

SKECHERS USA INC
Form 10-Q
August 03, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from ____ to ____

Commission File Number 001-14429

SKECHERS U.S.A., INC.

(Exact name of registrant as specified in its charter)

Delaware 95-4376145
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)

228 Manhattan Beach Blvd.

Manhattan Beach, California 90266
(Address of Principal Executive Office) (Zip Code)

(310) 318-3100

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of Class A Common Stock outstanding as of August 1, 2018: 135,098,499.

The number of shares of Class B Common Stock outstanding as of August 1, 2018: 24,163,312.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

FORM 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except par values)

	June 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$844,847	\$736,431
Short-term investments	42,895	—
Trade accounts receivable, less allowances of \$24,090 in 2018 and \$51,180 in 2017	547,497	405,921
Other receivables	26,938	27,083
Total receivables	574,435	433,004
Inventories	822,423	873,016
Prepaid expenses and other current assets	77,290	62,573
Total current assets	2,361,890	2,105,024
Property, plant and equipment, net	553,574	541,601
Deferred tax assets	26,209	29,922
Long-term investments	23,954	17,396
Other assets, net	40,038	41,139
Total non-current assets	643,775	630,058
TOTAL ASSETS	\$3,005,665	\$2,735,082
LIABILITIES AND EQUITY		
Current liabilities:		
Current installments of long-term borrowings	\$1,810	\$1,801
Short-term borrowings	11,179	8,011
Accounts payable	577,783	505,334
Accrued expenses	128,783	82,202
Total current liabilities	719,555	597,348
Long-term borrowings, excluding current installments	70,181	71,103
Deferred tax liabilities	161	161
Other long-term liabilities	102,306	118,259
Total non-current liabilities	172,648	189,523
Total liabilities	892,203	786,871
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 10,000 shares authorized; none issued	—	—

and outstanding		
Class A common stock, \$0.001 par value; 500,000 shares authorized;		
132,193 and 131,784 shares issued and outstanding at June 30, 2018		
and December 31, 2017, respectively	132	132
Class B common stock, \$0.001 par value; 75,000 shares authorized;		
24,163 and 24,545 shares issued and outstanding at June 30, 2018		
and December 31, 2017, respectively	24	24
Additional paid-in capital	443,092	453,417
Accumulated other comprehensive loss	(25,335)	(14,744)
Retained earnings	1,553,171	1,390,235
Skechers U.S.A., Inc. equity	1,971,084	1,829,064
Non-controlling interests	142,378	119,147
Total stockholders' equity	2,113,462	1,948,211
TOTAL LIABILITIES AND EQUITY	\$3,005,665	\$2,735,082

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	\$1,134,797	\$1,025,934	\$2,384,875	\$2,098,742
Cost of sales	573,840	537,613	1,240,815	1,133,923
Gross profit	560,957	488,321	1,144,060	964,819
Royalty income	5,350	3,221	10,872	7,451
	566,307	491,542	1,154,932	972,270
Operating expenses:				
Selling	114,022	99,950	198,468	173,759
General and administrative	370,927	305,283	726,308	587,779
	484,949	405,233	924,776	761,538
Earnings from operations	81,358	86,309	230,156	210,732
Other income (expense):				
Interest income	2,518	381	3,273	794
Interest expense	(1,464)	(1,845)	(2,542)	(3,334)
Other, net	(7,473)	2,664	(4,070)	3,359
Total other income (expense)	(6,419)	1,200	(3,339)	819
Earnings before income tax expense	74,939	87,509	226,817	211,551
Income tax expense	14,080	14,109	28,700	31,516
Net earnings	60,859	73,400	198,117	180,035
Less: Net earnings attributable to non-controlling interests	15,575	13,865	35,181	26,505
Net earnings attributable to Skechers U.S.A., Inc.	\$45,284	\$59,535	\$162,936	\$153,530
Net earnings per share attributable to Skechers U.S.A., Inc.:				
Basic	\$0.29	\$0.38	\$1.04	\$0.99
Diluted	\$0.29	\$0.38	\$1.04	\$0.98
Weighted average shares used in calculating net earnings per				
share attributable to Skechers U.S.A., Inc.:				
Basic	156,518	155,579	156,476	155,340
Diluted	157,091	156,174	157,366	156,016

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net earnings	\$60,859	\$73,400	\$198,117	\$180,035
Other comprehensive income, net of tax:				
(Loss) gain on foreign currency translation adjustment	(20,208)	2,574	(14,874)	7,156
Comprehensive income	40,651	75,974	183,243	187,191
Less: Comprehensive income attributable to non-controlling				
interests	8,452	14,663	30,897	28,987
Comprehensive income attributable to Skechers U.S.A., Inc.	\$32,199	\$61,311	\$152,346	\$158,204

See accompanying notes to unaudited condensed consolidated financial statements.

SKECHERS U.S.A., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net earnings	\$ 198,117	\$ 180,035
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization of property, plant and equipment	48,414	38,693
Amortization of other assets	5,920	6,878
Provision for bad debts and returns	20,162	11,252
Non-cash share-based compensation	15,966	14,248
Deferred income taxes	3,401	(7,498)
Gain (loss) on non-current assets	(388)	665
Net foreign currency adjustments	8,379	(5,388)
(Increase) decrease in assets:		
Receivables	(155,807)	(178,308)
Inventories	40,894	34,467
Prepaid expenses and other current assets	(21,378)	3,672
Other assets	(2,108)	(5,986)
Increase in liabilities:		
Accounts payable	88,407	6,119
Accrued expenses and other long-term liabilities	5,644	10,302
Net cash provided by operating activities	255,623	109,151
Cash flows from investing activities:		
Capital expenditures	(60,818)	(76,502)
Purchases of investments		