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INVESTOR'S EDGE

Sketchers looks to have a great run

The shoe manufacturer's growth has been explosive over the last decade.

"I still have my feet on the ground, I just wear better shoes." — Oprah Winfrey

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Guest columnist

Sometimes, the best investment ideas are right under your feet.

As a runner who has struggled with plantar fasciitis, I am picky about the sneakers I wear. I've tried most brands — Nike, Hoka, New Balance, etc. — and they are all pretty good, no complaints.

But about a year ago, I purchased my first pair of Skechers running sneakers. Honestly, they made my feet feel exceptionally well cushioned, snug, and comfortable. I've purchased another pair for walking as well, and I would recommend them to anyone.

I've never really paid attention to the stock, because I had mistakenly perceived them as a second-tier shoe company. And the Skechers brand is, in fact, less pricey than Nike and most other brands. But my perception of the Skechers common stock has been badly flawed.

The reality is, Skechers is a dynamic mid-size company with lots of room to run, pun intended.

Skechers USA, (ticker symbol: SKS) was founded in 1992 and is based in Manhattan Beach, California. They design, develop, market, and distribute all kinds of footwear beyond sneakers, including sport casual, trail, boots, sandals, dress shoes, and apparel/accessories.

My investment thesis on Skechers is threefold.

First, the company sells its footwear through retailers such as Target, Kohls', and Walmart; and direct to consumers, which are Skechers stores and online sales. According to the company's website, about 62% of sales come from wholesale avenues and 38% come from direct to consumer. However, the profitability difference between these two is dramatic: 70% gross margin for direct-to-consumer vs. 41% gross margin for wholesale.

Skechers has made clear that growing direct to consumer sales are their top priority going forward, which should provide a significant boost to their already profitable brand. Consumers are increasingly purchasing direct from the source, and Skechers plans to leverage its growing popularity to capitalize on this highly profitable avenue.

Second, Skechers shoes are becoming increasingly popular worldwide. The company has seen 20%+ growth in China, Europe, and Latin America. The fact is, consumers in both developed and emerging markets are flocking to their less expensive shoes, with about 60% of sales coming from international markets.

And why not? Skechers shoes are a great value, as I can attest. The running sneakers I purchased cost about $70, about half that for a comparable Nike sneaker. In fact, their average shoe price is about $30, making it accessible to both high and low-end consumers around the world.

Third, Skechers' growth has been explosive over the last decade, increasing its sales fourfold from $2 billion to $8 billion. The company's current goal is to hit annual sales of $10 billion by 2026. As a comparison, Nike has sales of more than $50 billion, leaving Skechers with plenty of room to continue its fast-paced growth. It should be noted that during the last decade, the company has consistently generated a profit each year and is forecasting average annual earnings growth of 27% over the next five years, according to Yahoo Finance.

As mentioned earlier, the Skechers brand is rapidly increasing in popularity across all areas of footwear. One driving factor behind this is the company's target marketing campaigns featuring well-known celebrities including Martha Stewart, Snoop Dogg, Tony Romo, and the Rolling Stones. Each celebrity not only endorses and advertises the Skechers brand, but often each has their own unique collaboration or footwear type they promote.

Skechers stock does not pay a dividend, and I am aware that it sells near its 52-week high. My biggest investment gains, however, have come from stocks that are firing on all cylinders and are frequently near their highs. In fact, Skechers sells at only 14 times 2024 projected earnings; and as a comparison, Nike sells at almost 28 times. So, I think the stock is a good value right here.

As Warren Buffett has said, "It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price."

Speaking of Nike, I recommended the stock back in March of 2015. It has been a solid performer, averaging a 9.5% return since then. As I have analyzed Skechers more closely, I think their returns from here can be considerably more than Nike's gain over the last decade.

So, for an investor who's in it for "the long run," I recommend buying Skechers' stock.

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com