divided into **athletic shoes** (including international wholesale, direct subsidiary and distributors), **retail**, **domestic wholesale** and **e-commerce**. SKX sales are also measure by **geography**: **other international**, **United States** and **Canada**.

Figure 2: Skecher's logo

Source: Author, Company data

Skechers Lines include footwear lines designed for men, women and children. Sales and costs not specified by product. Skechers Lines are divided by Lifestyle Brands, Performance Brands, Skechers Kids and Skechers Work. **Lifestyle Brands** includes Skechers USA, Skechers Sport, Skechers Active and Skechers Sport Active, Skecher Street, BOBS from Skechers and Mark Nason. **Performance Brands** focus on technical footwear with the goal of maximizing performance and promote natural motion. Skechers GOrun, Skechers Gowalk, Skechers Gotrain, Skechers Gotrail, Skechers Go Golf and YOU by SkechersTM are included on Skechers Performance section. **Skechers Kids** line includes Skechers Kids, Skechers athletic-inspired sneakers, Twinkle Toes and Lighted footwear. **Skechers Work** line offers a line of men's and women's casuals, hikers and athletic shoes.

Distribution Channels are divided into three segments: domestic wholesale, international wholesales, and retail sales, including e-commerce sales. SKX's have 19 different products lines and are available in more than 170 countries. The SKX's distribution of footwear is made through the following **domestic channels**: department stores, specialty stores, athletic specialty shoe stores, independent retailers and internet retailers. Is a defined for each distribution channel, growth strategies and personalized service to the customers.

Retail stores and e-commerce are made through concept stores, factory outlet stores and warehouse outlet stores. Skechers strategies is to open 70 to 80 new stores in 2019F around of the world. E-commerce business is available in the US, Canada, United Kingdom, Germany, Spain, Chile and China.

International Wholesale is one of the SKX's source to generate revenue outside the US. It is done through the following main source: direct sales to department stores and retail stores through the joint ventures in Asia and the Middle East, as well as through the subsidiaries in the America, Europe and Japan; sales to foreign distributors across Asia, South America, Africa, the Middle East and Australia.

Distributors and Licensees

Footwear is distributed through athletic department stores and specialty stores through 22 distributors, which is not sold directly through international subsidiaries and joint ventures. In 2018, SKX had 48 licenses considering 700 distributed-owned and 1,813 licensee-owned SKX retail stores.

Company strategy

Reinvestment to increase operational capabilities, high-return investments in the current markets/partnerships, and in new and adjacent markets and shareholders direct return, are the strategic brand objectives.

Product for specific segments is SKX's principal goal by constantly renewing and innovating its footwear SKX's lines. Footwear SKX'S targets to market segment's 4 targets: between 5 to 50 years old consumer, infants and toddlers, and professionals and recreational athletes. A young, comfort and stylish footwear is directed to consumer between 12 to 24 years old. A broader style encompasses the age between 5 to 50 years. SKX's has an exclusive section for infants and toddlers. Footwear for professionals and recreational athletes are the technical fitness shoes. One of the strategies of the company is to continue to recognize the trends in the footwear industry beforehand and to design them before their competitors through product differentiated style and quality, and at the same time the latest fashion trends. Regarding the product, the company wants to focus on **innovation**, **technology**, **design** and also develop a **unique collection** for children.

Pricing strategy: the company offers products with quality at affordable prices competitors, such as Adidas's AG and Nike Inc. For the same type of products SKX's sneakers are lower than Adidas's AG and Nike Inc.

Advertising and Marketing Strategy: the marketing philosophy is "Unseen, Untold, Unsold". SKX intends to improve the marketing approach: social media and promotions. In order to influence consumer purchases SKX intends to sign more contracts with celebrities. In order to **inspire consumers** to make a purchase, through athletes such as: Sugar Ray Leonard, Howie Long, David Ortiz and Tony Romo; actor Rob Lowe; television personalities Brooke Burke-Charvet and Kelly

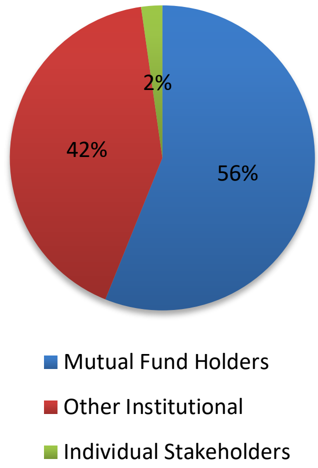
Brook; and global singers Meghan Trainor and Camila Cabello. In the future, SKX's wants to increase this type of contracts for Asia region**.**

Geographical diversification: SKX pretends to continue with their internationalization process, by increasing the company's market share in China, Japan, India and Europe. In other words, the company intends to sell their footwear to foreign distributors and opening retail stores. The globalizations and global consumers allow the brand to expand their geographic segments and increase their sales. The company improved their **supply chain**, their **distribution** and also **open** and **operate new stores**, in regions that they currently have few or no stores.

Costs: SKX intends to minimize cost per sale and maximize profit margins.

Intellectual Proprieties Rights: The company pretends to increase the number of patents and trademarks in order to protect its valuable intellectual property. SKX has **trademark registrations** and **trademark applications** in approximately 139 foreign countries. For **design patents**, **pending designs** and **utility patent applications** the company have approximately 21 in foreign countries.

Figure 3: Institutional Ownership



Management and Corporate Governance

Skechers governance system is operated through an **Anglo-Saxon Model** which is based in a board of directors, compensation committee, executive committee, corporate governance committee and audit committee.

The committee members meet the independence requirements and other eligibility requirements imposed by the listing standards of the **NYSE: SKX**. SKX has become public on June 9st, 1999 at an **initial public offering** (IPO) of $11 per share. The company does not currently pay any dividend. At the end of June 2019, institutional investors purchased a net $715 thousand shares of SKX, and now own 92.11% of the **total float**. The **institutional ownership** is owned 52.86% by **Mutual fund holders,** 39.26% by **other institutional** and 2.11% by **individual stakeholders (see figure 3).** At the beginning of the year (2019), SKX have 88 holders of record of **Class A Common Stock** (with an undetermined number of beneficial owners) and 36 holders of record of **Class B Common Stocks** (is not publicly traded). The SKX'S Class B Common Stocks is convertible into one share of Class A Common Stocks. According to SKX Share Repurchase Program, in 2018 the **repurchase price** cannot exceed to $150 millions with a par value $0.001 per share. The difference between the two classes of common stock is the voting rights, Class A Common Stocks have the right of one vote per share though holders of Class B Common Stocks have the right of ten votes per share. According to SKX annual report (2018), in February 15, 2019 the company had 133,460,317 of shares of Class A Common Stock and 23,983,312 of shares of Class B Common Stock.

Table 4: Skecher's Governance

Board Members	Audit	Compensation	Nominating and Governance
Robert Greenberg			
Michael Greenberg			
David Weinberg			
Jeffrey Greenberg			
Katherine Blair			
Morton Erlich			
Geyer Kosinski	▲	●	●
Richard Rappaport	●		
Richard Siskind			
Thomas Walsh	●	▲	●

Source: Author; Company data

The **Executive Management** team is composed by four members: Robert Greenberg, Michael Greenberg, David Weinberg and John Vandermore.

Robert Greenberg is the Chairman of the Board and Chief Executive Officer (CEO) of the company since October 1993. He was the Chairman of the Board and President of L.A Gear, Inc, an apparel and casual footwear company from 1979 to 1992.

Michael Greenberg was the National Sales Manager of L.A. Gear Inc. for the West Coast from 1989 to 1992. Since 1993, Mr. Michael Greenberg is the SKX's director.

Since July 1998, **David Weinberg** has been a member of board of directors and since January 2016, he has served as Chief Operating Officer (COO) of the Company.

In 2017**, John Vandermore** was appointed the Chief Financial Officer (CFO). Before in 2004, Mr.Vandermore was the CFO at Walt Disney Imagineering .

The SKX's **Board of Directors** are composed by ten members Robert Greenberg, Michael Greenberg, David Weinberg, Jefferey Greenberg, Katherine Blair, Morton Erlich, Geyer Kosinski, Richard Rappaport, Richard Siskind and Thomas Walsh.

Jeffrey Greenberg was previously the Senior Vice President at Active Electronic Media of the company. Since 2000, he is a member of Board of Directors.

Katherine Blair is member of SKX's Board of Directors. Previously, she was lawyer over 20 years, specialized in corporate and transactional matters as well as mergers and acquisitions.

Morton Erlich worked for 34 years at KPMG LLP and 24 years as an audit partner in the same company. Recently, Mr. Erlich is member of SKX's board of directors since January 2006.

Geyer Kosinski was Chairman and CEO of Media Talent Group. Nowadays, Mr. Kosinski is a member of the Board of Directors of the company.

Since May 1999, **Richard Rappaport** has been the CEO of WestPark Capital. He is a member of SKX's Board of Directors since September 2010.

Richard Siskind, in 1991, founded R. Siskind & Company. Since 1999, he is a SKX's member of the board of directors.

The **Audit Committee** has the purpose to assist the **Board of Directors.** It is composed by Morton Erlich, Geyer Kosinski and Richard Siskind. The **Compensation Committee** includes the following "non-employee directors": Richard Siskind, Morton Erlich and Thomas Walsh. The purpose of Compensation Committee is to produce reports of the executive compensation and supervise the SKX's executive compensation plans. The **Nominating and Governance Committ**ee reviews and proposes changes in the Board of Directors, and it is composed by the following directors: Thomas Walsh, Morton Erlich and Richard Siskind.

Society Responsibility

Figure 4: BOBS for Dogs from Skechers logo

Source: Company data

Figure 5: BOBS for Dogs from Skechers logo

Source: Company data

"94%
Of Skechers-branded shoeboxes are fully recyclable"

Source: Company data

"**85%**
Reduction on the plastic used in footwear packaging. The remaining plastic is 100% recyclable"

Source: Company data

"**100%**
Of the packaging materials are printed with soy-or water-based"

Source: Company data

"**99%**
Of Skechers-branded footwear is packaged in shoeboxes that meet the FSC® standard for responsible sources"

Source: Company data

SKX's aware that sustainability and charity are crucial for the company strategy. In 2015, **BOBS** from Skechers, a partnership with the Petco Foundation donated **3.9 million dollars** to **Best Friends Animals Society,** saving the lives of more than **241.000 animals**. In addition, Skechers donates children's shoes to various US institutions, such as **Delivering Good**. In 2018, SKX donated more than **395,000 pairs of shoes** through the BOBS program. **Skechers Foundation** donates funds to more than **50 charities**. The foundation's main objective is to help family's trough job training, fitness and nutrition, scholarship programs and educational opportunities. Skechers Pier to Pier Friendship Walk program is the country's largest for children with special needs and education. Since its inception they have raised more than $11 million.

SKX has received from the **U.S Green Building Council** the **LEED-Gold certified** facility. The **U.S Green Building Council** is a program for buildings and green communities around the world. Its main goal through **LEED** is to use resources for a **sustainable future**. All of the four SKX's buildings have been designed to receive **LEED Gold certification** upon completion, thus showing that the company remains focused on the incorporation of an environmentally friendly philosophy. The company also focus on improvement/reduce waste and water resources.

"As the **third largest** worldwide athletic lifestyle footwear brand I'm proud of the ongoing efforts we are making to **reduce** our footprint as we've **increased** our global presence"- Michael Greenberg, president of Skechers, September 2019

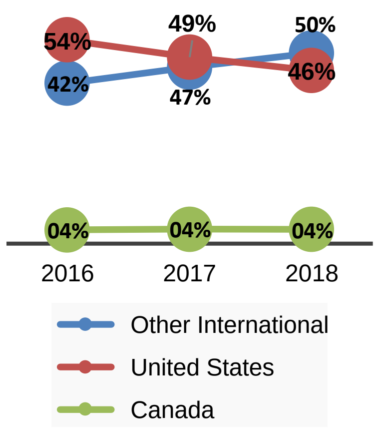
Source: Company data

Historical Financial Analysis

As previously mentioned, SKX's revenue is divided into **athletic shoes** (including international wholesale, direct subsidiary and distributors), **retail**, **domestic wholesale** and **e-commerce**. Or, measured by **geography**: **other international**, **United States** and **Canada**. In the last years, total **revenue** increased from $3 563.3 millions in 2016Y to $ 4 642.1 million in 2018Y. This represents a **CAGR** of 14.14%.

The **main region** that generates sales is **other international market**. Between 2016Y and 2018Y, the market share of other international markets has increased (see figure 6), from 42.5% to 50.5%. In 2016Y, the **US** accounted for the majority of **market share** with 53.9% and in 2018Y did not exceed 45.8%. The US sales increased from 2016Y to 2018Y ($1920.1 million to $2128.1 million). SKX has headquarter in **Canada**, between 2016Y to 2018Y its market share remains constant at 4%. However, in term of sales volume, the US and Canada have not decreased (see table 5).

Figure 6: Proportion of sales by region 2016-2018 (in percentage)



Source: Author; Bloomberg source

Table 5: Historical Sales by region ($M)

	2016Y	2017Y	2018Y	CAGR
Other International	1 512,7	1 948,3	2 342,1	24,43%
% of total sales	42,5%	46,8%	50,5%	
United States	1 920,1	2 055,5	2 128,1	5,28%
% of total sales	53,9%	49,4%	45,8%	
Canada	130,6	160,4	171,9	14,73%
% of total sales	3,7%	3,9%	3,7%	
Total Revenue	**3 563,3**	**4 164,2**	**4 642,1**	**14,14%**

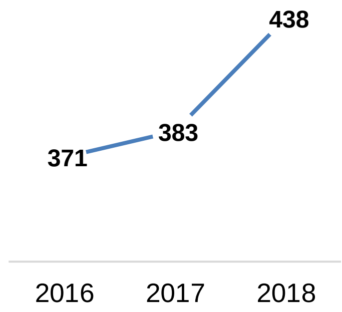
Source: Author; Bloomberg source

Figure 7: Proportion of sales by distribution channel 2018 (in percentage)

Source: Bloomberg source

The **main distribution channel** is **International Wholesale,** this segment generates revenues (see figure 7). In 2018Y, generates $ 2054.8 millions (+ 6.1% then the previous year). Retail segment and domestic wholesales, in 2018Y, generated $1 327.7 and $1 259.6 million, respectively. In 2018Y, the international wholesale accounted for 44.3% of the revenue whereby 37.1% to direct subsidiary and only 7.2% from distributors. 28.6% of the revenue was for retail and 27.1% was for domestic wholesale. Between 2017Y to 2018Y, the international wholesale grew by 18.80%, direct subsidiary grew 23%, distributors grew 0.80%, retail grew 12% and the domestic wholesale grow 7.70% (see table 6).

Figure 8: Historical Operating Income ($M)



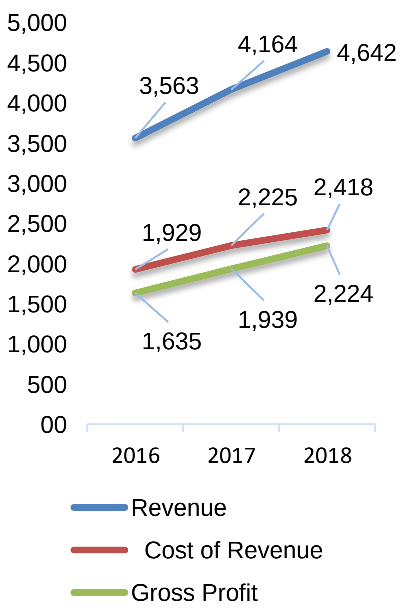
Source: Bloomberg source

Table 6: Historical Sales by distribution channel

	2016Y		2017Y		2018Y	
International Wholesale	1 391,2	39,0%	1 729,9	41,5%	2 054,8	44,3%
Direct Subsidiary	1 090,0	30,6%	1 399,0	33,6%	1 722,0	37,1%
Distributors	303,2	8,5%	330,6	7,9%	333,3	7,2%
Retail	972,2	27,3%	1 185,0	28,5%	1 327,7	28,6%
Domestic Wholesale	1 199,8	33,7%	1 249,3	30,0%	1 259,6	27,1%
E-commerce	–		–		–	
Athletic Shoes	**3 563,3**	**100%**	**4 164,2**	**100%**	**4 642,1**	**100%**

Source: Author; Bloomberg source

Figure 9: Historical Revenue, Cost of Revenue and Gross Profit ($M)

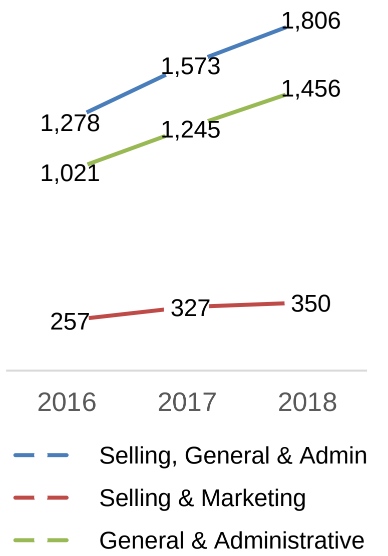


Source: Author; Bloomberg source

Regarding **gross profit margin**, it increases in period between 2016Y to 2018Y. In 2016Y, the gross profit margin equaled 45.87% of the sales and in 2018Y increase to 47.90% of sales ($1 634,6 million in 2016Y to $2 2418,5 million in 2018Y). This trend is explained by the increase of sales and by the reduction of the cost of sales.

General and administrative expenses increased by 42.63% ($1 020,8 million in 2016Y to $1 456 million in 2018Y). General and administrative expenses accounted for 31.37% and 28.65% of sales, in 2018Y and 2016Y respectively. This increase was primarily related to the growing international operating in China and Japan.

Figure 10: Historical Selling, General & Admin, Selling & Marketing and General & Administrative ($M)



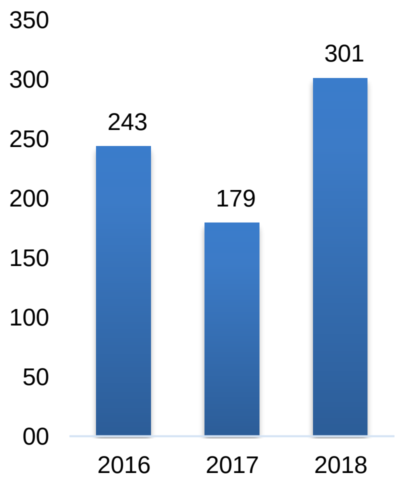
Source: Author; Bloomberg source

The **other operational cost** includes **selling & marketing and selling expenses.** Selling & marketing increased between 2016Y and 2018Y from $257.1 million to $350.4 million, representing 31.4% of sales. The increase in selling expenses, are due primarily the result of the higher adverting of $17.6 million, and an increase in sales commissions (see figure 10).

Operating income increased from $370,5 million in 2016Y to $437,8 millions in 2018Y. As a percentage of sales, EBIT remained constant at 10% (see figure 8).

On December 2017, the U.S. government authorized comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act. This legislation reduces the **corporate tax rate** from 35% to 21%. Due to this, SKX's effective income tax rate and income tax expense could have a significant impact on the domestic and foreign earnings. SKX have operations in the non- US jurisdictions, the statutory rate is lower than U.S. ranging from 0% to 34%. According to historical data, SKX's **effective tax rate** for 2018, 2017 and 2016 was 14%, 38.8% and 20.06%, respectively.

Figure 11: Historical Net Income ($M)



For the reasons mentioned above, **net income** had been increased from $243.5 million in 2016 to $301.3 million in 2018 (see figure 11).

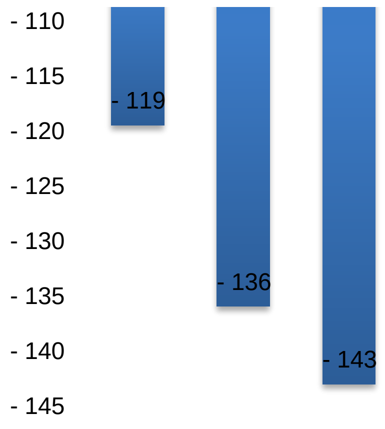
SKX **working capital** had also increasing between 2016Y to 2018Y (sse table 7). This increase is mainly explained by the increase in **total current assets** ($1827.77 millions in 2016Y to $2472.14 millions in 2018Y) in relation to the **total current liabilities** ($621.73 millions in 2016Y to $850.22 millions in 2018Y). SKX **net working capital (NWC)** had increased from $479.63 million in 2016 to $740.79 million in 2018, due to an increase in **cash and cash flow equivalent** ($718. millions in 2017Y to $872.2 millions in 2018Y).

Table 7: Historical Working Capital and Net Working Capital ($M)

In Millions of USD	2016Y	2017Y	2018Y
Current Assets			
Total Current Assets	1827,77	2105,02	2472,14
Current Liabilities			
Total Current Liabilities	621,73	597,35	850,22
Working Capital	**1206,04**	**1507,68**	**1621,92**
Cash and Cash Flow Equivalent	718,54	736,43	872,24
Current Portion of Long-Term Debt	1,78	1,80	1,67
Short-Term Borrowings	6,09	8,01	7,22
Net Working Capital	**479,63**	**761,43**	**740,79**
Changes in NWC		***281,80***	***-20,64***

Source: Author; Bloomberg source

Figure 12: Historical Capital Expenditure ($M)

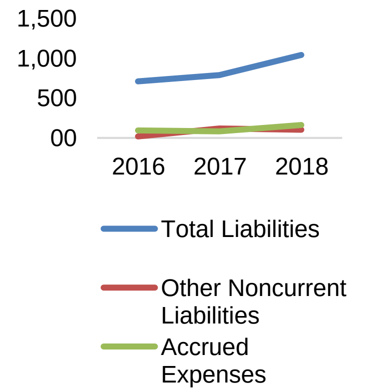


Source: Author; Bloomberg source

The **investing activities** increased 2016Y and 2018Y from ($145.6 million to $319.4 million) was due to an increase in **capital expenditure** (see figure 12)**.** In 2018Y Capital Expenditures were approximately $143.0 million and for 2016Y capital expenditures was $136.0 million. This increase is primarily due to increase of the number of retail shops and remodeling, such as in China, supported by the international wholesale operations and to domestic distribution center.

Total liabilities (see figure 13) increase significantly between 2016Y and 2018Y from ($708.2 millions in 2016Y to $1 039.0 millions in 2018Y) due to an increase in **other non-current liabilities** ($18,9 millions in 2016Y to $100.2 millions in 2018Y), and in the other hand, an increase in **accrued expenses** ($93.4 million in 2016Y to $161.8 million in 2018Y).

Figure 13: Historical Total Liabilities, Other Non-current Liabilities and Accrued Expenses ($M)



Source: Author; Bloomberg source

3. Core Countries Outlook

Global Economic Outlook

In this section, we will review briefly the macro-economic setting where the company operates. SKX sales are divided into the following geographies: the US, Canada and other International markets. The company will continue its internationalization process, across all the world with a strong focus more in the Asia region. From 2016Y to 2018Y, the World Gross Domestic Product (GDP) increased from 3.4% to 3.6% (see figure 14). Nevertheless, in 2019, the International Monetary Funds (IMF, 2019) expected a decrease to in world GDP at 3.3%. Then, it is expected to increase and remain constant from 2020F until 2023F at 3.6%. Regarding the inflation rate, it is expected to remain constant from 2018Y until 2020F at 3.6%. After 2021F it is expected to decrease to 3.5% and reduce further to 3.4% in 2013F.

US Economic Outlook

The US is one of the main regions where company operates. The **real GDP growth rate** increased from 1.6% to 2.9% between 2016Y to 2018Y (see figure 15). According to IMF (2019), the country expects an economic slowdown between 2019F to 2023F from 2.3% to 1.6%. The **inflation rate** has been inconstant in the past years, and it is predicted to increase between 2019F to 2020F from 2% to 2.7% (see figure 16). Afterwards, it is predicted a decrease in 2021F (2.3%), and after than it is predicted to remain constant until 2023F (2.2%). Following the 2008 economic crisis, the employment has improved. According to IMF (2019), **unemployment rate** seems to follow the same upward trend along of the years, it is expected to shift slowly between 2019F to 2023F from 3.8% to 4%.

The **U.S population** is growing steadily every year. Between 2016Y to 2017Y, the U.S population grew by 0.7% percent.

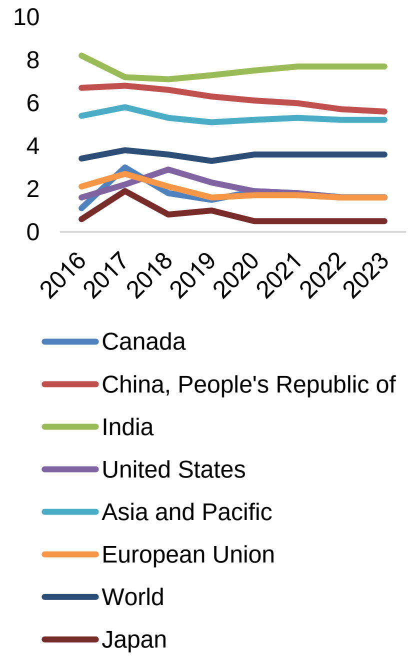
For all the above, the U.S economic outlook for the next years is **in favor** to SKX business.

European Union

The Euro is the second largest reserve currency as well the second most traded currency in the world after dollar. According to IMF (2019), **real GDP growth** will decline between 2018Y to 2019F from 2.1% to 1.6%, then will increase slowly to 1.7% until 2021F. After 2021F, real GDP growth will decline to 1.6%. The **inflation rate** has been inconstant in the past years, slowing in 2018 to 1.9% and it is expected to keep growing in the next years, reaching to 2% in 2023F (see figure 17). In the future, according to IMF (2019), between 2018 to 2023F, is expected that European union **population** grew by 1.034%. Afterall, European economic outlook for the next years is **favorable** to SKX business.

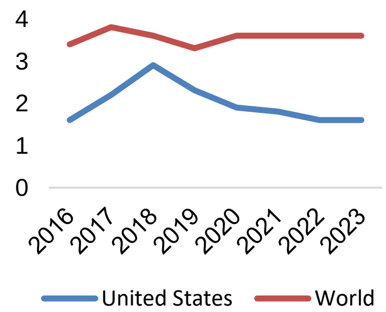
Canada Economic Outlook

Figure 14: World's GDP Growth (%)



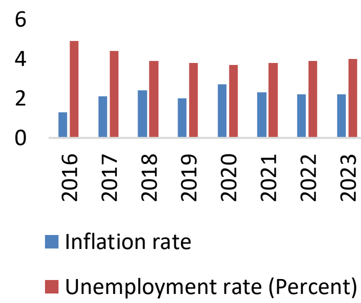
Source: Author; IFM, World Economic Outlook Database, April 2019

Figure 15: World vs US: real GDP growth (%)



Source: Author; IFM, World Economic Outlook Database, April 2019

Figure 16: World vs US: Inflation rate and Unemployment rate (%)



Source: Author; IFM, World Economic Outlook Database, April 2019

The company is based on Canada. Over the years there has been a gradual increase in **population**. In 2017 to 2023F, it is predicted to grow by 7.8% of the Canadian population, according to IFM (2019). Between 2017Y to 2018Y, the **real GDP growths**, drastically drop, from 3% to 1.8%. From 2019F to 2023F, the real growth rate is expected to be close to 2%. The **inflation rate** is expected to oscillate near to 2% by 2023F (see figure 18).

For all of the above, Canada economic outlook for the next years is **in favor** to SKX business.

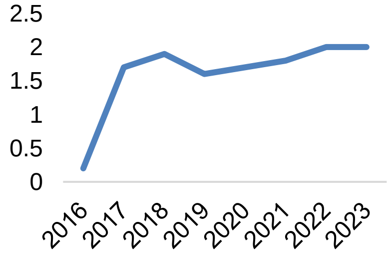
<u>China Economic Outlook</u>

China is the strategic region where SKX is strongly invested. The SKX products are manufactured in China. Over the decades China, has moved from one of the world's poorest countries to the world's second largest economy, and it is expected that China economy while continues to perform strongly. The **real GDP growth rate** of China is predicted to decrease slowly between 2019F, (6.3%), and 2023F (5.6%). The country is focused on high-quality growth, and despite the gradual slowdown along the years of the economy, China might surpass the US, becoming the world's largest economy by 2030F. According to World Bank (2019), China is the second largest country ranked in terms of their GDP based on **purchasing power parities (PPP)**. The inflation rate follows the same down trend as the GDP growth rate. In 2018 the inflation rate was 2.1% and in 2023F, it is predicted to increase to 3%. Although the real GDP growth rate is decelerating the unemployment rate is expected to remain constant by 2013F at 3.8%. According to *World Bank* (2019), China is accounted for 9.8% annual consumption in clothing and footwear sector. China prefers to spend more in clothing and footwear sector than education (7.03%), health (7.32%), energy (5.19%) and transport sectors (6.10%) (see figure 19). Afterall, China economic outlook for the next years is strongly **favorable** to SKX business.

<u>India Economic Outlook</u>

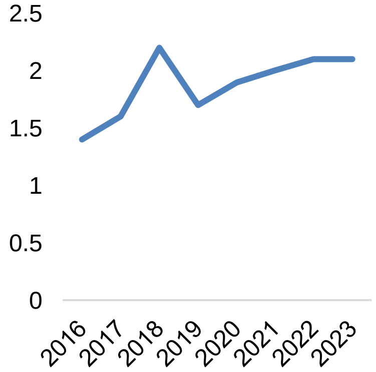
According to IFM (2019), India is the world's seventh-largest economy by nominal GDP and the third largest by GDP based on **PPP**. India is the second largest consumer of footwear, reflecting its strong economic trends and demographic aspects. India has surpassed China, as the world's fastest growing economy. According to IMF (2019), **real GDP growth** is expected to increase between 2018Y to 2023F from 7.1% to 7.7%. The **Inflation rate** is expected to increase between 2018Y and 2019F from 3.5% to 3.9%, then it is expected to remain constant over the years at 4.2%. The long-term growth perspective of **India's population** is to increase by 6.8% between 2018Y to 2013F from **1334.221 million** to **1424.063 million** of people. More than half of India population are under 25 years old. According to World Bank (2019), **5.98% of India's household total consumption** is for **clothing and footwear goods** (see table 8). India expends more in clothing and footwear than in education (3.8%), health (4.53%) and transportation (5.22%).

Figure 17: European Union: Inflation rate (%)



Source: Author; IFM, World Economic Outlook Database, April 2019

Figure 18: Canada: Inflation rate (%)



Source: Author; IFM, World Economic Outlook Database, April 2019

Table 8: India- Share of Each Sector in Household Total Consumption by Segment in China 2019 (%)

Food and Beverages	44,63%
Clothing and Footwear	**5,98%**
Housing	12,47%
Energy	8,01%
Transport	5,22%
Water Utility	0,24%
Education	3,54%
Health	4,53%
Personal Care	2,39%
ICT	3,27%
Financial Services	0,04%
Others	9,66%

Source: Author; World Bank 2019

Afterall, India economic outlook for the next years is strongly **favorable** to Skechers business.

Japan Economic Outlook

The Japanese major economic indicators have decelerated in 2018, including investment, exports and consumer spending. According to IMF (2019), an increase in the **real GDP growth** although not significant, is envisaged, for the period between 2018Y and 2019F from 0.8% to 1%. The **real GDP growth rate** is expected to drop to 0.5% in 2023F. Japanese inflation is expected to remain positive with slow fluctuations by 2023F, 1.3%. Afterall, Japan economic outlook for the next years **is less favorable** to SKX business compared with the other Asian countries.

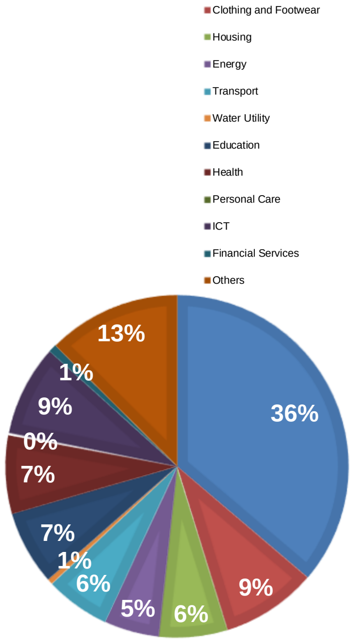
4. Industry Overview

The **global footwear market** is part of the clothing and apparel industry comprised of luxury footwear, athletic footwear, shoes, sneakers, sporting shoes as well as other related goods. Shoes have turned from simple goods into a status icon for consumers. The market is segmented based on type of products, mode of sale and materials. By type, the segments could be divided into athletic and non-athletic footwear. According to material type, the markets can be subdivided into leather and non-leather footwear. SKX operates in the athletic and non-athletic footwear industry. The **key drivers** of footwear industry are the **economic drivers**, **social media**, **ecommerce** and **athleisure trend**. According to Statistics *(2019*), the US had the **largest footwear market** in relations of revenue, **79.86 billion U.S dollars**, flowed by China with **58.31 billion U.S dollars** of revenue in 2017. China is the **leading footwear producer** with approximately **13.1 billion pairs of shoes**. Athletic footwear market was value at USD **64.30 billion** in 2017.

Nowadays, **fashion retailers** see their products as having a short life cycle. The consumers feel the need to look for differentiated products to stay in fashion. This "need" for demand is largely due to what the consumer sees on social networks of friends or celebrities to publish. According to Adweek (2017), **81% of people are influenced by friends posts** and **85% of people are influenced by celebrity**, when making a buying decision. One of the strategies is to inspire consumer to purchase though the athletes and celebrities.

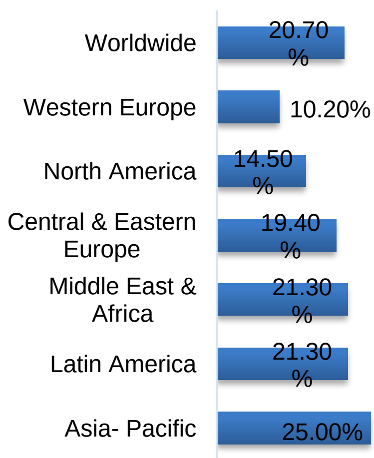
According to *Boohoo* (2017), after **paying superstars** to promote products on Instagram for consumer between **16 to 24 years** the **companies' profits doubled**. According to eMarketer report (2019), it is expected that global retail market will reach $25.038 trillion, an increase of 4.5% (see figure 21) and a retail ecommerce sale will growth 20.7% worldwide in 2019F (see figure 20). According to Ecommerce Market (2019) is expected that retail sales in China will grow 3.5% to $5.291 trillion in 2019F, being that the retail ecommerce sales will represent 36.6% of total retail sales, reaching $1.935 trillion. This significant increase should be related to the

Figure 19: China- Share of Each Sector in Household Total Consumption by Segment in China 2019 (%)



Source: Author; World Bank 2019

Figure 20: Retail Ecommerce Sales Growth Worldwide, by Region 2019 (% change)



Source: Author; eMarketer 2019

following factors: an increase of **mobile users** (5.11 billion users in the world, up 2% in the past year), an increase in **social media users** (3.48 billions of media users in the world, up 9% in the last year) and an increase in **people using social media on mobile devices** (3.26 billions users, up 10% in the last year).

Nowadays, "**athleisure**" is trend of the industry, is the combination of a style that can be used for both physical exercise and general used. Today people have a collection of footwear for casual, formal and athletic needs. According to Morgan Stanley (2017) it is expected to reach **$355 billions of global athletic wear**, up from $ 20 billion in 2019F. According to BlueWeave Consulting (2019), the global footwear market is expected to **grow significantly** during the forecast period 2019-2025, since that, footwear gaining popularity as fashion accessory among consumers.

There are several **macroeconomic factors** that contribute to a favorable environment in the footwear industry, these factors and the competitive environment of the industry was made through **PESTL analyze**.

Political Factors: SKX's manufactured their footwear in foreign countries, such as China. Foreign manufacturing and sales are subject to a number of risks, including the political factors. A political instability can limit (1) goods manufactured; (2) labor costs; (3) increased cost of raw materials; (4) currency exchange rate fluctuations; (5) change compliance in foreign laws; (6) import and export controls.

Social Factors: the millennials have brought a new focus on fitness and health to the market, everyday clothes are comfortable, and they dress as if they are working out. **Consumer behavior** and **lifestyle influence** the number of sales. In most countries, participation in sports is embedded in their culture. The **brand preferences** and high quality over price are valued in the footwear industry. As **obesity rate** is rising and people are becoming more 'health conscious', this translate into more individuals moving towards **better lifestyles**, buying more sports apparel. The footwear adopted this trend and adapted to **health problems**. The **increase in female members** at Olympic Games (see figure 22) and a **higher education levels** are the others main factors related to an increase of footwear industry, for example one of the Puma strategies is to focus on women. These athletic women will be looking for **fashion trends** and **better fits** athletic. Lastly, consumers are looking for companies that are **environmentally** and **socially** (sustainable) **conscious**.

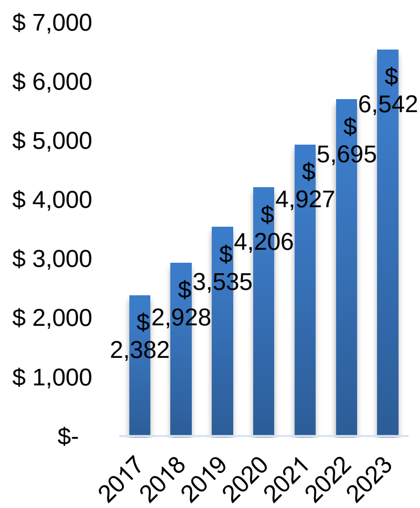
Technological Factors: the **social media** and the increase in **ecommerce** have footwear's sales. Since that, **new technologies** allow companies to improve their sneakers, for example increasing comfort and performance. These technologies permit the companies to be more efficient, reducing **manufacturing costs**.

Legal factors: footwear companies avoid paying substantial amount of taxes by shifting of profits to offshore tax havens. The companies have to ensure that all their promotions give a true representation of the products being advertised, in order not to break the laws of the **Trade Descriptions Act**.

Today, people don't walk into a retail store to find their next look—they turn to their social media feeds to see what's happening around them with friends or people they admire.- How Social Media Contributed the Rise of Fast Fashion (ADWEEK, 2017)

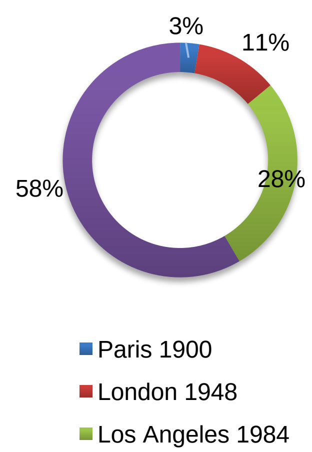
Since 2007, global sales of athletic wear have increased 61%. Faster supply chains that growth for years to come.- Morgan Stanley 2017.

Figure 21: Retail Ecommerce Sales Worldwide ($T)



Source: Author; eMarketer2019

Figure 22: Historical and Forecasted Female Participation at Olympic Games



Source: Author; Olympic Games 2019

Main competitors and Peer Group

To find the peer group, the **first step** was to select the firms included in Bloomberg under Textiles, Apparel & Luxury Goods. This includes Puma, Adidas, Skechers, Nike, Under Amour, Geox and VF Corp. Then, as **second step**, we eliminated the companies that did not have footwear as its primary source of revenue or did not have a stronger market presence in the US and Europe. In the **third** and **final step**, we decided to eliminate the companies with a market capitalization lower than $1billion. At the end, the peer group includes Puma, Adidas, Nike and Under Amour and Skechers. Next, we briefly analyze the peer group.

Puma SE

This German group was founded in 1948 by Rudolf Dassler, after a family disagreement that originated inside the Adidas group and Puma. Puma design manufactures athletic and casual footwear, apparel and accessories products. In 2018, the company generated €4 648.30 million. To this, 47% of sales was in footwear, 36.3% apparels and 16.7% for accessories (see figure 24). Currently has a **market capitalization** of €10.50 billion and a **total revenue** of €4 235.80 million in 2017Y, 11% higher than the previous year.

Strategies: The company have defined five priorities. (1) **marketing** them to strengthen their positions as a sports brand through partnerships with some of the most elite athletes, such as the legend Usain Bolt and Antoine Griezmann. In order to connect with younger audiences, they work with cultural and fashion icons, such as Selena Gomes and Cara Delavigne; (2) improve the **product** trough of **innovations, designs** and **products**; (3) **Women** are a priority for the company. The company has developed and improve the female fashion trends; (4) they improved the quality of **distribution**, by strengthening the relationship with key retailers; (5) they improved IT infrastructures.

Adidas's AG

This group was founded by Adolf Dassler. According to Bloomberg (2019), the company has a **market capitalization** approximately of €56.958 billion and a **total revenue** of €21.915 billion in 2018Y, 8% higher than in the previous year. In footwear, Adidas's generate a total sale of €12.783 million, 3% higher than 2017Y (see table 9). Footwear represents approximately 58% of company total sales. In 2018Y, the company gross margin increases 1.4pp to 51.8%.

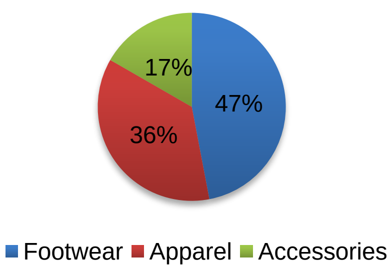
Figure 23: Puma logo

€4.6 billions of **sales** in 2018

€419 millions of **EBITDA** in 2018

Source: Author; Puma's company

Figure 24: Puma Sales by segment 2018



Source: Author; Puma's company

Figure 25: Adidas logo

Table 9: Adidas Sales by segment 2018 (%)

	2018	2017
Footwear	47.0%	47.7%
Apparel	36.3%	34.9%
Accessories	16.7%	17.4%

Source: Author; Adidas company

Strategies: One of the Adidas's strategies is to anticipated trends. They want to improve the product through **innovation,** and opening more stores in cities, since that the global population lives in cities.

Figure 26: Nike logo

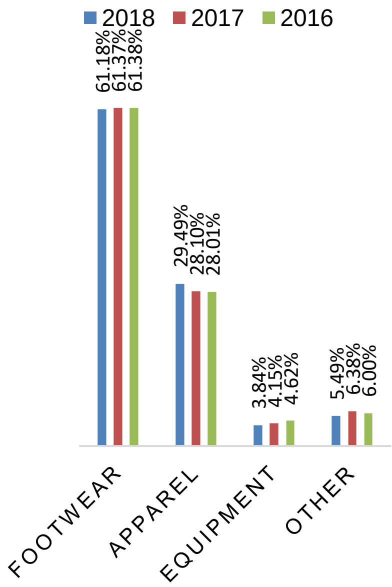
Source: Author; Adidas company

Nike, Inc.

The company was founded in 1964 by Bill Bowerman and Phil Knight. Nike is one of the most brands values among sports business. This company have 3 main sources of revenue the footwear, apparel and accessories (see figure 27). The company generates a **total revenue** of $36,397 million, in 2017Y, 6% higher than the previous year. Approximately 61% of the total revenue are generated by footwear sales. Currently has a **market capitalization** of $144.639 billion.

Nike's strategies: Nike wants to improve their product through the innovation, technology and sustainable design. Nike wants to place on the market the **right product** with the right price. They also want to improve their **supply chain**.

Figure 27: Nike Sales by segment 2018



Source: Author; Nike company

Under Amour, Inc.

The company was founded in 1996 by Kevin Plank. The company American manufactures footwear, sports and casual apparel. The company generates a **total revenue** of $5.193 million in 2018Y, 4% higher than the previous year. **North of America** is the major segment by region, representing 72% of the total revenue followed by EMEA and Asia Pacific with 11% of the total revenue (see figure 27) The company currently has a **market capitalization** of $8.029 billion.

Under Amour's strategies: The company wants to focus on **marketing**. They have strengthened their positions as a sports brand through **partnerships** with some of the most elite athletes, such as: Michael Phelps, Stephen Curry, Tom Brady, and a Gisele Bündchen. Endorsing these world renown athletes increases the **social media presence** of the company. They also focus in improving **distribute channel**.

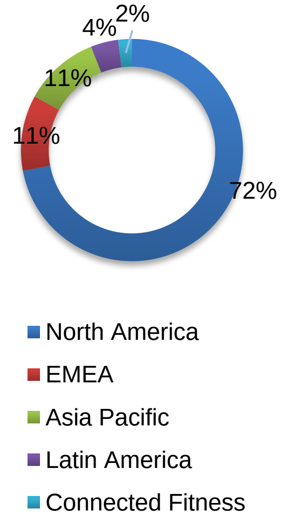
Figure 28: Under Amour

Competitive Position:

Industry Swot Analysis

Strengths	Weakness
-Diversified portfolio of products; -E-commerce; -Brand legacy; -Focus on client behaviors- innovation to follow new consumer's needs and their preferences; -Loyal clients.	-High dependence on retail distributors; - Production in developing countries.
Opportunities	**Threats**
-New markets; -World economic recovery; -New product lines; -Changing lifestyle- higher concern with healthy lifestyles.	-Political and economic instability; -Strong competitors worldwide; -Counterfeit products.

Figure 29: Under Amour Sales by region 2018 (%)

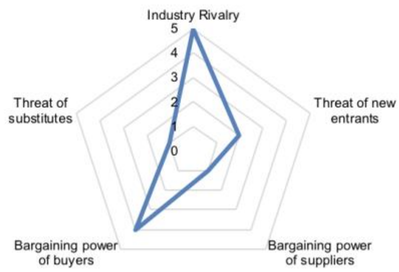


Source: Author; Under Amour company

Porter's 5 forces

Bargaining Power of Suppliers (Low)

Figure 30: Porter's 5 forces



Source: Author

The footwear industry has a high overall supply of raw materials spread around the worlds, sneakers are usually manufacturing using leather, textile and synthetical material. All of the companies in textile- apparel, footwear & accessories industry buy their raw material from numerous suppliers. Powerful suppliers in this sector can use their negotiating power to extract higher prices from the firms. However, major firms such as SKX, can switch suppliers without decrease in quality.

Threat of new entrants (Low)

In order to enter into the footwear industry, it is necessary a high capital investment. This industry faces a high entry barrier due to a strong brand loyalty and economies of scale and scope. The access to distribution opportunities is limited due the top brands have already their market share and they already have agreements with celebrities, athletes and retailers.

Bargaining Power of Buyers (Medium/high)

SKX's sell its products primarily to retailers who distribute the products to the final customer. Footwear industry are controlled by a few retailers, they also control market shares. For SKX customers often seek discounts and offerings. If SKX's rapidly innovate their products with new products, then can limit the barging power of buyers.

Threats of Substitutes (Low)

The footwear industry is divided in athletic or non-athletic shoes. SKX's portfolio is composed by both types of footwear, the substitutes are not perfectly substituted by another type of footwear, but the substitutes could be counterfeited footwear products, sandals, dress shoes, boots are other non-athletic footwear. According to OCED (2016), footwear industry is one of the most industries affected by counterfeit products. In 2016Y, 22% of the total footwear was seized counterfeit. The company sells through different channels. Firms are using ecommerce and apps to circumvent the power of the retailers and distributors.

"69% of participants ***who bought a counterfeit were satisfied with the product to some extent"***

Source: Red Points, 2019

Industry Rivalry (High):

They are few big players on footwear industry across of the world. This industry has a highly competitive position. In order to get market share, companies use brand name and the loyalty of the clients. The companies try to produce more products, instead to capture more consumers. Another way to capture consumers is through price and discounts/promotions.

5. Investment Summary

With a **price target** of **$43.38**/sh for YE2019, an **upside potential** of **27.01%** from the current price of **$31.66**/sh, using the DFC, more specifically the **FCFF method**, and a medium risk assessment, our recommendation stands for **STRONG BUY**. **APV method** supports this strong buy recommendation. The **relative valuation through** multiples support our recommendation, since we obtained a **price target** of **$52.12**/sh, representing an **upside potential** of 42.57%.

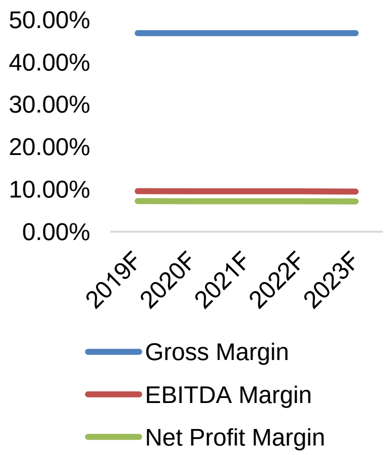
Table 10: Valuation Summary

DCF	
Enterprise Value	$7727,88
Price Target at 2019F	$43,38
APV	
Price Target at 2019F	$41,59
Multiples Valuation	
EV/EBITDA price target	$51,91
EV/SALES	$58,34

Source: Author

Economic growth, unemployment rate, inflation rate and purchasing power have been identified as the main economic drivers for the sector. Depending on the location, each driver impacts the company differently. The company is highly exposed to economic slowdown and change on consumer preferences Terminal growth rate is also considered a key factor for valuation, it is expected to be equal of 2.90% and was calculated based as a weighted average of growth rate for each main region, where the weights are region's sales.

Figure 31: Forecasted Gross Margin, EBITDA Margin and Net Profit Margin (%)

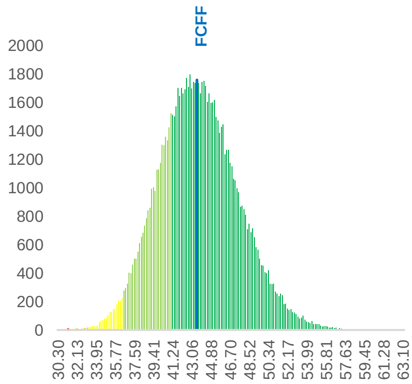


Source: Author

Valuation Methods

In order to evaluate SKX, we used two different valuation methods, an absolute and a relative valuation method. Considering the absolute valuation method, we used the **Free Cash Flow to the Firm** and the **Adjusted Present Value**. Regarding the relative valuation method, we used the **Comparable Multiples** approach. The comparable multiples used was **EV/EBITDA** and **EV/SALES.** We used this approach as a robustness check for the absolute valuation method. This approach supports the conclusions resultant from the absolute valuation method.

Figure 32: Monte Carlo Price Simulation Distribution



Source: Author; Oracle crystal Ball

Financial Position

Attending on the past performance, is expected that the SKX revenues increase until 2023F. **Gross profit margin**, the company presented a percentage of 45.87% in 2016Y and scope 47.90% in 2018Y. However, it is expected to reduce to 46.8% in 2019F. This reduction will affect **EBITDA Margin**, and it is expected to decline to 9.44% in 2023F (-1.10% in 2019F). **Net profit margin** is expected to increase, 6.49% in 2018 to 7.20% in 2019F (+ 10%) (see figure 31).

Risk Price Target

SKX's industry, is dominated by the following trends: **internationalization**, **e-commerce**, **social media** and **consumer's trend**. We performed a **sensitivity analysis** and a **Monte Carlo simulation** (see figure 32) in order to compute the impact of the main investment's risks of the price target. These two methods support our STRONG BUY recommendation. According to the last one, the price target obtained was **$43.64**/sh.

6. Valuation

To perform SKX valuation, we used the consolidated financial statements for the period between 2016 and 2018, industry and macro-economic information.

Valuation Methodology

We used two different valuations method, in order to evaluated SKX's, an absolute valuation method and a relative valuation method. According to absolute valuation method, we applied two methods the **DCF method** and the **APV method**, in order to compute the SKX's enterprise value. The **Dividend Discount Model (DDM)** was not applicable, since that the company doesn't distribute dividends across of the past years.

In order to achieve the price target, in terms of relative valuation, we used the Market Multiples Approach applying of **EV/EBITDA** and **EV/EBIT** multiples. The selection of the **peer group** was already mentioned in chapter 6.

Key Valuation Drivers

Total Revenue

Following the company's annual reports, the revenues were forecasted for each geographical segment: Other international, the US and Canada. The **other**

international markets (50.5% of weight in 2018Y) is the main region that generates sales, recording a **CAGR** of **24.43%** from 2016Y to 2018.Y The **US** (45.8% of weight in 2018Y) and **Canada** (3.7% of weight in 2018Y) are the other key geographic segment that generates sales, recording a **CAGR** of **5.28%** and **14.73%** from 2016Y to 2018Y, respectively. According to Damodaran (2019), the expected growth rate in revenues for the next 2 years regarding the shoe industry is 4.93%. Historically, the company has been growing above the industry average. Most of the growth will come from other international market, focusing on countries such as China, India and Japan that have not only favorable macroeconomic indicators for their expansion, but also a favorable consumer belief trends will allow the company to penetrate in those new markets. Afterwards, we assume that the volume of sales will grow above of the industry expectation for the next 5 years. We assume that the company will grow 8% YoY until 2023F, similarly to the forecasted growth rate by Bloomberg (April 2019).

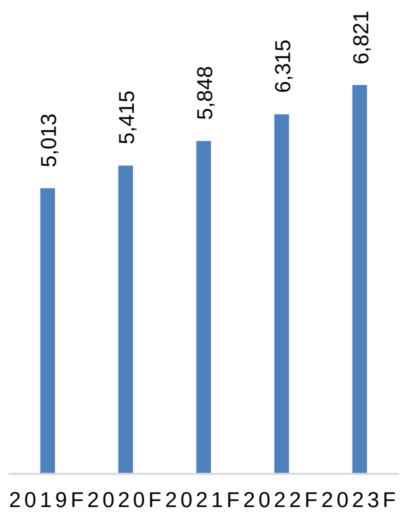
Table 11: Historical revenue by region ($M)

	2016Y	2017Y
Other International	1 512,7	1 948,3
% of total sales	42,5%	46,8%
United States	1 920,1	2 055,5
% of total sales	53,9%	49,4%
Canada	130,6	160,4
% of total sales	3,7%	3,9%
Total Revenue	**3 563,3**	**4 164,2**

Source: Author; Bloomberg

Therefore, it is expected that the **other international** markets increase progressively until 2023F (see table 12). This increase is originated by the **economic factors** such as the real GDP growth, PPP and population growth rate. In the other hand, for **US** is expected to have revenue growth rate compared to other international markets (58% vs to 38.6%). **Canada,** where the economic projections are not expected to be strongly favorable to increase market share until 2023F, will also grow but a smaller rate (3.5%). However, for the US and Canada it is expected an increase in revenues, but slowly decrease on weight of market share. According to eMarketer (2019), the retail ecommerce sales in US is expected to reach to $969.70 billion, representing a CAGR of 13.37% from 2019F to 2023F. The retail ecommerce sales in Canada, follow the same trend of US, representing a CAGR of 13.75% from 2019F to 2023F. (see figure 33).

Figure 33: Forecasted Total Revenue ($M)



Source: Author

Lastly, **other operating income** is expected growth at this same rate growth rate Therefore, the other operating income will growth 0,4% YoY.

Table 12: Historical and Forecasted revenue by region ($M)

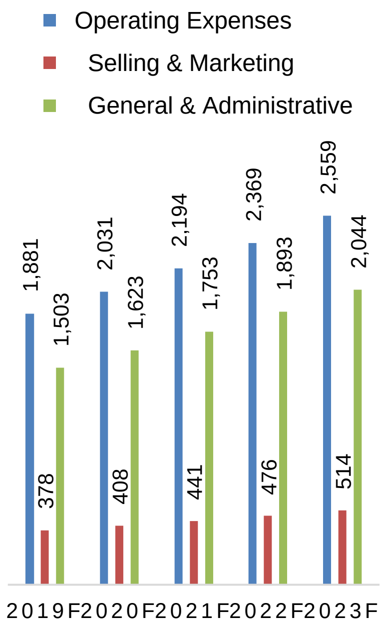
	2018Y	2019F	2020F	2021F	2022F	2023F	CAGR
Other International	2 342,1	2 604,7	2 894,3	3 213,5	3 565,3	3 952,9	11%
% of total sales	50,5%	52,0%	53,5%	55,0%	56,5%	58,0%	
United States	2 128,1	2 225,7	2 325,2	2 426,4	2 529,0	2 632,4	4%
% of total sales	45,8%	44,4%	42,9%	41,5%	40,0%	38,6%	
Canada	171,9	183,1	195,0	207,7	221,2	235,5	7%
% of total sales	3,7%	3,7%	3,6%	3,6%	3,5%	3,5%	
Total Revenue	**4 642,1**	**5 013,4**	**5 414,5**	**5 847,7**	**6 315,5**	**6 820,7**	

Source: Author; Company data

Main Costs

Cost of revenue accounts between 50% and 55% of the sales. Between 2016Y to 2018Y the average cost of sales in relation to sales was 53.22%, so we expect a constant proportion over sales for the next five years. They will follow the average proportion of the last three years. The **other operating expenses** such as selling & marketing, general & administrative and research & development are expected to follow the same behavior on the cost of revenue. The average of the last three years for **selling & marketing** over sales was 7.54%, general & administrative over sales was 30.0% was and it is expected to remain constant along of the years (see figure 34).

Figure 34: Forecasted Operating Expenses, Selling & Marketing, General & Administrative ($M)



Source: Author

Net working Capital

Concerning to NWC, we verified that the current assets such as **accounts receivable**, **inventories**, **prepaid expenses and other**, **allowance for doubtful**, **other receivables,** follow a proportion over sales along of the past three years, so for the future, we assume a similar behavior, computing accordingly to the historical average proportion over sales. For, current liabilities such as **accounts payable-trade** and **accrued expenses**, we assume the same behave than the current assets, it will evolve accordance to the past years (see table 13).

Table 13: Historical and Forecasted revenue by region ($M)

In Millions of USD	2019F	2020F	2021F	2022F	2023F
Current Assets					
Total Current Assets	2703,19	3019,54	3415,59	3899,34	4565,04
Current Liabilities					
Total Current Liabilities	877,07	947,23	1023,01	1104,85	1193,24
Working Capital	**1826,12**	**2072,30**	**2392,58**	**2794,49**	**3371,80**
Cash and Cash Flow Equivalent	997,19	1185,06	1442,36	1776,26	2280,12
Current Portion of Long-Term Debt	2,16	2,33	2,52	2,72	2,94
Short-Term Borrowings	8,67	9,36	10,11	10,92	11,79
Net Working Capital	**818,10**	**875,55**	**937,59**	**1004,59**	**1076,96**
Changes in NWC	***77,31***	***57,45***	***62,04***	***67,00***	***72,37***

Source: Author; Company data

Capital Expenditure (CAPEX)

We assume SKX will continue to invest, in find assets to follow the international strategy of the company. CAPEX was computed fitting the variation between the **Property Plant and Equipment (PP&E)** and the sum of **depreciation**. The total PP&E includes by the sum of **land**, **building and improvements**, **furniture**, **fixtures and equipment's** and **leasehold improvements (see table)**. We expect that the land will remain constant and that building, and improvements, furniture, fixtures and equipment's and leasehold improvements will grow following the historical average between 2016Y and 2018Y. For depreciation, we assume the same behavior of PP&E, growing according the historical average. On the perpetuity, it is assumed that CAPEX will equals to depreciation (see appendix 11)

Table 14: Historical and Forecasted PP&E ($M)

	2016Y	2017Y	2018Y	2019F	2020F	2021F	2022F	2023F
Land	83,16	83,16	83,16	83,16	83,16	83,16	83,16	83,16
Building and improvements	207,67	208,35	246,89	270,14	295,57	323,39	353,84	387,15
Furniture, fixtures and equipment's	297,54	330,64	374,71	420,52	471,93	529,63	594,38	667,05
Leasehold improvements	289,85	357,92	401,51	473,12	557,49	656,90	774,04	912,08
Total PP&E	**878,22**	**980,08**	**1106,28**	**1246,93**	**1408,15**	**1593,09**	**1805,43**	**2049,44**
Less accumulated depreciation and amortization	383,74	438,48	520,82	606,87	707,13	823,95	960,08	1118,70
Property, plant and equipment net	**494,47**	**541,60**	**585,46**	**640,07**	**701,02**	**769,13**	**845,35**	**930,75**

Source: Author; Company data

Discounted Cash Flow Valuation

To achieve the price target, we consider the **valuation period** between 2019 to 2023 with a terminal value in 2024, we applied the DCF (see appendix).

First of all, we compute the **cost of equity** (re) using **Capital Asset Pricing Model (CAPM)** the **risk-free rate (rf)** is the YTM 10- year US treasury yield, retired from Bloomberg (2019),1.48%. We compute the company **market risk premium** (**MRP**) assuming the sum of the US MRP and the average between the **countries risk premium (CRP)** of the main market share: other international includes: China, Europa, India, Japan; US and Canada (see table 14). The US MRP was retired from *Fernandez et al. 2018*, 5.40%. We assume for the European region a Germany CRP. The SKX's MRP is equal to 5.61%, the sum of US MRP 5.40% and the average of geographic region.

For **beta levered** (β_L) factor was calculated by regressing the returns of SKX and S&P 500 of the past five years (60 observations monthly). The resulting **beta levered** equals to **0.81**. According to Bloomberg, the SKX's **beta adjusted** is equal to 0.75. After that, in order to determine β_U, we applied the formula of $\beta_L = \beta_U \times \left(1+\frac{D}{E}\right) \times (1-tc)$ and we get a value equal to **0.74**. Next, we applied the **CAPM** formula to get **cost of equity:** $re = rf + (mrp \times \beta_L)$. The value of re equal to **6.03%.**

For **cost of debt (rd)**, we applied the interest rate method based on **interest coverage ratio**, operating income over interest expenses. Rd is equal to 7.93%. According to Damodaran (2019), effective tax rate of shoes industry, 18.57%. We assume an effective tax rate equal to the shoes industry effective tax rate. (see table 16).

Table 15: Market Risk Premium assumption (%)

Other International	**0,63%**
China	0,84%
Europa	0,00%
India	1,55%
Japan	0,14%

Geographic region	CRP
Other International	0,63%
United States	0,00%
Canada	0,00%
Average	**0,21%**

US MRP	5,40%
Average of Geographic region	0,21%
MRP	**5,61%**

Source: Author; Damodaran Data

Table 16: Cost of Debt assumption (%)

Cost of Debt	7,93%
After tax cost of debt (1-t)	6,46%

Source: Author

The next step, we computed the weighted of equity and the weighted of debt. The weight of equity is equal $E/(E+D)$ and weight of debt is $D/(E+D)$. The weight of equity is 74.08% and weight of debt is 25.92%, assuming this value will remain constant. Lastly, after all inputs needed for **WACC computation**, we applied the following formula: $\boldsymbol{WACC = (weight\ of\ equity \times re) + (weight\ of\ debt \times rd \times (1-t))}$. WACC is 6.14% used to discount the company's free cash flow.

To determine the **perpetual growth rate**, we take into consideration the geographical spread of SKX's and their specific overall economic development in long-term. We ended up with a growth rate of 2.90% (see table 17).

By computing all the inputs needed, we computed the **FCFF** for the forecasting period, discounting it at **WACC**. The FCFF was computed through the formula: $\boldsymbol{FCFF = EBIT\ (1-t) + Depreciation - CAPEX - \Delta NWC}$

Table 18: Free Cash Flow Calculation ($M)

	2019F	2020F	2021F	2022F	2023F	TV
Depreciations	121,14	148,29	181,52	222,20	357,40	357,40
CAPEX	175,75	209,24	249,64	298,41	357,40	357,40
Change in NWC	77,31	57,45	62,04	67,00	72,37	72,37
EBIT (1-tx rate)	395,34	425,69	458,46	493,84	532,06	532,06
FCFF	**263,42**	**307,29**	**328,30**	**350,63**	**459,69**	**459,69**

Source: Author

With this approach we get a **price target**, for the end of 2019, of **$43.38.** The price target represents an **upside potential of 27.01%.** In our perspective, the company is **undervalued,** with our risk assessment we can conclude that company presents a medium risk, being our final recommendation to **STRONG BUY** (see table 19).

Adjusted Present Value

The second model to be performed on this valuation was the APV. The company debt is decreasing along of the years so, we perform the APV, assuming that SKX's will be financed by equity plus the present value of its financial benefits, having in consideration tax shields provided by deductible interests. We started to compute Pretax WACC using the formula of $\boldsymbol{ru = \frac{E}{E+D}re + \frac{D}{E+D}rd}$. The others necessary inputs were already computed previously and can be consulted in appendix 12.

The second step was to determine the interest tax shield (ITS).

Table 17: Growth Rate assumption

Geographic region	Net Sales	GDP growth 2023F	Weighted GDP
Other International	57,95%	3,85%	2,23%
United States	38,59%	1,60%	0,62%
Canada	3,45%	1,60%	0,06%
		g	**2,90%**

Other International 2023F	**3,85%**
China	5,60%
Europa	1,60%
India	7,70%
Japan	0,50%

Source: Author; Damodaran Data

Table 19: Price Target FCFF method

Enterprise Value	$7727,88
Net Debt	$1008,02
Equity Value	$6719,86
No. Of Outstanding Shares	154,92
Price Target at 2019F	$43,38
Price at 30st August 2019	$31,66
Upside Potential	27,01%

Source: Author

Table 20: Price Target APV

Price target for APV method	
EV Unlevered	$1405,13
PV (ITS)	$9,08
PV (TV)	$6037,18
Entity Value	$7451,39
Net Debt 2018YE	$1008,02
Intrinsic Value of Equity	$6443,37
Share Outstanding	154,92
Price Target	$41,59
Price at 30st August 2019	$31,66
Upside Potential	23,88%

Source: Author

Table 21: Interest Tax Shield Calculation ($M)

	2018Y	2019F	2020F	2021F	2022F	2023F
FCFF		263,42	307,29	328,3	350,63	459,69
PVt	1397,30	1224,99	997,56	734,31	431,55	0,00
Debt Capacity (Dt)	663,16	553,33	432,24	300,99	165,67	0,00
Interest Payments	0,00	52,60	43,89	34,28	23,87	13,14
Interest Tax Shield (ITS)	**0,00**	**3,56**	**2,98**	**2,31**	**1,59**	**0,86**

Source: Author

The results obtained **supports** the DCF recommendation of **STRONG BUY**, since it was reached a price target of **$41.55** per share, representing an upside potential of **23.79%**.

Market Multiples Approach

In order to determine the price target through the Multiples Valuation, we used forecast **multiples approach** relative to **2019F**. The process of selecting the peers of SKX is explained in detail in chapter 5. The ratios considered to the market approach were the **EV/EBITDA** and **EV/ Sales**.

First of all, we started to compute an average forecast of **EV/ EBITDA** for 2019F of **16.86** and average forecast **EV/SALES of 2** (see table 23).

Table 23: Peers Multiples

Peers Multiples 2019F		
Peers	**EV/EBITDA 2019F**	**EV/SALES 2019F**
ADIDAS AG	15,53	2,23
NIKE INC -CL B	20,21	3,24
UNDER ARMOUR INC-CLASS A	23,48	1,61
PUMA SE	15,92	1,99
Median	18,065	2,11
Average	18,785	2,236

Source: Author; Bloomberg

For the **EV/EBITDA**, was obtained a price target of **$58.57** for the end of 2019F, representing and **upside potential** of **25.95%** (see table 22).

For the **EV/SALES,** was obtained a price target of **$65,85** for the end of 2017Y, representing a **upside potential** of **51.92%** (see table 24).

Table 22: Price Target EV/EBITDA method

Price Target from Multiple Valuation	
EV/EBITDA	**2019F**
Skechers EBITDA	536,73
Average Peers EV/EBITDA	18,79
SKX EV by Peers estimate	10082,49
SKX Net Debt	1008,02
SKX Equity by Peers	9074,47
Equity Value per share	154,92
Price Target 2019F	58,57
Up/ Down side potential	25,95%

Source: Author; Bloomberg

Table 24: Price Target EV/SALES method

Price Target from Multiple Valuation	
EV/SALES	**2019F**
Skechers Sales	5013,43
Average Peers EV/Sales	2,24
SKX EV by Peers estimate	11210,04
SKX Net Debt	1008,02
SKX Equity by Peers	10202,02
Equity Value per share	154,9
Price Target 2019F	65,85
Up/ Down side potential	51,92%

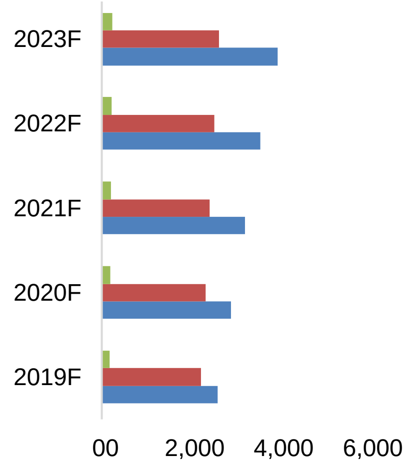
Source: Author; Bloomberg

After, we compute the average of the two multiples and we obtained a price target of **$62.21**, representing an **upside potential** of **49.11%**. The **Market Multiples Approach** support the DCF Valuation recommendation to **STRONG BUY**.

Financial Statements Forecast Analysis

The **total revenues** were predicted according to the trend observed in the last 3 years, across of all of the geographic regions. From 2016Y to 2018Y, the **CAGR** of total revenue was 14.13%. Between 2016Y to 2018Y, the market share of **other international** market had increased, 42.5% to 50.5%. We predict, a significant growth in other international, from 2019F to 2023F, explained mainly by the geographic internationalization and economic factors. The other international markets include China, Europa, Japan and India. For all of these countries, is expected a favorable economics factor to SKX business. Between 2016Y to 2018Y, the US market share has decreased, 53.9% to 45.8%. However, in volume of sales, grew up to $2342.1 million in 2018Y (+ 54.83% than in previous year). For the **US**, is expected a reducing in **market share** in relation to the other international markets. This reduction in market share is explained mainly by economic factors and the internalization already mentioned. However, in volume, it is expected to an increase in US for the next years, 2019F is expected $2 604.7million of sales and $2 632.4 million in 2013F. The **Canada's** market share is expected to remain constant, 4%, with an increase in volume from 2019F ($ 183.1 million) to 2013F ($235.5 million) (see figure 35). Therefore, is expected an **8% YoY** for total revenue.

Figure 35: Forecasted Sales by region ($M)

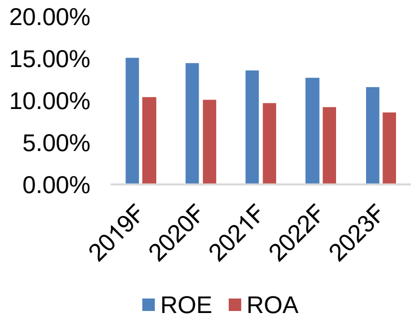


Source: Author

Gross Profit Margin, along of the past 3 years remained between 45% and 50%, and it is expected to remain between the range, approximately 46.8% of sales. This reduction will have direct effects on **EBITDA Margin** that is expected slow decrease from 9.54% 2019F to 9.44% 2023F (- 1.10%) and for **EBT** is expected to decline from 9.5% in 2019F to 9.4% in 2023F due to increased **non-operating income**. In the other hand, **net profit margin** is expected to increase, 6.49% in 2018 to 7.20% in 2019F (+ 10%), however over time the ratio should slight decline (7.13% in 2023F).

Between 2016Y to 2018Y, **ROE** has decreased from 14.45% to 13.75%, explained by an increase on shareholders equity, from $1685.5 million to $2189.3 million. ROE is expected to increase to 13.75% in 2018 to 15.09% in 2019F, and after that a slight decline is projected, 11.80%. Between 2016Y to 2018F, **ROA** had decrease from 10.17% to 9.33%. Following the same trend of the profitability ratios, it is expected that ROA declines to 8.70% in 2023F (see figure 36).

Figure 36: ROA and ROE Forecasted (%)



Source: Author

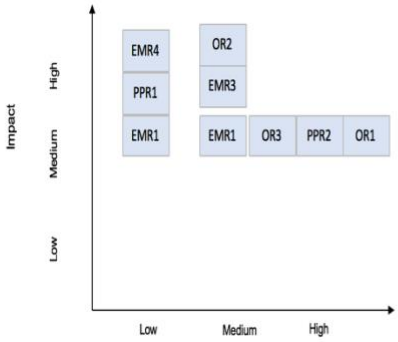
The SKX's **net debt** has increased between 2016Y to 2018Y, from $726.4 million to $881.1 million. The increase in net debt is due to an increase in **cash and cash equivalents**. We predict an increase between 2019F to 2023F, from to $1008 million to $2294.6 million. Cash and Cash equivalent is expected to reach $2280.1 million in 2023F (see appendices cash flow statement).

Economic Value Added (EVA) showed an increased trend along the last 3 years, despite the decrease in 2017Y, from 163. 35 to 172.80. For the forecasted period, it is expected an increase, from 2019F (195.68) to 2023F (652.83) it is justified by the increase on **total assets** ($3473.7 millions in 2019F to $5673.2 millions).

7. Investment Risks

Economic and Market Risks

Figure 37: Risk Matrix



Source: Author

As a company that operates internationally, SKX is exposed to global macroeconomic developments as well their associated risk.

Economic Activity in Emergent Markets (EMR1)

The company is still looking for new markets, on different continents, in order to decertify their portfolio. IFM (2019) expects that markets in which company operates and expects to operate will continue to grow or remain stable **real GPD growth rate** will decelerate in China, the US and in Europe. We assume that this risk **does not have a large** probability of occurring but have a **considerable impact** due to the possibility to affect private consumption.

Foreign Exchange Rates (EMR2)

The **foreign currency fluctuations** affect revenue and profitability. This fluctuation can also adversely impact third parties such as foreign subsidiaries or foreign distributors impacting the price to foreign goods. According to Bloomberg (2019), the currency of **EUR/CNY** and **USD/CNY** rates increased from 2017 to 2018, this was a helpful factor for footwear companies such as SKX with headquarters in USA and productions bases in China, since they were able to pay less for imports. In contrast a depreciation of dollar will mainly affect the company profitability. We assume that it has a **low/medium probability** to occur with **medium impact**.

Interest rates (EMR3)

An increase in **leverage and interest rates** will limits the borrowings needs of companies and consequently the ability to invest in new products, which can lead to a decrease in demand. The SKX's risk management strategies is to use an interest rate swap. SKX's will pay a weighted average fixed rate of 2.08% and receive payments from counterparty based on 30- days Libor. The purpose of using interest rate swap is to reduce the impact of interest rate change on future interest expenses. By using an interest rate swap, SKX is exposure to credit related losses. After all, this risk has a **medium/high** impact and a **low/medium** probability to occur.

Credit Risk (EMR4)

While **global economic** conditions have recently improved slightly, a scenario of a global financial crisis cannot be overturned. If that happens, it would affect a baking system and financial markets. In turn, it will affect the **solvency of distributors** and thus impair the company's distribution channel and may also lead to an inability to obtain credit to finance purchases. We assume a **significant impact** with a **low probability** to happen.

Political and Regulatory Risk

Political Instability (PPR1)

A **political instability** is related to the laws and the regulation available around the world that company has no comply. For example, in China might increase in minimum wages, decrease the working hours per day, among other measures which in the end can affect drastically the labor costs and also the costs of company. We will assume **high impact** with **low probability** to occur.

Taxes and New Policies (PRR2)

All of the changes in the industry regulation, causes instability, since that they can affect the revenue and the profitability of the companies. An increase on **effective tax rate** could affect earnings, since the most significant foreign earnings are generated in low or zero tax jurisdictions. Historically, the company tax rate of 14.5% has been lower than the tax computed at U.S statutory 21%. The future effective tax rates could be unfavorable due to the changes on tax rules and regulations, such as **U.S tax legislation**. The facts mentioned before, we will assume a **high probability** to occur with **medium impact**.

Operational Risks

Brand Reputation Risk (OR1)

Brand name and image have in large part been the strength of the success, which client's loyalty. Nowadays, the risk of brand's reputation increases due to the development of social networks. A simple wrong publication through social networks could be a disaster for SKX brand. Brand name and image could be negatively affected if the company is not able to timely appropriate consumer preferences and trends. Therefore, the company should bet on brand value by making significant investments in development high- quality, innovation fashion products and marketing and adverting campaigns. In the other hands, the company still bet on pop superstars and sports icons, if one of the brand ambassadors is involved in controversial cases and if there is an association with the brand, it can may have a significant effect on brand reputation. Then, we consider that there is a **medium/low probability** to occur, with a **high impact** for the company.

Consumer trends (OR2)

The future success of the company also depends on the ability to respond to changing consumer preferences, interpret and identify **consumer trend**. For this SKX must anticipate changing consumer preferences and trends, otherwise it will originate a decline on sales which in turn will accumulate an excess of inventories. If SKX's had a high level on inventories, the company could sales their goods at a discounted price. Thus, if SKX'S fails consumer trend, will not only generate a negative impact around the customers, as well will generate a negative impact on retailers and distributor relationship. We assume that there is a **low/medium probability** to this risk occur, with a **high impact** for the company

Supply Chain (OR3)

Supply chain visibility that may lead to wrong distribution and waste products if suppliers cannot meet their obligations in the delivery and tracking the products. It is necessary to have an accurate and technological system in order to avoid tracking deviations. Its distribution needs to be solid, otherwise, the value of distribution costs could increase drastically. A challenge on the consumer retail market in the US, can cause a negative impact on SKX's business, which affects not only the ultimate consumer, but also retailers, who are the primary direct customers. Ecommerce change drastically the supply chain. According to Global Ecommerce (2019), is expected for US retail ecommerce sales a **CAGR** of **13.37%**, between 2018Y to 2023F. We believe, a **medium probability** to occur with a **medium/high impact** for the company.

Risk to Price Target

Due to the heavy reliance of Discounted Cash-Flow model on its assumptions it is required to conduct a **sensitivity analysis** with the variables that have a **major impact** on the output. The key variables tested were the **perpetual growth rate** (g), **WACC and weight of debt.**

Sensitivity Analysis

In table 25 show the impact in the price target due to the change in **risk free rate** and **market risk premium** in the price target. In worst scenario, a share price can drop to $29.10 (-32.92%) or rise to $74.12 (+70.10%).

Table 25: Effects of change in rf and MRP

	Share Price	Risk-Free Rate			
Market Risk Premium	$43.38	0,00%	1,48%	1,68%	2,56%
	3.45%	$74.12	$56.33	$54.52	$47.69
	4.78%	$60.25	$47.65	$46.32	$41.15
	5.61%	$53.81	$43.38	$42.25	$37.84
	6.79%	$46.57	$38.37	$37.46	$33.86
	8.56%	$38.53	$32.53	$31.84	$29.10

Source: Author

Monte Carlos Simulation

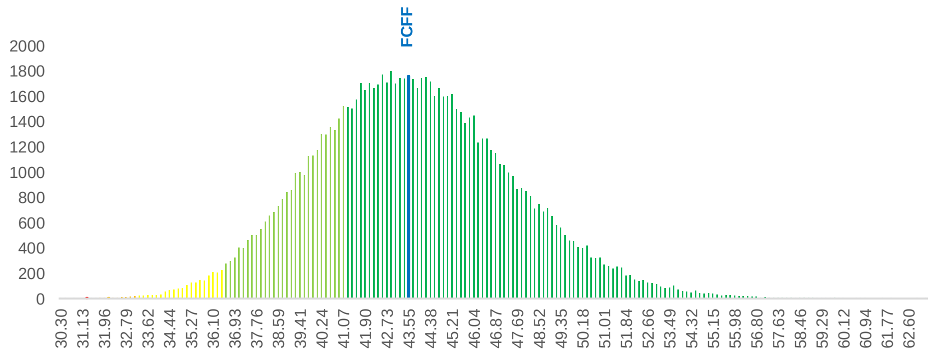
We performed a Monte Carlos simulation executing 100,000 trials, through the Cristal Ball software, in order to have more detail sensitivity analysis to the price target. The inputs tested are the **perpetual growth rate**, **market risk premium** and the **beta unlevered**. The price target reached is **$43.64**/sh supporting a s**trong buy recommendation**. The strong buy recommendation has a **67%** probability of being accurate (see figure 38 and 39).

Figure 38: Monte Carlo Statistics

Trials	100 000
Base Case	$43.38
Mean	$43.64
Median	$43.48
Standard deviation	$3.79
10th percentile	$38.91
90th percentile	$48.60

Source: Crystal Ball simulation

Figure 39: Monte Carlo Price Distribution



Source: Author; Oracle Crystal Ball

Appendices

Appendix 1: Statement of Financial Position

In Millions of USD except Per Share 12 Months Ending	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023
Balance Sheet								
Current Assets								
Cash and Equivalents	718,5	736,4	872,2	997,2	1 185,1	1 442,4	1 776,3	2 280,1
Accounts Receivable - Trade	326,8	405,9	501,9	542,1	585,4	632,3	682,8	737,5
Inventories	700,5	873,0	863,3	989,7	1 068,8	1 154,3	1 246,7	1 346,4
Prepaid Expenses and Other	62,7	62,6	79,0	83,0	89,6	96,8	104,5	112,9
Deferred Income Tax Asset (Short-Term)	—	—	—	—	—	—	—	—
Allowance For Doubtful Accounts	41,6	51,2	25,6	48,6	52,5	56,7	61,3	66,2
Short-Term Investments	—	—	100,0	100,0	100,0	100,0	100,0	100,0
Other Receivables (Short-Term)	19,2	27,1	55,7	39,9	43,1	46,6	50,3	54,3
Due From Parties/Affiliates (Short-Term)	—	—	—	—	—	—	—	—
Total Current Assets	**1 827,8**	**2 105,0**	**2 472,1**	**2 703,2**	**3 019,5**	**3 415,6**	**3 899,3**	**4 565,0**
Noncurrent Assets								
Non-Current Marketable Securities	—	—	—	—	—	—	—	—
Property Plant & Equipment - Net	494,5	541,6	585,5	640,1	701,0	769,1	845,3	930,7
Deferred Income Tax Asset (Long-Term)	26,0	29,9	39,4	38,4	41,5	44,8	48,4	52,3
Total Intangible Assets - Net	—	—	—	—	—	—	—	—
Other Noncurrent Assets	45,4	58,5	131,2	92,0	99,4	107,3	115,9	125,2
Total Non-Current Assets	565,9	630,1	756,1	770,5	841,9	921,3	1 009,7	1 108,2
Total Assets	**2 393,7**	**2 735,1**	**3 228,3**	**3 473,7**	**3 861,4**	**4 336,9**	**4 909,0**	**5 673,2**
Current Liabilities								
Accounts Payable - Trade	520,4	505,3	679,6	691,5	746,8	806,6	871,1	940,8
Current Portion of Long-Term Debt	1,8	1,8	1,7	2,2	2,3	2,5	2,7	2,9
Short-Term Borrowings	6,1	8,0	7,2	8,7	9,4	10,1	10,9	11,8
Accrued Expenses	93,4	82,2	161,8	174,7	188,7	203,8	220,1	237,7
Total Current Liabilities	**621,7**	**597,3**	**850,2**	**877,1**	**947,2**	**1 023,0**	**1 104,9**	**1 193,2**
Non Current Liabilities								
Total Noncurrent Liabilities	86,4	189,5	188,8	203,9	220,2	237,8	256,8	277,3
Notes Payable (Long-Term)	—	—	—	—	—	—	—	—
Long Term Debt	67,2	71,1	88,1	91,8	99,1	107,0	115,6	124,8
Deferred Income Taxes (Liabilities)	0,4	0,2	0,5	0,4	0,5	0,5	0,5	0,6
Other Noncurrent Liabilities	18,9	118,3	100,2	92,4	99,8	107,7	116,4	125,7
Total Liabilities	**708,2**	**786,9**	**1 039,0**	**1 080,9**	**1 167,4**	**1 260,8**	**1 361,7**	**1 470,6**
Stockholder Equity								
Preferred Stock	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Minority/Non Controlling Int (Stckhldrs Eqty)	81,9	119,1	154,3	165,2	176,8	189,3	202,6	216,9
Common Stock	0,2	0,2	0,2	0,2	0,2	0,2	0,2	0,2
Additional Paid In Capital	419,0	453,4	375,0	513,5	554,6	598,9	646,9	698,6
Accumulated Other Comprehensive Income	-26,6	-14,7	-31,5	-35,7	-38,4	-41,3	-44,5	-48,0
Retained Earnings (Accumulated Deficit)	1 211,0	1 390,2	1 691,3	1 749,6	2 000,8	2 329,1	2 742,2	3 334,9
Shares Outstanding	154,9	156,3	153,5	154,9	154,9	154,9	154,9	154,9
Par Value	0,00	0,00	0,00	0,0	0,0	0,0	0,0	0,0
Shares Issued	—	—	—	—	—	—	—	—
Total Shareholders Equity	1 685,5	1 948,2	2 189,3	2 392,8	2 694,0	3 076,1	3 547,3	4 202,6
Shares Authorized	575,0	575,0	575,0	575,0	575,0	575,0	575,0	575,0
Total Shareholders Equity Excluding Minority	1 603,6	1 829,1	2 035,0	2 227,6	2 517,2	2 886,8	3 344,7	3 985,7

Appendix 2: Income Statement

In Millions of USD except Per Share 12 Months Ending	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023
Revenue	**3 563,3**	**4 164,2**	**4 642,1**	**5 013,4**	**5 414,5**	**5 847,7**	**6 315,5**	**6 820,7**
Sales & Services Revenue	3 563,3	4 164,2	4 642,1	5 013,4	5 414,5	5 847,7	6 315,5	6 820,7
Cost of Revenue	1 928,7	2 225,3	2 418,5	2 668,2	2 881,7	3 112,2	3 361,2	3 630,1
Cost of Goods & Services	1 928,7	2 225,3	2 418,5	2 668,2	2 881,7	3 112,2	3 361,2	3 630,1
Gross Profit	**1 634,6**	**1 938,9**	**2 223,6**	**2 345,2**	**2 532,8**	**2 735,5**	**2 954,3**	**3 190,6**
Other Operating Income	13,9	16,7	20,6	20,7	20,8	20,8	20,9	21,0
Operating Expenses	1 278,0	1 572,7	1 806,4	1 880,8	2 031,3	2 193,8	2 369,3	2 558,8
Selling, General & Admin	1 278,0	1 572,7	1 806,4	1 880,8	2 031,3	2 193,8	2 369,3	2 558,8
Selling & Marketing	*257,1*	*327,2*	*350,4*	378,1	408,3	441,0	476,2	514,3
General & Administrative	*1 020,8*	*1 245,5*	*1 456,0*	1 502,7	1 623,0	1 752,8	1 893,0	2 044,5
Research & Development	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other Operating Expense	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Operating Income (Loss)-	**370,5**	**382,9**	**437,8**	**485,1**	**522,3**	**562,5**	**605,9**	**652,8**
Non-Operating (Income) Loss	11,0	-1,4	5,9	6,7	7,3	7,9	8,5	9,2
Interest Expense, Net	5,1	4,3	-4,3	2,6	2,8	3,0	3,2	3,5
Interest Expense	*6,3*	*6,7*	*5,8*	*5,2*	*5,6*	*6,0*	*6,5*	*7,0*
Interest Income	*1,2*	*2,4*	*10,1*	*5,2*	*5,6*	*6,0*	*6,5*	*7,0*
Foreign Exch (Gain) Loss	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
(Income) Loss from Affiliates	—	—	—	—	—	—	—	—
Other Non-Op (Income) Loss	6,0	-5,6	10,2	4,2	4,5	4,9	5,3	5,7
Pretax Income	**359,5**	**384,3**	**431,9**	**478,3**	**515,0**	**554,7**	**597,5**	**643,7**
Income Tax Expense (Benefit)	74,1	149,2	60,6	117,1	126,1	135,8	146,3	157,6
Current Income Tax	79,7	153,3	69,9	124,8	134,3	144,7	155,8	167,9
Deferred Income Tax	-5,6	-4,2	-9,2	-7,6	-8,2	-8,8	-9,5	-10,3
Tax Allowance/Credit	—	—	—	—	—	—	—	—
Income (Loss) from Cont Ops	**285,4**	**235,1**	**371,3**	**361,2**	**388,9**	**418,8**	**451,1**	**486,0**
Net Extraordinary Losses (Gains)	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Discontinued Operations	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
XO & Accounting Changes	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Income (Loss) Incl.	**285,4**	**235,1**	**371,3**	**361,2**	**388,9**	**418,8**	**451,1**	**486,0**
Minority Interest	41,9	55,9	70,2	0,0	0,0	0,0	0,0	0,0
Net Income, GAAP	**243,5**	**179,2**	**301,0**	**361,2**	**388,9**	**418,8**	**451,1**	**486,0**
Preferred Dividends	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other Adjustments	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Net Income Avail to Common, GAAP	**243,5**	**179,2**	**301,0**	**361,2**	**388,9**	**418,8**	**451,1**	**486,0**
Basic Weighted Avg Shares	154,2	155,7	155,8	156,6	157,5	158,3	159,2	160,0
Basic EPS, GAAP	**1,58**	**1,15**	**1,93**	**2,31**	**2,47**	**2,65**	**2,83**	**3,04**
Diluted Weighted Avg Shares	155,1	156,5	156,5	157,1	157,8	158,5	159,2	159,9
Diluted EPS, GAAP	**1,57**	**1,14**	**1,92**	**2,30**	**2,46**	**2,64**	**2,83**	**3,04**

Appendix 3: Cash Flow Statement

In Millions of USD except Per Share 12 Months Ending	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023
Cash Flow								
Cash From Operating Activities								
Net Income - CF	285,4	235,1	371,3	361,2	388,9	418,8	451,1	486,0
Depreciation	66,1	82,8	99,0	121,1	148,3	181,5	222,2	357,4
Depreciation And Amortization - CF	—	—	—	—	—	—	—	—
Deferred Income Taxes - CF	-11,9	-3,9	-9,8	-8,0	-8,6	-9,3	-10,1	-10,9
Provision For Doubtful Accounts - CF	30,8	18,4	35,7	38,1	41,1	44,4	48,0	51,8
Minority Interest - CF	—	—	—	—	—	—	—	—
Bad Debt Expense	—	—	—	—	—	—	—	—
Write-Downs	—	—	—	—	—	—	—	—
Disposal/Sale of Assets	—	-2,2	0,6	0,6	0,7	0,8	1,0	1,1
Stock Based Compensation	23,1	28,9	30,5	35,0	40,3	46,3	53,3	61,3
Other Non-Cash Items	0,4	—	—	—	—	—	—	—
Chg in Non-Cash Work Cap	-36,3	-196,8	22,3	24,4	26,8	29,4	32,3	35,4
Impairments	—	—	—	—	—	—	—	—
Tax Benefit From Exercise of Stock Option-Oper	—	—	—	—	—	—	—	—
Amortization of Intangibles	—	—	—	—	—	—	—	—
Other Amortization of Non-Cash Expenses/Gains	13,1	13,7	10,7	11,2	11,8	12,4	13,0	13,7
Change in Other Assets	-5,1	-8,9	-1,7	-1,7	-1,7	-1,7	-1,7	-1,7
Total Cash Flows From Operations	**361,6**	**159,3**	**568,6**	**592,5**	**658,4**	**733,8**	**820,5**	**1 005,9**
Amortization Of Financing Costs - CF	—	—	—	—	—	—	—	—
Foreign Exchange Gains/Losses	-3,9	-7,7	10,1	10,4	10,7	11,1	11,4	11,8
Cash From Investing Activities								
Disposal of Fixed Assets	—	—	—	—	—	—	—	—
Capital Expenditures	**-119,5**	**-136,0**	**-143,0**	**-175,8**	**-209,2**	**-249,6**	**-298,4**	**-357,4**
Proceeds From Short-Term Investments	—	—	—	—	—	—	—	—
Purchases of Short-Term Investments	—	—	—	—	—	—	—	—
Proceeds From Investments	0,2	0,3	269,7	269,7	302,4	339,1	380,1	426,2
Purchases of Investments	-3,8	-2,3	-446,1	-446,1	-446,1	-446,1	-446,1	-446,1
Acquisition of Business	-22,5	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Proceeds From Long-Term Marketable Securities	—	—	—	—	—	—	—	—
Purchase of Intangibles	0,0	-0,2	0,0	0,0	0,0	0,0	0,0	0,0
Total Cash Flows From Investing	**-145,6**	**-138,3**	**-319,4**	**-352,1**	**-352,9**	**-356,7**	**-364,4**	**-377,4**
Cash from Financing Activities								
Issuance (Repurchase) of Capital Stock	5,1	5,5	-94,7	-94,7	-94,7	-94,7	-94,7	-94,7
Issuance (Repayment) of Debt	-15,7	4,0	16,9	16,9	16,9	16,9	16,9	16,9
Increase (Decrease) Short-term Debt	-0,8	1,9	-0,8	-0,8	-0,8	-0,8	-0,8	-0,8
Payment of Dividends & Other Distributions	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other Financing Activities	0,9	-25,9	-41,2	-43,2	-45,4	-47,7	-50,1	-52,6
Effect of Exchange Rate Changes	-1,9	11,3	6,4	6,4	6,4	6,4	6,4	6,4
Net Change In Cash	212,5	6,5	129,4	118,6	181,5	250,9	327,5	497,5
Cash and Cash Equivalents (End of Period)	718,5	736,4	872,2	997,2	1 185,1	1 442,4	1 776,3	2 280,1
Cash and Cash Equivalents (Beg of Period)	508,0	718,5	736,4	872,2	997,2	1 185,1	1 442,4	1 776,3
Minority Interest Distributions	-17,7	-26,0	-27,0	-27,0	-27,0	-27,0	-27,0	-27,0
Contributions From Minority Interest	14,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Tax Benefit From Stock Options - Financing	4,7	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Total Cash Flows From Financing	**-3,5**	**-14,5**	**-119,7**	**-121,8**	**-123,9**	**-126,2**	**-128,6**	**-131,1**

Appendix 4: Key Financial Ratios

Key Financial Ratios	2016	2017	2018	2019F	2020F	2021F	2022F	2023F
Liquidity Ratios								
Current Ratio (x)	2,94	3,52	2,91	3,08	3,19	3,34	3,53	3,83
Quick Ratio (x)	0,69	0,60	0,88	0,83	0,93	1,08	1,27	1,57
Cash Ratio (x)	1,16	1,23	1,03	1,14	1,25	1,41	1,61	1,91
Efficiency Ratios								
Total Assets Turnover (x)	1,49	1,52	1,44	1,44	1,40	1,35	1,29	1,20
Accounts Receivables Turnove	10,90	10,26	9,25	9,25	9,25	9,25	9,25	9,25
Collection Period (days)	33,48	35,58	39,46	39,46	39,46	39,46	39,46	39,46
Inventory Turnover (x)	2,75	2,55	2,80	2,70	2,70	2,70	2,70	2,70
Days in Inventory (days)	71,76	76,52	67,88	72,05	72,05	72,05	72,05	72,05
Payables Turnover (x)	3,71	4,40	3,56	3,86	3,86	3,86	3,86	3,86
Payables Period (days)	53,31	44,29	53,43	50,35	50,35	50,35	50,35	50,35
Operating Cycle (days)	13,66	12,81	12,05	11,94	11,94	11,94	11,94	11,94
Cash Cycle (days)	158,55	156,40	160,77	161,86	161,86	161,86	161,86	161,86
Profitability Ratios								
Gross Profit Margin (%)	45,87%	46,56%	47,90%	46,78%	46,78%	46,78%	46,78%	46,78%
EBITDA Margin (%)	10,09%	9,23%	9,30%	9,54%	9,51%	9,49%	9,46%	9,44%
EBIT Margin (%)	10,40%	9,19%	9,43%	9,68%	9,65%	9,62%	9,59%	9,57%
Net Profit Margin (%)	6,83%	4,30%	6,49%	7,20%	7,18%	7,16%	7,14%	7,13%
ROA (%)	10,17%	6,55%	9,33%	10,40%	10,07%	9,66%	9,19%	8,57%
ROCE (%)	20,91%	17,91%	18,41%	18,68%	17,92%	16,97%	15,93%	14,57%
ROE (%)	14,45%	9,20%	13,75%	15,09%	14,44%	13,62%	12,72%	11,56%
SG&A/Sale (%)	35,86%	37,77%	38,91%	37,52%	37,52%	37,52%	37,52%	37,52%
Solvency Ratios								
Long-term Debt Ratio (%)	2,81%	2,60%	2,73%	2,64%	2,57%	2,47%	2,35%	2,20%
Debt to Equity Ratio (x)	42,01%	40,39%	47,46%	45,17%	43,33%	40,99%	38,39%	34,99%
Equity Multiplier (x)	2,81%	2,60%	2,73%	2,64%	2,57%	2,47%	2,35%	2,20%
Value Creation and Cash Flow Ratios								
Economic Value Added (EVA)	189,81	176,13	206,96	233,47	246,66	254,88	256,04	652,83
Cash to Income	1,27	0,68	1,53	1,64	1,69	1,75	1,82	2,07

Appendix 5: Common-Size Income Statement

In Millions of USD except Per Share 12 Months Ending	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023
Revenue								
Sales & Services Revenue	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%	100,00%
Cost of Revenue	54,13%	53,44%	52,10%	53,22%	53,22%	53,22%	53,22%	53,22%
Cost of Goods & Services	54,13%	53,44%	52,10%	53,22%	53,22%	53,22%	53,22%	53,22%
Gross Profit	**45,87%**	**46,56%**	**47,90%**	**46,78%**	**46,78%**	**46,78%**	**46,78%**	**46,78%**
Other Operating Income	0,39%	0,40%	0,44%	0,41%	0,38%	0,36%	0,33%	0,31%
Operating Expenses	35,86%	37,77%	38,91%	37,52%	37,52%	37,52%	37,52%	37,52%
Selling, General & Admin	35,86%	37,77%	38,91%	37,52%	37,52%	37,52%	37,52%	37,52%
Selling & Marketing	7,22%	7,86%	7,55%	7,54%	7,54%	7,54%	7,54%	7,54%
General & Administrative	28,65%	29,91%	31,37%	29,97%	29,97%	29,97%	29,97%	29,97%
Research & Development	—	—	—	—	—	—	—	—
Other Operating Expense	—	—	—	—	—	—	—	—
Operating Income (Loss)	**10,40%**	**9,19%**	**9,43%**	**9,68%**	**9,65%**	**9,62%**	**9,59%**	**9,57%**
Non-Operating (Income) Loss	0,31%	-0,03%	0,13%	0,13%	0,13%	0,13%	0,13%	0,13%
Interest Expense, Net	0,14%	0,10%	-0,09%	0,05%	0,05%	0,05%	0,05%	0,05%
Interest Expense	0,18%	0,16%	0,13%	0,10%	0,10%	0,10%	0,10%	0,10%
Interest Income	0,03%	0,06%	0,22%	0,10%	0,10%	0,10%	0,10%	0,10%
Foreign Exch (Gain) Loss	—	—	—	—	—	—	—	—
(Income) Loss from Affiliates	—	—	—	—	—	—	—	—
Other Non-Op (Income) Loss	0,17%	-0,14%	0,22%	0,08%	0,08%	0,08%	0,08%	0,08%
Pretax Income	**10,09%**	**9,23%**	**9,30%**	**9,54%**	**9,51%**	**9,49%**	**9,46%**	**9,44%**
Income Tax Expense (Benefit)	2,08%	3,58%	1,31%	2,34%	2,33%	2,32%	2,32%	2,31%
Current Income Tax	2,24%	3,68%	1,50%	2,49%	2,48%	2,47%	2,47%	2,46%
Deferred Income Tax	-0,16%	-0,10%	-0,20%	-0,15%	-0,15%	-0,15%	-0,15%	-0,15%
Tax Allowance/Credit	—	—	—	—	—	—	—	—
Income (Loss) from Cont Ops	**8,01%**	**5,65%**	**8,00%**	**7,20%**	**7,18%**	**7,16%**	**7,14%**	**7,13%**
Net Extraordinary Losses (Gains)	—	—	—	—	—	—	—	—
Discontinued Operations	—	—	—	—	—	—	—	—
XO & Accounting Changes	—	—	—	—	—	—	—	—
Income (Loss) Incl.	**8,01%**	**5,65%**	**8,00%**	**7,20%**	**7,18%**	**7,16%**	**7,14%**	**7,13%**
Minority Interest	1,17%	1,34%	1,51%	—	—	—	—	—
Net Income, GAAP	**6,83%**	**4,30%**	**6,49%**	**7,20%**	**7,18%**	**7,16%**	**7,14%**	**7,13%**

Appendix 6: Common-Size Balance Sheet

In Millions of USD except Per Share 12 Months Ending	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023
Balance Sheet								
Current Assets								
Cash and Equivalents	30,02%	26,93%	27,02%	28,71%	30,69%	33,26%	36,18%	40,19%
Accounts Receivable - Trade	13,65%	14,84%	15,55%	15,60%	15,16%	14,58%	13,91%	13,00%
Inventories	29,27%	31,92%	26,74%	28,49%	27,68%	26,62%	25,40%	23,73%
Prepaid Expenses and Other	2,62%	2,29%	2,45%	2,39%	2,32%	2,23%	2,13%	1,99%
Deferred Income Tax Asset (Short-Term)	—	—	—	—	—	—	—	—
Allowance For Doubtful Accounts	1,74%	1,87%	0,79%	1,40%	1,36%	1,31%	1,25%	1,17%
Short-Term Investments	—	—	—	—	—	—	—	—
Other Receivables (Short-Term)	0,80%	0,99%	1,72%	1,15%	1,12%	1,07%	1,02%	0,96%
Due From Parties/Affiliates (Short-Term)	—	—	—	—	—	—	—	—
Total Current Assets	**76,36%**	**76,96%**	**76,58%**	**77,82%**	**78,20%**	**78,76%**	**79,43%**	**80,47%**
Noncurrent Assets								
Non-Current Marketable Securities	—	—	—	—	—	—	—	—
Property Plant & Equipment - Net	20,66%	19,80%	18,14%	18,43%	18,15%	17,73%	17,22%	16,41%
Deferred Income Tax Asset (Long-Term)	1,09%	1,09%	1,22%	1,11%	1,07%	1,03%	0,99%	0,92%
Total Intangible Assets - Net	—	—	—	—	—	—	—	—
Other Noncurrent Assets	1,90%	2,14%	4,06%	2,65%	2,57%	2,47%	2,36%	2,21%
Total Non-Current Assets	23,64%	23,04%	23,42%	22,18%	21,80%	21,24%	20,57%	19,53%
Total Assets	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**
Current Liabilities								
Accounts Payable - Trade	73,49%	64,22%	65,41%	63,97%	63,97%	63,97%	63,97%	63,97%
Current Portion of Long-Term Debt	0,25%	0,23%	0,16%	0,20%	0,20%	0,20%	0,20%	0,20%
Short-Term Borrowings	0,86%	1,02%	0,70%	0,80%	0,80%	0,80%	0,80%	0,80%
Accrued Expenses	13,19%	10,45%	15,57%	16,16%	16,16%	16,16%	16,16%	16,16%
Total Current Liabilities	**87,80%**	**75,91%**	**81,83%**	**81,14%**	**81,14%**	**81,14%**	**81,14%**	**81,14%**
Non Current Liabilities								
Total Noncurrent Liabilities	3,61%	6,93%	5,85%	5,87%	5,70%	5,48%	5,23%	4,89%
Notes Payable (Long-Term)	—	—	—	—	—	—	—	—
Long Term Debt	2,81%	2,60%	2,73%	2,64%	2,57%	2,47%	2,35%	2,20%
Deferred Income Taxes (Liabilities)	0,02%	0,01%	0,01%	0,01%	0,01%	0,01%	0,01%	0,01%
Other Noncurrent Liabilities	0,79%	4,32%	3,10%	2,66%	2,58%	2,48%	2,37%	2,22%
Total Liabilities	**29,58%**	**28,77%**	**32,18%**	**31,12%**	**30,23%**	**29,07%**	**27,74%**	**25,92%**
Stockholder Equity								
Preferred Stock	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Minority/Non Controlling Int (Stckhldrs Eqty)	3,42%	4,36%	4,78%	4,76%	4,58%	4,36%	4,13%	3,82%
Common Stock	0,01%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
Additional Paid In Capital	17,51%	16,58%	11,62%	14,78%	14,36%	13,81%	13,18%	12,31%
Accumulated Other Comprehensive Income	-1,11%	-0,54%	-0,98%	-1,03%	-0,99%	-0,95%	-0,91%	-0,85%
Retained Earnings (Accumulated Deficit)	50,59%	50,83%	52,39%	50,37%	51,82%	53,70%	55,86%	58,78%
Total Shareholders Equity	**70,42%**	**71,23%**	**67,82%**	**68,88%**	**69,77%**	**70,93%**	**72,26%**	**74,08%**
Total Liabilities and Shareholders Equity	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**	**100,00%**

Appendix 7: Assumptions for Income Statement

Income Statement Assumptions	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023	Assumption
Revenue						
Sales & Services Revenue	8,00%	8,00%	8,00%	8,00%	8,00%	Refer to valuation section- Revenue Forecast
Cost of Revenue	53,22%	53,22%	53,22%	53,22%	53,22%	Percentage of total revenue
Gross Profit						
Other Operating Income	0,41%	0,41%	0,41%	0,41%	0,41%	Percentage of total revenue
Operating Expenses						
Selling & Marketing	7,54%	7,54%	7,54%	7,54%	7,54%	Average of total revenue percentage
General & Administrative	29,97%	29,97%	29,97%	29,97%	29,97%	Average of total revenue percentage
Research & Development	—	—	—	—	—	Equal than previous years
Other Operating Expense	—	—	—	—	—	Equal than previous years
Operating Income (Loss)						
Non-Operating (Income) Loss						
Interest Expense, Net	0,05%	0,05%	0,05%	0,05%	0,05%	Average of total revenue percentage
Interest Expense	0,15%	0,15%	0,15%	0,15%	0,15%	Average of total revenue percentage
Interest Income	0,10%	0,10%	0,10%	0,10%	0,10%	Average of total revenue percentage
Foreign Exch (Gain) Loss	0,00%	0,00%	0,00%	0,00%	0,00%	Average of total revenue percentage
(Income) Loss from Affiliates	—	—	—	—	—	Equal than previous years
Other Non-Op (Income) Loss	0,08%	0,08%	0,08%	0,08%	0,08%	Average of total revenue percentage
Pretax Income						
Income Tax Expense (Benefit)	2,32%	2,32%	2,32%	2,32%	2,32%	Average of total revenue percentage
Current Income Tax	24,49%	24,49%	24,49%	24,49%	24,49%	Average of total revenue percentage
Deferred Income Tax	26,08%	26,08%	26,08%	26,08%	26,08%	Average of total revenue percentage
Tax Allowance/Credit	—	—	—	—	—	Equal than previous years

Appendix 8: Assumptions for Balance Sheet

Balance Sheet Assumptions	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023	Assumption
Current Assets						
Cash and Equivalents						Refer to valuation section- Capex Forecast
Accounts Receivable - Trade	9,91%	9,91%	9,91%	9,91%	9,91%	Average of total revenue percentage
Inventories	19,74%	19,74%	19,74%	19,74%	19,74%	Average of total revenue percentage
Prepaid Expenses and Other	1,65%	1,65%	1,65%	1,65%	1,65%	Average of total revenue percentage
Deferred Income Tax Asset (Short-Term)	—	—	—	—	—	Equal than previous years
Allowance For Doubtful Accounts	0,97%	0,97%	0,97%	0,97%	0,97%	Average of total revenue percentage
Short-Term Investments	2,15%	2,15%	2,15%	2,15%	2,15%	Average of total revenue percentage
Other Receivables (Short-Term)	0,80%	0,80%	0,80%	0,80%	0,80%	Average of total revenue percentage
Due From Parties/Affiliates (Short-Term)	—	—	—	—	—	Equal than previous years
Total Current Assets						
Noncurrent Assets						
Non-Current Marketable Securities	—	—	—	—	—	Equal than previous years
Property Plant & Equipment - Net						Refer to valuation section- Capex Forecast
Deferred Income Tax Asset (Long-Term)	0,77%	0,77%	0,77%	0,77%	0,77%	Average of total revenue percentage
Total Intangible Assets - Net	—	—	—	—	—	Equal than previous years
Other Noncurrent Assets	1,84%	1,84%	1,84%	1,84%	1,84%	Average of total revenue percentage
Total Non-Current Assets	15,77%	15,77%	15,77%	15,77%	15,77%	Average of total revenue percentage
Total Assets						
Current Liabilities						
Accounts Payable - Trade	13,79%	13,79%	13,79%	13,79%	13,79%	Average of total revenue percentage
Current Portion of Long-Term Debt	0,04%	0,04%	0,04%	0,04%	0,04%	Average of total revenue percentage
Short-Term Borrowings	0,17%	0,17%	0,17%	0,17%	0,17%	Average of total revenue percentage
Accrued Expenses	3,49%	3,49%	3,49%	3,49%	3,49%	Average of total revenue percentage
Total Current Liabilities						
Non Current Liabilities						
Total Noncurrent Liabilities	4,07%	4,07%	4,07%	4,07%	4,07%	Average of total revenue percentage
Notes Payable (Long-Term)	—	—	—	—	—	Equal than previous years
Long Term Debt	1,83%	1,83%	1,83%	1,83%	1,83%	Average of total revenue percentage
Deferred Income Taxes (Liabilities)	0,01%	0,01%	0,01%	0,01%	0,01%	Average of total revenue percentage
Other Noncurrent Liabilities	1,84%	1,84%	1,84%	1,84%	1,84%	Average of total revenue percentage
Total Liabilities						
Stockholder Equity						
Preferred Stock	0,00%	0,00%	0,00%	0,00%	0,00%	Equal than previous years
Minority/Non Controlling Int (Stckhldrs Eqty)	7,05%	7,05%	7,05%	7,05%	7,05%	Equal than 2018 percentage
Common Stock						Equal than previous years
Additional Paid In Capital	10,24%	10,24%	10,24%	10,24%	10,24%	Average of total revenue percentage
Accumulated Other Comprehensive Income	-9,87%	-9,87%	-9,87%	-9,87%	-9,87%	Average of total revenue percentage
Retained Earnings (Accumulated Deficit)	34,90%	36,95%	39,83%	43,42%	48,89%	Average of total revenue percentage

Appendix 9: Sales Forecasted Assumptions by Region ($M)

	2019F	2020F	2021F	2022F	2023F
Other International	2 604,7	2 894,3	3 213,5	3 565,3	3 952,9
% of total sales	52%	53%	55%	56%	58%
United States	2 225,7	2 325,2	2 426,4	2 529,0	2 632,4
% of total sales	44%	43%	41%	40%	39%
Canada	183,1	195,0	207,7	221,2	235,5
% of total sales	4%	4%	4%	4%	4%
Total Revenue	**5 013,4**	**5 414,5**	**5 847,7**	**6 315,5**	**6 820,7**

Appendix 10: Net Working Capital

In Millions of USD	FY 2016 12/31/2016	FY 2017 12/31/2017	FY 2018 12/31/2018	2019F 12/31/2019	2020F 12/31/2020	2021F 12/31/2021	2022F 12/31/2022	2023F 12/31/2023
Current Assets								
Total Current Assets	1827,77	2105,02	2472,14	2703,19	3019,54	3415,59	3899,34	4565,04
Current Liabilities								
Total Current Liabilities	621,73	597,35	850,22	877,07	947,23	1023,01	1104,85	1193,24
Working Capital	1206,04	1507,68	1621,92	1826,12	2072,30	2392,58	2794,49	3371,80
Cash and Cash Flow Equivalent	718,54	736,43	872,24	997,19	1185,06	1442,36	1776,26	2280,12
Current Portion of Long-Term Debt	1,78	1,80	1,67	2,16	2,33	2,52	2,72	2,94
Short-Term Borrowings	6,09	8,01	7,22	8,67	9,36	10,11	10,92	11,79
Net Working Capital	479,63	761,43	740,79	818,10	875,55	937,59	1004,59	1076,96
Changes in NWC		*281,80*	*-20,64*	*77,31*	*57,45*	*62,04*	*67,00*	*72,37*

Appendix 11: Free Cash Flow to the Firm

	2019F	2020F	2021F	2022F	2023F	Terminal Value
Cost of equity						
RFR (Risk free rate)	1,48%	1,48%	1,48%	1,48%	1,48%	1,48%
MRP (Market Risk Premium)	5,61%	5,61%	5,61%	5,61%	5,61%	5,61%
Beta unlevered	0,74	0,74	0,74	0,74	0,74	0,74
Debt to Equity ratio	0,45	0,43	0,41	0,38	0,35	0,35
Tax rate	18,50%	18,50%	18,50%	18,50%	18,50%	18,50%
Beta levered	0,87	0,86	0,85	0,83	0,81	0,81
CAPM-Cost of Equity	6,37%	6,31%	6,23%	6,15%	6,03%	6,03%
Cost of Debt						
Cost of Debt	7,65%	7,93%	7,93%	7,93%	7,93%	7,93%
After tax cost of debt (1-t)	6,23%	6,46%	6,46%	6,46%	6,46%	6,46%
WACC						
Weight of Equity	68,88%	69,77%	70,93%	72,26%	74,08%	74,08%
Weight of Debt	31,12%	30,23%	29,07%	27,74%	25,92%	25,92%
WACC	6,33%	6,36%	6,30%	6,23%	6,14%	6,14%
Depreciations	121,14	148,29	181,52	222,20	357,40	357,40
CAPEX	175,75	209,24	249,64	298,41	357,40	357,40
Change in NWC	77,31	57,45	62,04	67,00	72,37	72,37
EBIT (1-tx rate)	395,34	425,69	458,46	493,84	532,06	532,06
FCFF	263,42	307,29	328,30	350,63	459,69	459,69

Terminal Growth Rate	2,90%
Perpetuity WACC	6,14%
Terminal Value	7483,09
PV of Terminal Value	6230,39
NPV of FCFF	1497,49
Enterprise Value	7727,88

Enterprise Value	7727,88
Net Debt	1008,02
Equity Value	6719,86
No. Of Outstanding Shares	154,92
Equity Value p/sh	43,38
Price Target at 2019F	43,38
Price at 30st August 2019	31,66
Upside Potential	27,01%

	0	1	2	3	4	Terminal Value
FCFF	263,42	307,29	328,30	350,63	459,69	459,69
WACC	6,33%	6,36%	6,30%	6,23%	6,14%	6,14%
Discounted FCFF	263,4194	288,9184376	290,54079	292,454142	362,1606804	7483,087347
Terminal Value	5859,491	6230,389778	6626,5152	7043,990541	7483,087347	

Appendix 12: Adjusted Present Value

	2018Y	2019F	2020F	2021F	2022F	2023F
FCFF		263,42	307,29	328,3	350,63	459,69
PVt	1397,30	1224,99	997,56	734,31	431,55	0,00
Debt Capacity (Dt)	663,16	553,33	432,24	300,99	165,67	0,00
Interest Payments	0,00	52,60	43,89	34,28	23,87	13,14
Interest Tax Shield (ITS)	**0,00**	**3,56**	**2,98**	**2,31**	**1,59**	**0,86**

Price target for APV method	
EV Unlevered	1397,30
PV (ITS)	9,74
PV (TV)	6037,18
Entity Value	7444,22
Net Debt 2018YE	1008,02
Instrinsic Value of Equity	6436,20
Share Outstanding	154,92
Price Target	41,55
Price at 31st August 2019	31,66
Upside Potential	23,79%

WACC Perpetuity	6,52%

	2018Y	2019F	2020F	2021F	2022F	2023F
Pre-Tax WACC	6,38%	6,77%	6,80%	6,73%	6,64%	6,52%

	2018Y	2019F	2020F	2021F	2022F	2023F
D/E Ratio	47,46%	45,17%	43,33%	40,99%	38,39%	34,99%

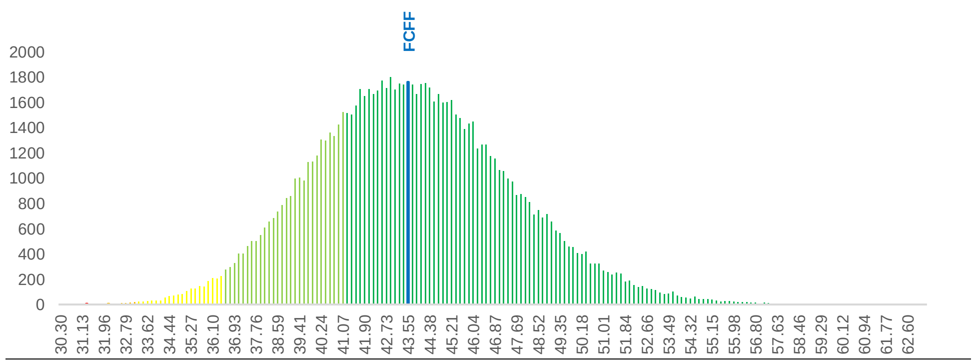
	2018Y	2019F	2020F	2021F	2022F	2023F
Cost of Debt	7,65%	7,93%	7,93%	7,93%	7,93%	7,93%

Appendix 13: Risk Target Price

>	$41.16
$36.41	$41.16
$33.24	$36.41
$30.08	$33.24
<	$30.08

	Low risk	Medium Risk	High Risk
Strong Buy	>20%	>30%	>45%
Buy	>10% & >20%	>15% & <=30%	>20% & <=45%
Neutral	>0% <=10%	>5% & <=15%	>10% & <=20%
Reduce	<=-10% & 0%	>-5% & <=15%	> 0% & <=10%
Sell	<=-10%	<-5%	<0%

	Share Price	**Risk-Free Rate**			
	$43.38	**0,00%**	**1,48%**	**1,68%**	**2,56%**
Market Risk Premium	**3.45%**	$74.12	$56.33	$54.52	$47.69
	4.78%	$60.25	$47.65	$46.32	$41.15
	5.61%	$53.81	$43.38	$42.25	$37.84
	6.79%	$46.57	$38.37	$37.46	$33.86
	8.56%	$38.53	$32.53	$31.84	$29.10



Abbreviations

APV- Adjusted Present Value

BPI- Banco Português de Investimento

CAGR- Compounded Annual Growth Rate

CAPEX- Capital Expenditure

CAPM- Capital Asset Pricing Model

CEO- Chief Executive Officer

CFA – Chartered Financial Analyst

CFO- Chief Financial Officer

CNY- Chinese Yuan

CRP- Country Risk Premium

DCF – Discounted Cash Flow

DDM- Dividend Discount Model

EBIT- Earnings Before Interested and Taxes

EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization

EBT-Earnings Before Taxes

EMEA- Europe, Middle East, and Africa

EV- Enterprise Value

EVA- Economic Value Added

F- Forecast

FCFE – Free Cash Flow to the Equity

FCFF- Free Cash Flow to the Firm

FSC- Forest Stewardship Council

FY- Forecasted Year

g- Growth Rate

GDP- Gross Domestic Product

ITS-Interest Tax Shield

IMF- International Monetary Fund

IPO- Initial Public Offering

ISEG- Instituto Superior de Economia e Gestão

ITS- Interest Tax Shield

LEED- Leadership in Energy and Environmental Design

$M- Million dollars

MRP- Market Risk Premium

MC-Working Capital

NWC- Net Working Capital

NYSE – New York Stock Exchange

OCED- Organization for Economic Co-operation and Development

PESTL- Political, Economic, Socio-Cultural and Technological

pp- Percentage Points

PP&E- Property Plant & Equivalent

PPP- Purchasing Power Parities

PV- Present Value

ROA-Return on Asset

ROE- Return on Equity

ROCE-Return Capital Employment

Sh- Share

SKX- Skechers U.S.A . Inc.

TV- Terminal Value

U.S.A- United States of America

US- United States

USA- United States of America

USD– United States Dollar

WACC- Weighted Average Cost of Capital

YTM- Yield to Maturity

Y- Year

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