"A Skechy Investment"

/ STRONG SELL OPINION /

Skechers U.S.A., Inc. | NYSE: SKX

SPRUCE POINT
CAPITAL MANAGEMENT

INVESTMENT RESEARCH REPORT

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Spruce Point Has A Track Record In Consumer And Retail Short-Selling

Spruce Point has a track record of prescient calls in the consumer and retail sector and has typically found warning signs around inventory accounting. Notably, we warned recently about Oatly, and its shares declined up to 88%.

Company:	THE ORIGINAL OATLY!	WD-40	CHURCH & DWIGHT CO., INC.
Exchange: Ticker	Nasdaq: OTLY | July 14, 2021	Nasdaq: WDFC | April 2nd and April 13th 2020	NYSE: CHD | Sept 5, 2019
Ent Value	$11.6 billion	$2.6 billion	$22.7 billion
Company Positioning	World's best plant-based oat milk capable of expanding globally	Proprietary magic in a can with multiple home and industrial lubrication uses	Best of breed roll-up acquiror of personal care and consumer products with the core Arm & Hammer brand providing a stable backbone to diversify into other products
Spruce Point's Criticisms	• Losing market share in Sweden and Europe is necessitating global expansion for growth • Capex challenges and costs will not make the global expansion economical • CFO and Directors obscure prior associations with business failures and accounting scandals • Gross margins incorrectly reported without distribution costs • Undisclosed dependence on Starbucks and unappreciated risks to rising rapeseed and oat prices • **Questionable inventory accounting**	• **Inventory accounts signaling issues** • COVID-19 net loser and not a recession-proof Company which appears to be bracing for extreme cash flow shortages by heavily increasing its revolver • Hyper promotional company with many competing lubricants • Declining bike shops and risk of e-bikes will reduce the long-term need for WD-40	• New management is more aggressive, using financial and accounting tactics to inflate the share price. **Notably, a recent inventory accounting change was made** • The recent acquisition of FLAWLESS hair care was expensive and will disappoint investors. • Governance lapses have allowed management to reap unjust bonuses based on non-cash gains. • Shares at $80 trade 8% above analyst targets
Successful Outcome	Commodity prices have rapidly increased. Mis-execution and lost market share in the U.S. have also caused Oatly to miss financial targets. Its founder and director Oste resigned in Dec 2021 and it is rumored the company is seeking a replacement for the CEO. Shares have tanked 88% since the release of our report	WD-40 continues to miss its financial targets. Within a few months after our report in Oct 2020, two Board members announced "retirement" as did CFO Rembolt. Long-time Chairman and CEO and "tribe" leader Garry Ridge announced his "retirement". Shares are down 13% since our report	Within the first quarter after our report, CHD reported disappointing Q3 sales results, cut its full year revenue guidance, and issued Q4 earnings at $0.54, well below the $0.62 expected. Management blamed higher sales and marketing expenses on FLAWLESS. CHD's new 10-K added risk factors around financial controls and it Chief Accounting Officer is "retiring"

The recommendations shown above are not intended to be exhaustive. A full list of all recommendations made over the past twelve months can be found on our website.

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Executive Summary

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Spruce Point Sees 30% - 50% Downside Risk To Skechers (SKX) Share Price ($18.60 - $26.00)

After conducting a forensic financial evaluation of Skechers U.S.A., Inc (NYSE: SKX), Spruce Point is short shares of the Company. Founded and long run by Robert Greenberg and his children, while being advised by an SEC-charged executive from the LA Gear inventory accounting scandal, Skechers is a "fast follower" known for offering comfortable shoes at a reasonable price. Massive growth in China has been a key part of the Skechers growth story since 2015. We believe Skechers has long embodied many of the stereotypical attributes of a family-run company: nepotism, self-enrichment, rampant related party transactions, and remarkably poor corporate governance. We imagine few are surprised by that observation. However, we believe the rot at Skechers extends much deeper than investors realize. Our thorough examination of management, advisors, and partners has uncovered undisclosed lawsuits, related party transactions and numerous highly concerning red flags related to inventory.

We find several indications that Skechers' business is deteriorating and that financial pressures are mounting. Our proprietary, on-the-ground channel checks in China indicate that revenue trends are materially worse than implied by Street consensus, and that China sales are pacing at YTD growth down -20% to -30% YoY, while discounting activity remains high. As a result, we believe Skechers will disappoint investors in the coming quarters. Longer term, we see local Chinese brands and a resurgent Nike gaining ground in China, while those familiar with Skechers that we spoke with expressed an array of frustrations about the product offering, distribution strategy, and operations.

We also see signs that Skechers will likely suffer another inventory episode, which in the recent past has twice crushed the stock between 30% - 50%. Even before the 1H downturn in China and a weakening consumer, inventory days were at a 10-year high of 169 at year end 2021, 24% above pre-COVID averages, and we see signs of a potential inventory aging problem. To make matters worse, Skechers' year end 2021 purchase commitments with foreign manufacturers rose a massive 82% to $2 billion, representing relative levels 40% - 50% above pre-COVID averages. Our fears around inventory at Skechers are exacerbated by the people involved.

Despite Skechers' remarkable revenue growth, it has posted a highly troubling decline in cash flow related margins since their 2018 peak. In fact, we believe Skechers' operating cash flow is materially worse than most analysts and investors realize. Adjusting for onerous capital distributions to partners and cash payments to settle employee compensation programs, we estimate LTM operating cash flow to be -62% lower than the headline result. Deteriorating margins have been accompanied by what we observe to be an effort by Skechers management to reduce financial transparency, and Skechers' use of joint venture structures makes their financials opaque to begin with.

We believe Skechers deserves to trade a substantial discount to comparable apparel companies, particularly in light of its deteriorating financial performance and governance issues. We see 30% to 50% downside risk to Skechers' share price.

The Skechers Universe is Full of "Skechy" Characters

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We Question the Credibility of Skechers' Management and Key Advisors

Recent revenue growth aside, Skechers' management team has presided over a blinding array of scandals, lawsuits, and questionable associations. Particularly troubling is the continued presence of Gil N. Schwartzberg, a paid advisor with a history of alleged fraud by the SEC, and connections to Chinese stock scams and promoters.

Skechers Management and Advisors

Robert and Michael Greenberg

- **Robert is 82, yet remains vital to the product development process; we don't believe a solid succession plan is in place**
- **An undisclosed lawsuit by a former VP alleges lavish spending and widespread drug use among senior management**
- **Senior management is paid a quarterly cash bonus of 2.2% of incremental revenue dollars (a rare and we believe egregious structure) and "double-dipped" on its 2021 incentive payments when it easily re-achieved previous revenue thresholds due to the rapid post-Covid snapback**

Gil N. Schwartzberg

- **Advisor Schwartzberg was reported by the SEC to have falsified inventory reports at LA Gear to meet gross margin targets and sold shares before the stock sank, resulting in an SEC injunction**
- **Mr. Schwartzberg is linked to Continuum Capital Partners, which he co-managed with an individual formerly barred by FINRA**
- **Mr. Schwartzberg invested in a notorious stock scam that Spruce Point exposed called ZST Digital Networks (Nasdaq: ZSTN) which had its SEC registration revoked**

"Other" Greenbergs

- **10 Greenbergs and Weinbergs work at Skechers**
- **Despite receiving millions in salary, we don't believe Jeffrey or Jennifer Greenberg have had a formal, full-time role in years**
- **Jeffrey had undisclosed outside roles while on the Board**
- **We believe VP Lindsey Clarke represents an undisclosed related party conflict given her relationship with Jason Greenberg**
- **Recent college grad Chase earned over $775,000 in 2021**
- **The Company has given $11 million to the Skechers Foundation, which we believe largely supports family pet projects**

CFO John Vandemore

- **Since joining in 2019, we believe he has presided over a material reduction in the transparency of Skechers' financial disclosures**
- **Vandemore overlapped with finance-related whistleblower-driven scandals at each of his previous two employers, Mattel and International Game Technology (IGT), where he was CFO of both companies**
- **He is Chair of the Audit Committee at Inspired Entertainment (INSE), which received an adverse opinion from auditor Marcum related to a material weakness of internal controls in 2022**

Sources: See page 11

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Red Flags Abound With Skechers' Board and Auditors

Despite a recent Board overhaul, we believe the fundamental dynamic remains unchanged: there is no effective counterweight to the Greenbergs, who have consistently demonstrated a disregard for adhering to best practices in public company and corporate governance practices.

Skechers Board of Directors and Auditors

Richard Siskind

- **We believe Siskind has conducted undisclosed business with Skechers to dispose of excess inventory**
- **Siskind was sued for sexual harassment in 2005 and by the EEOC for discriminating against a pregnant employee in 2017**
- **Past lawsuits allege a troubling pattern of dubious business practices**
- **We believe Siskind's independence is questionable given his longtime relationship with Robert Greenberg**

Katherine Blair

- **A securities lawyer, Blair fails to disclose previous representation of Skechers in two past financing transactions**
- **Blair's underwriter clients included numerous highly questionable firms, including that of former Director Rappaport; we find that just six of those firms received a combined 103 regulatory violations**
- **Blair's corporate clients include an array of speculative, often micro-cap issuers, including Digital Turbine, MedMen Enterprises, and Mullen Technologies**

"The Newbies"

- **While we applaud the Board's newfound diversity, we have concerns with the new directors Garcia and Macias**
- **Both are first time public-company directors. We believe they may lack the ability to provide an independent counterweight**
- **Garcia used to work at KPMG, Skechers' former auditor and likely coinciding with director Erlich, and now works at Herbalife, a company most short sellers hold in low regard**
- **Macias has a suspect track record coming from long time penny-stock entertainment company Cinedigm**

Auditors

- **Audit Committee Chair Morton Erlich is 77 and worked at Skechers' former auditor, KPMG, before joining the Board**
- **In 2013, KPMG was forced to resign due to the arrest of the Company's audit partner for insider trading in the securities of both Skechers and his other audit client, Herbalife**
- **We question the subsequent hiring of BDO given its limited roster of publicly-listed clients and audit quality concerns**
- **Skechers China auditor, HLB Hodgson Impey Cheng, resigned in July 2020 and was barred from doing business in Texas**

Sources: See page 11

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Skechers Ignored Checkered Histories When Selecting Strategic Partners, And Issues Remain Today

Other partners of Skechers have backgrounds that are not without controversy.

Skechers Joint Venture Partners and Suppliers

Willie Tan (Skechers China), Michael Leung (Formerly Skechers Hong Kong), and The Dalibu Group

- **Skechers China CEO Willie Tan was directly linked to sweatshops in the Mariana Islands and worked with disgraced lobbyist and convicted felon, Jack Abramoff, to prevent the passage of regulations that would improve worker conditions**
- **Tan is also involved with several other family businesses, some of which have been accused of illegal practices**
- **We also find that the Company's former Hong Kong partner, the Onwel Group, was headed by Michael Leung; he and several family members were embroiled in a U.S. insider trading scandal shortly before Skechers formed the joint venture**
- **Several of Skechers' key Chinese suppliers, including entities controlled by the Dalibu Group, have faced allegations of abusive labor practices, in particular against members of the Uyghur ethnic minority, first in a 2020 report from the Australian Strategic Policy Institute and in a 2021 letter from a UN working group on human rights**

Iddo Benzeevi (HF Logistics-SKX)

- **Prior to Skechers forming its distribution center joint venture, Benzeevi had a questionable track record of project success**
- **A Buzzfeed investigation reported that Benzeevi ramped up political contributions as the Skechers project was being developed. A lawsuit by three former city employees alleges Benzeevi pressured officials for favorable project outcomes. Finally, his offices were raided as part of a federal investigation into councilman Marcelo Co, who was convicted of accepting bribes**
- **Together with his brother, Benny, Benzeevi formed Healthcare Conglomerate Associates (HCCA), which won contracts to manage two local hospitals. After Benny was ousted as CEO of the hospitals, new management found an array of fraudulent transactions and unknown debts**
- **In August 2020, the Tulare County DA formally charged Benny and his CFO, Alan Germany, of 40 felony and 6 misdemeanor counts, including grand theft, misappropriation of government funds, conflicts of interest, money laundering, embezzlement, theft, and failure to disclose funds intended to influence a political campaign**

Sources: See page 11

Sources For Pages 8-10

Robert and Michael Greenberg

- Ferlauto v. Skechers (Case No. 21 STCV31265) Amended Complaint Filed 12/13/2021, Skechers Definitive Proxy statements

John Vandemore

- Mattel press release dated 10/29/2019, SEC Release No. 78991 for Administrative Proceeding File No. 3-17596, Inspired Entertainment 2021 10-K

"Other" Greenbergs

- Skechers Definitive Proxy statements, G9 Development website, Open Corporates, Skechers Foundation Form 990 for the years 2019, 2017, 2016, The Friendship Foundation website, Karey Teng v. Skechers, et al (Case YC071483, Superior Court of CA, Los Angeles)

Gil N. Schwartzberg

- Securities and Exchange Commission v. Gilbert N. Schwartzberg and Arden Franklin (Case 2:95-cv-02046-MRP-Mc), Complaint Filed 3/30/1995, SEC News Digest 4/3/95, Skechers Definitive Proxy filed 5/26/2022
- His business dealings with a FINRA-barred member through Continuum Capital Partners and participation in ZST Digital Networks

Richard Siskind

- Beverly Roseman v. Richard Siskind, et al (Case 1:05-cv-05589-LTS-AJP) complaint, US Equal Employment Opportunity Commission v. R. Siskind & Co. (Case 1:17-cv-05175-KBF) complaint, Timothy J. Fullum, et al v. Richard Siskind, et al, Supreme Court for the State of New York, County of New York (Index No.:656038-2017) complaint, Spectra Worldwide v. Apparel Ventures LLC, R. Siskind & Co., Siskind Group, Richard Siskind, et al Complaint (Index 650073 / 2013), Stage II Apparel 1999 10-K, Stage II Apparel 2000 10-K, Stage II Apparel 2001 10-K, Magic Lantern 2002 10-K, Magic Lantern 2003 10-K, Magic Lantern 2004 10-K

Katherine Blair

- Manatt, Phelps & Phillips, LLP website , FINRA, FINRA, FINRA, FINRA, FINRA, FINRA, Seekingalpha.com, RollingStone, Politico, Hindenburg

"The Newbies"

- Skechers Definitive Proxy filed 4/14/2022

Skechers auditors

- Skechers 8-K filed 4/8/13, BDO website, Compliance Week, Companies Registry Notification of Resignation of Auditor for Skechers China Limited (Company #1181812) filed 7/27/2020

Willie Tan (Skechers China) and Michael Leung (Formerly Skechers Hong Kong)

- "Hillary, Saipan, Sweatshops, Campaign Cash–and Abramoff" in National Review, "Abramoff and the Saipan Sweatshops" in Asia Sentinel, "The Abramoff-DeLay-Mariana Islands Connection" on NPR, "Northern Mariana Islands" in Talking Points Memo, "Capitol Crimes" on BillMoyers.com, "Northern Mariana Islands" in Talking Points Memo, "Perfectly Legal" on Prospect.org, EEOC Press Release dated 7/28/2009, Chinadailyasia.com , "Rotten Fish" United Nations Office on Drugs and Crime, RNZ.co.nz, Greenpeace, "Uyghurs For Sale" by the Australian Strategic Policy Institute, Letter From the United Nations, SEC Litigation Release No. 20447

Iddo Benzeevi

- thetruthofhighlandfairview.wordpress.com, ABC7.com, BuzzFeed, Californiacitynews.org, Employee lawsuit, Business Journal thebusinessjournal.com, visaliatimesdelta.com, ourvalleyvoice.com, ourvalleyvoice.com, thesungazette.com, The New Yorker

We See Signs of a Material Revenue Slowdown

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It Appears That The Low Hanging Fruit Has Been Harvested; Future Gains Will Be Harder To Come By

We believe Skechers' revenue growth over the past five years has largely been the product of two very simple and transitory catalysts. Approximately 60% of total revenue growth has come from the international wholesale business, and about half of that from China alone. Simply stated, Skechers had been a modest performer overseas until a single product line, D'Lites, exploded in Asia beginning in 2015. However, given the lower gross margin profile of this segment, this has been a headwind to profitability. Second, Skechers was very slow to embrace e-commerce and has finally put some effort behind the online channel. We view these two factors as largely played out, as Skechers has merely caught up with other leading consumer products companies.

Skechers Revenue Growth Analysis: 2016 to 2021

$ in mm	2016	2021	5-Year CAGR	Incremental Revenue	Percent of Total Incremental Revenue	Gross Margin (3)
Total Revenue (1)	$3,563	$6,285	12%	$2,722		
Domestic						
Direct-to-Consumer	$720	$1,115	9%	$395	15%	67%
Wholesale	$1,200	$1,438	4%	$238	9%	36%
International						
Direct-to-Consumer	$252	$706	23%	$454	17%	67%
Wholesale	$1,391	$3,025	17%	$1,634	60%	45%
China (2)	$375	$1,248	27%	$873	32%	

(1) As reported, prior to restatement
(2) As disclosed in Q4 2016 earnings call
(3) DTC gross margins represents total DTC segment figures

Source: Skechers 10-K filings for fiscal years 2008 through 2021

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Our Channel Checks In China Indicate A Significant Slowdown Year-To-Date

Accounting for 20% of 2021 revenues and making a major contribution to growth, Skechers' China business is vital to its investment story. Spruce Point conducted extensive on-the-ground research in China, speaking with a broad range of stores and distributors throughout the country. We believe trends are well below Street expectations.

Feedback From China Market Participants

Description	Location	Sales Commentary and Outlook
Distributor With Own Stores	Liaoning and Heilongjiang	Sales were high in 2021 but have collapsed this year. Inventories are up ~10% YoY despite ordering 70%-80% less than their quota. Because of COVID, Skechers is permitting this and "will dispose of the unwanted product at low prices."
Distributor	Guangdong, Hunan, Jiangxi, Zhejiang	Down about 10% this year. Seeing 40%-50% discounts, slightly less than peers.
Distributor	Mostly online, Jiangxi, Hunan, Anhui	Q1 was bad and April-May was worse. Down about 20% this year, but inventories about the same. Seeing 50-60% discounts, which are higher than peers.
Affiliate	Eastern Shandong	Down 20-30% this year, and sales since March have been particularly bad. Seeing discounts as high as 50%, slightly higher than peers.
Affiliate	Hunan and Jiangxi	First five months down around 30% and prospects for rest of year look "bleak". Seeing discounts around 20%-30%, higher than other brands.
Regional Manager	Shenyang	Q1 improved due to an easy comp, but Q2 sales were very weak.
Sales Manager	Henan, Guangdong, Shandong, Yunnan, Fujian, Hebei	Q1 up 10% but Q2 down about 20% YoY. Selling at 30% discount to suggested retail price.
Super Store Manager	Beijing	Huge decline in Q2 sales and expects all stores in Beijing will be the same.
Former Channel Skechers Manager	Online	Notes that Tmall sales have been in decline, though Vipshop is up

Source: Spruce Point research

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Recent Online Sales Data Surrounding The Dragon Boat Festival Suggests Skechers Is A Major Laggard

Skechers was the second worst performer during the mid-June Chinese Dragon Boat Festival promotional period. YoY sales were down -28%, significantly worse than other brands that largely posted double-digit or even triple-digit positive gains. Skechers' discounting activity is also among the highest, consistent with our market conversations.

Online Activity During Dragon Boat Festival

June 16 online promotion for Dragon Boat Festival, results reported by Magic Mirror Market Intelligence and the China National Securities Research Institute:

Company	Brand	GMV (mln RMB)	YoY	Sales volume (1,000 pairs)	YoY2	ASP (RMB)	YoY3	Market share by GMV	Market share change
Anta	Anta	¥ 469.83	139%	1,997	134%	235.23	2%	11.0%	5.1%
	FILA	¥ 408.88	14%	874	39%	467.83	-18%	9.6%	-1.2%
	Descente	¥ 61.03	51%	82	50%	740.5	0%	1.4%	0.2%
Li Ning		¥ 358.38	27%	2,013	35%	178.02	-6%	8.4%	-0.1%
Xtep		¥ 132.07	48%	861	43%	153.45	3%	3.1%	0.4%
361		¥ 70.59	56%	525	64%	134.56	-5%	1.6%	0.3%
Overseas brands	Nike	¥ 569.83	171%	1,785	263%	319.19	-25%	13.3%	7.0%
	Adidas	¥ 508.79	28%	1,694	63%	300.28	-21%	11.9%	0.0%
	Under Armour	¥ 129.73	-35%	430	-21%	301.71	-17%	3.0%	-2.9%
	Puma	¥ 109.58	188%	376	178%	291.2	4%	2.6%	1.4%
	Asics	¥ 94.71	7%	210	76%	451.13	-15%	2.2%	-0.5%
	Skechers	¥ 99.08	-28%	395	-8%	250.83	-21%	2.3%	-1.8%
	Lululemon	¥ 45.77	43%	80	48%	573.2	-3%	1.1%	0.1%

Source: Magic Mirror Market Intelligence and China National Securities Research Institute, Spruce Point research

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We Believe Skechers Will Be Challenged To Meet Revenue Expectations

Based on our China research, we believe Q2 revenues were down approximately -25% YoY, and we believe continued regional COVID restrictions and economic headwinds make it likely that the whole Asia Pacific region is down an equivalent amount. Applying that rate of revenue contraction to each geography implies that areas outside those markets must grow 15% and 20%, respectively, to meet Street consensus, which we believe is unlikely, particularly given Skechers' challenges in the domestic U.S. market.

Skechers Q2 2022 Estimated Revenue Analysis

$ in mm	Q2 2021 Actual	Q2 2022 Estimate	YoY Change
Skechers Revenue Guidance Midpoint		$1,775	
Assuming -25% YoY Growth in China			
Street Consensus (1)	$1,662	$1,784	7%
China	$317	$238	-25%
Implied Total Ex-China	**$1,345**	**$1,546**	**15%**
Assuming -25% YoY Growth in Asia Pacific			
Street Consensus (1)	$1,662	$1,784	7%
Asia Pacific	$459	$344	-25%
Implied Total Ex-Asia Pacific	**$1,203**	**$1,440**	**20%**

(1) Q2 2021 actual includes royalties to conform with current revenue reporting

We note that Skechers' U.S. revenues, which accounted for approximately 41% of total revenue and 51% of total revenue ex-China in 2021, only grew at double-digit YoY growth rates four times in the four years prior to the pandemic, with the highest YoY growth posted at just over 13%.

Source: Skechers Q1 2022 Earnings Press Release, Skechers Q2 2021 10-Q, Bloomberg

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Skechers' Long-Term Brand Positioning is Challenged, Especially in Asia-Pacific

Skechers' primary brand positioning is comfort at a reasonable price. As a result, the business has historically been driven by children (largely pre-high school) and women aged 35 and over. We believe "comfort" is an amorphous concept, and our conversations with a former international GM suggests the positioning may increasingly struggle overseas, particularly in Asia, where fashion plays a more important role in driving consumer purchase decisions. Furthermore, advertising is a major focus of the Company, with the Company's motto being "*Untold, Unseen, Unsold*". Skechers' advertising campaigns rely heavily on retired or past-their-prime sports or entertainment personalities. However, we believe these efforts do little to generate brand appeal in international markets.

Perspectives on the Skechers Brand in Asia-Pacific

Spruce Point Interview With Former Regional GM Familiar With Asia	***"Skechers doesn't really represent anything in Asia. They just follow the trend. They are like pirates. They just copy other brands and then flood the market with cheap product…They aren't going to be big forever…It's all comfort… no offense, but it's old. It's for mature customers. Comfort means old. You grow with your customers, who then die off…Unless the younger generation really embraces comfort, they are just going to die off. It isn't clear where they are going with their brand. They've abandoned the performance division. Skechers failed miserably in Japan. Americans think they know everything, but they don't."*** ***"The other international brands in China like Nike and Adidas do a lot of local collaborations. But Skechers doesn't do that. Many people really don't understand the brand. They need to do more to sustain the brand, but they are not. The others are doing all these hip things with designers and influencers. Nike invests a lot in current athletes, artists, and collaborations. Adidas the same thing. They are focused on what people want."*** ***"They just do stupid commercials. They say 'I'm comfortable', but who cares. What does that even mean. They are very corny or cheesy. The retired athletes in the U.S. have no name value in Asia, and they still use them. They want Asians to follow the U.S., but Asians want something different… As a JV partner, you have to make U.S. management understand what you want to do, and that's the hardest thing. Skechers doesn't let the JV partners spend on marketing like they want to."***

Source: Spruce Point research

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We Also Heard Significant Concerns From Chinese Partners

Skechers has long pursued a strategy of flooding the market through as many channels as possible. Many of our conversations with Chinese partners revealed frustration with the resultant channel conflicts. Several partners also spoke critically of Skechers' products, particularly the lack of innovation and variety, further indicative of the Company's singular reliance on D'Lites and a handful of products.

Feedback From Skechers' Chinese Partners	
Distributor	***"I feel that Skechers' problem is chaotic pricing. There's the online, agents, self-operated stores, affiliates, so there are many price differences. For example, if the same shoe is sold for 500 yuan in an affiliate store, the e-commerce channel can sell it for 350 yuan, but if the agent sells it for 500 yuan, it will lose money, so he needs to sell it for 600 yuan, because the discount is fixed. So too many channels, very confusing."***
Distributor	***"I think there are two deficiencies in Skechers. One is that they don't refresh the styles very often. The other is channel conflict: there are a lot of agents in each region, and the competition is intense."***
Distributor	***"First, they are constantly holding promotions. We need advance notice, but every time Skechers needs to get rid of inventory, it uses discounts and rebates. Second, not many discounts this year. Last year, they offered 40% off and 50% off for three pairs. This year, the 50% is only for old products. There also isn't much variety. Third, it seems that the supply this year is not very good. Sometimes we want to order 10,000 pieces, but the company can send only 5,000. We are always begging for supply. Some is produced domestically and some in Vietnam. Finally, Skechers has high turnover."***
Affiliate	***"I feel that Skechers is not very good at stocking. Each store should have more SKUs."***
Affiliate	***"I feel the quality of Skechers products is poor, especially the shoes. There isn't a lot of variety, and the success rate of their new products is not high, that is to say, the new products do not sell well, and they continue to sell the original styles, or sell them with minor modifications."***

Source: Spruce Point research

We Believe Skechers Appears Poised To Suffer Yet Another Inventory Issue

SPRUCE POINT CAPITAL MANAGEMENT

Skechers Has Experienced Periodic Inventory Issues, Often Resulting in Adverse Stock Moves

Skechers has faced several episodes of excess inventory, most recently in Q3 2015 and Q2 2018. While the drivers in each case were different, subsequent lawsuits would suggest that shareholders were very surprised based on their interpretation of management's previous comments.

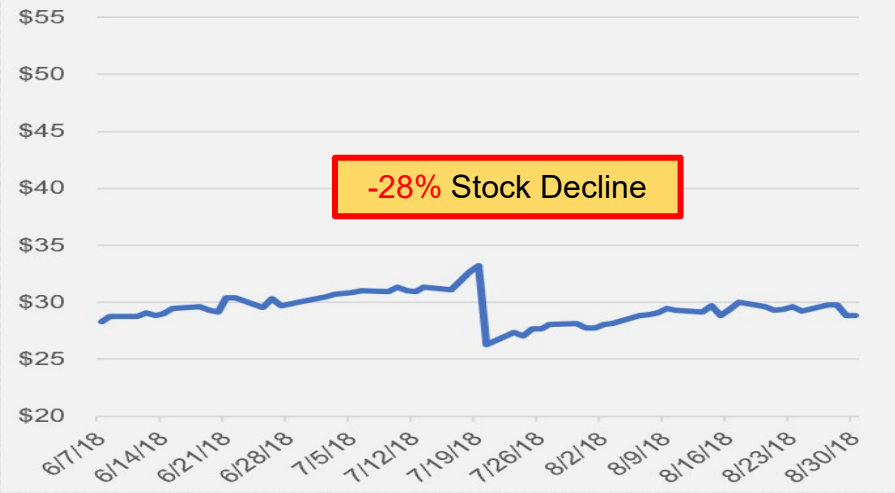
2015 Inventory Issue

In its Q3 2015 earnings report, Skechers revealed that Domestic Wholesale revenues grew dramatically slower than previously guided, resulting in a revenue miss, and that inventory growth far exceeded revenue growth.

Shareholder lawsuit:
Steamfitters Local 449 Pension Plan v. Skechers USA, Inc, et al

2018 Inventory Issue

In its Q2 2018 earnings report, Skechers provided disappointing Q3 revenue guidance, in large part due to excess inventory in the International Wholesale channel, particularly in China.



Shareholder lawsuit:
Laborers Local 235 Benefit Fund v. Skechers USA, Inc, et al

Source: Skechers Q3 2015 earnings release, Skechers Q2 2018 earnings release, Bloomberg

SPRUCE POINT CAPITAL MANAGEMENT

We Believe Skechers Is Again Experiencing Inventory Issues That Will Worsen Going Forward

DIOs ended 2021 at historic highs, 24% above pre-COVID averages. Also, accounts payable / inventory is near its historic low. We believe this signals a material inventory aging issue, as new purchases lag inventory growth. This ratio has only approached this level twice before: in 2010 and 2017, both of which preceded inventory corrections. In addition, we note that Skechers also appears under-reserved relative to pre-COVID averages. In 2021 Skechers recorded a jump in inventory write-offs, in both absolute and relative terms as compared with pre-COVID averages.

Skechers Inventory Analysis

$ in mm	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2015-19 Average
Revenue (1)	$1,436	$2,007	$1,606	$1,560	$1,846	$2,378	$3,147	$3,563	$4,164	$4,642	$5,220	$4,597	$6,285	
Cost of Goods Sold	$815	$1,095	$982	$877	$1,028	$1,306	$1,723	$1,929	$2,225	$2,418	$2,729	$2,408	$3,186	
Inventory	$224	$399	$226	$339	$358	$454	$620	$701	$873	$863	$1,070	$1,017	$1,471	
Inventory Turnover	3.6x	2.7x	4.3x	2.6x	2.9x	2.9x	2.8x	2.8x	2.5x	2.8x	2.6x	2.4x	2.2x	2.7x
Days Inventory Outstanding	100	133	84	141	127	127	131	133	143	130	143	155	169	136
Accounts Payable / Inventory	88%	62%	102%	71%	72%	78%	76%	74%	58%	79%	71%	73%	60%	72%
Inventory Reserves	$4	$4	$12	$9	$4	$3	$4	$11	$9	$13	$7	$8	$8	
Reserves / Inventory	1.6%	0.9%	5.4%	2.7%	1.0%	0.7%	0.6%	1.6%	1.0%	1.5%	0.6%	0.8%	0.5%	1.1%
Inventory Write-Offs	$10	$1	$2	$5	$8	$7	$12	$17	$5	$8	$21	$14	$26	
Write-Offs / FY-1 Inventory	4.0%	0.5%	0.6%	2.4%	2.3%	2.1%	2.6%	2.8%	0.7%	0.9%	2.4%	1.3%	2.5%	1.9%
Write-Offs / FY-1 Reserves		31%	67%	44%	86%	196%	359%	474%	42%	94%	162%	214%	312%	226%

(1) As reported, prior to restatement

New Disclosure in Skechers' 2021 10-K Under "Critical Accounting Policies and Use of Estimates"

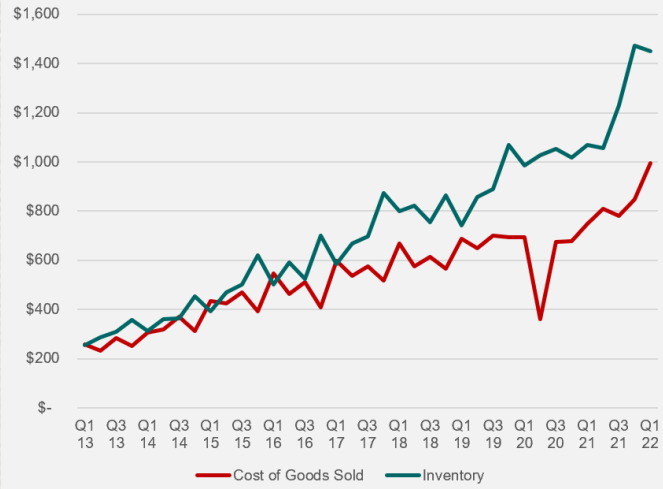
"The valuation of inventory could be impacted by changes in public and consumer preferences, demand for product, changes in the buying patterns of both retailers and consumers and inventory management of customers."

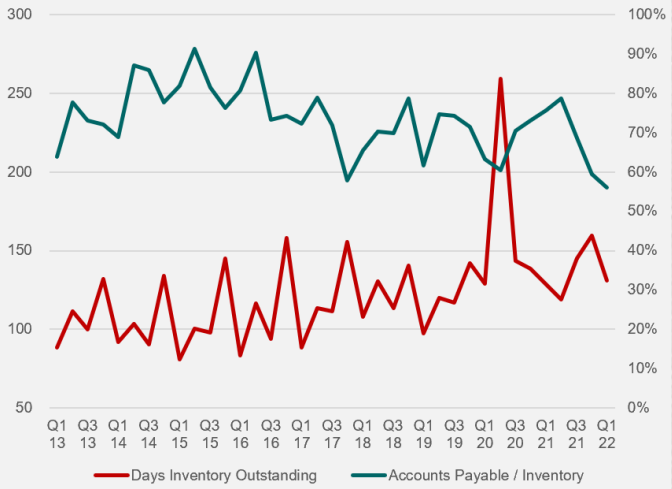
Source: Skechers latest 10-K filing for fiscal year 2021 vs prior year 2020

Quarterly Inventory Analysis Highlights Deviations From Historical Norms

Quarterly analysis highlights the growing deviation between COGS and inventory and the historically low level of accounts payable / inventory. Moreover, an analysis of sequential and YoY changes in inventory in Q1 2022 versus past Q1 levels shows a sharp departure from historical averages.

Skechers Quarterly Inventory Analysis





$ in mm	Inventory				YoY Change				QoQ Change			
Year	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
2015	$392	$471	$500	$620	26%	31%	38%	37%	-14%	20%	6%	24%
2016	$502	$591	$523	$701	28%	26%	5%	13%	-19%	18%	-11%	34%
2017	$586	$670	$698	$873	17%	13%	33%	25%	-16%	14%	4%	25%
2018	$800	$822	$755	$863	37%	23%	8%	-1%	-8%	3%	-8%	14%
2019	$741	$856	$890	$1,070	-7%	4%	18%	24%	-14%	15%	4%	20%
2020	$986	$1,028	$1,053	$1,017	33%	20%	18%	-5%	-8%	4%	2%	-3%
2021	$1,067	$1,057	$1,230	$1,471	8%	3%	17%	45%	5%	-1%	16%	20%
2022	$1,450				36%				-1%			
				Pre COVID/China 2015-19 Avg:	**20%**	**19%**	**20%**	**19%**	**-14%**	**14%**	**-1%**	**23%**

Source: Skechers 10-Q filings for fiscal years 2014 through 2021

SPRUCE POINT CAPITAL MANAGEMENT

To Make Matters Worse, Skechers Recently Made a Material Increase in Purchase Commitments

Skechers' open purchase commitments with foreign manufacturers increased 82% at year end 2021 to $2 billion. Relative to LTM and NTM revenue (management guidance in the case of 2022), these commitments are 51% and 39% higher than pre-COVID averages, respectively.

Analysis of Skechers' Purchase Commitments

$ in mm	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2015-19 Average
Revenue (1)	$1,436	$2,007	$1,606	$1,560	$1,846	$2,378	$3,147	$3,563	$4,164	$4,642	$5,220	$4,597	$6,285	
Inventory	$224	$399	$226	$339	$358	$454	$620	$701	$873	$863	$1,070	$1,017	$1,471	
Purchase Commitments (2)		$221	$275	$230	$379	$559	$614	$851	$943	$888	$1,072	$1,100	$2,000	
Percent of LTM Revenue		11%	17%	15%	21%	23%	20%	24%	23%	19%	21%	24%	32%	21%
Percent of NTM Revenue (3)		14%	18%	12%	16%	18%	17%	20%	20%	17%	23%	18%	27%	20%
Percent of Inventory		55%	122%	68%	106%	123%	99%	121%	108%	103%	100%	108%	136%	106%

(1) As reported, prior to restatement
(2) Open purchase commitments with foreign manufacturers
(3) Assumes mid-point of Skechers 2022 revenue guidance in Q1 2022 earnings release of $7.3 billion

We believe Skechers has dramatically increased its purchase commitments right as revenue growth begins to slow.

Source: Skechers 10-K filings for fiscal years 2009 through 2021

SPRUCE POINT CAPITAL MANAGEMENT

Skechers' Purchase Commitments Relative to LTM Revenue Greatly Exceed Those of Its Peers

Skechers' purchase commitments relative to LTM revenue are approximately 64% higher than that its peers as of their most recent fiscal year end. Moreover, Skechers' increase in relative purchase commitments since before COVID-19 (FY-2 for all) is over twice as high as that of others.

Comparison of Relative Purchase Commitments Versus Peers

		Most Recent FY-2			Most Recent FY			
$ in mm (ex: On Holdings which in CHF	FYE	Revenue	Purchase Commits.	Purchase Commits. / Revenue	Revenue	Purchase Commits.	Purchase Commits. / Revenue	2-Year Basis Pt. Increase
Established Athletic & Apparel								
Nike	May	$39,117	$5,203	13%	$44,538	$6,448	14%	118
VF Corp	Apr	$10,489	$2,632	25%	$11,842	$3,141	27%	144
lululemon	Jan	$3,979	$347	9%	$6,257	$993	16%	717
Under Armour	Dec	$5,267	$1,088	21%	$5,683	$1,476	26%	532
Deckers Outdoor	Mar	$2,133	$362	17%	$3,150	$810	26%	874
Columbia Sportswear	Dec	$3,042	$337	11%	$3,126	$657	21%	991
Crocs	Dec	$1,231	$156	13%	$2,313	$275	12%	-75
Steve Madden	Dec	$1,768	$63	4%	$1,854	$263	14%	1,063
Average	**--**	**$8,378**	**$1,274**	**14%**	**$9,845**	**$1,758**	**19%**	**545**
Small / Fast Growing Upstarts								
Allbirds	Dec	--	--	--	$277	$4	2%	--
On Holding	Dec	--	--	--	CHF 725	CHF 46	6%	--
Average	--	--	--	--	**$537**	**$27.0**	**4%**	
Skechers	**Dec**	**$5,220**	**$1,072**	**21%**	**$6,285**	**$2,000**	**32%**	**1,129**

Note: Where available, purchase commitments represent company figures for products and materials

Source: SEC filings

SPRUCE POINT
CAPITAL MANAGEMENT

Our Concerns About Inventory Levels Are Exacerbated By The Troubled History of its Advisor Gil Schwartzberg And Undisclosed Transactions With Director Siskind

Skechers' paid advisor Schwartzberg received a permanent injunction from the SEC, which claimed fraudulent behavior tied to altering inventory data at LA Gear to meet the Street's gross margin expectation. Moreover, based on a discussion with a former employee, it was alleged that Director Siskind has played an undisclosed role in helping Skechers move distressed inventory. As stated in Skechers' proxy, R. Siskind & Co. "*purchases brand name men's and women's apparel and accessories and redistributes those items to off-price retailers*". Our suspicions were corroborated by a former Skechers executive we spoke with.

Securities and Exchange Commission v. Gilbert N. Schwartzberg and Arden Franklin (Case 2:95-cv-02046-MRP-Mc), Complaint Filed 3/30/1995

"On or about March 19, 1990, Franklin reported to Schwartzberg that preliminary financial statements showed that LA Gear's first quarter GPM was 34.98%, a decrease of approximately five percentage points from the previous quarter, and earnings per share were only $0.36... Franklin agreed to report that LA Gear's GPM for the quarter ended February 28, 1990, was 39.34% GPM. However, he explained to Schwartzberg that LA Gear's perpetual inventory did not support use of the 39.34% GPM. Franklin told Schwartzberg that he would direct the Division Controller, Dennis Wittman ("Wittman"), to add about 500,000 pairs of shoes to the First In First Out ("FIFO") inventory report to support use of the higher GPM. Franklin explained to Schwartzberg that the FIFO inventory report was a report prepared for LA Gear's independent auditors, KPMG Peat Marwick, in support of the figure reported for ending inventory. Schwartzberg instructed Franklin to proceed to alter the inventory as they had discussed."

Spruce Point Interview With Former Skechers Executive Regarding Inventory Transactions With Siskind Entities

Spruce Point Question	**"One of the directors of the Company, Richard Siskind, seems to have a company that finds a home for excess inventory, often in off-price channels. Was he a channel for Skechers?"**
Former Skechers Executive	***"Yes, he was part of it. Yes, I'm sure. I can tell you with pretty high confidence that he was an outlet."***

These issues strain the credibility of Skechers management and our confidence in reported figures.

Source: SEC News Digest 4/3/95, Skechers Definitive Proxy filed 5/26/2022, Spruce Point research

Skechers' Deteriorating Profitability is Coinciding With Declining Transparency

SPRUCE POINT CAPITAL MANAGEMENT

We Believe The Market Miscalculates Skechers' True Cash Flow And It Is Under Extreme Pressure

After deducting payments to noncontrolling interests (which don't flow through CFO) and tax payments related to employee compensation programs, Skechers cash flow profile is not attractive. However, the Company's performance since 2018 is highly troubling. Despite growing revenue over 35%, Adjusted CFO and FCF margins have declined approximately 9 and 11 percentage points, respectively, with the latter negative since 2020.

Skechers' Deficient and Deteriorating Cash Flows

$ in mm	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Q1 2022	LTM
Revenue (1)	$2,007	$1,606	$1,560	$1,846	$2,378	$3,147	$3,563	$4,164	$4,642	$5,220	$4,597	$6,285	$1,813	$6,669
Reported Cash From Operations	-$47	$165	-$3	$99	$164	$232	$362	$159	$569	$427	$331	$212	-$135	$91
Less: Distributions to NCI	$0	$0	-$2	-$3	-$4	-$39	-$18	-$26	-$27	-$39	-$81	-$42	-$5	-$46
Less: Tax Payments: Equity Awards	$0	$0	$0	$0	$0	$0	$0	$0	-$14	-$14	-$6	-$3	-$8	-$11
Spruce Point Adjusted CFO	**-$47**	**$165**	**-$5**	**$96**	**$160**	**$193**	**$344**	**$133**	**$527**	**$374**	**$245**	**$168**	**-$147**	**$34**
Less: Capital Expenditures	-$82	-$122	-$52	-$41	-$57	-$118	-$119	-$136	-$143	-$236	-$310	-$310	-$89	-$315
Spruce Pt. Adjusted Free Cash Flow	**-$130**	**$43**	**-$58**	**$55**	**$103**	**$75**	**$224**	**-$3**	**$384**	**$137**	**-$65**	**-$142**	**-$237**	**-$281**
Margins														
Spruce Point Adjusted CFO	-2.4%	10.3%	-0.3%	5.2%	6.7%	6.1%	9.7%	3.2%	11.4%	7.2%	5.3%	2.7%	-8.1%	0.5%
Spruce Point Free Cash Flow	-6.5%	2.7%	-3.7%	3.0%	4.3%	2.4%	6.3%	-0.1%	8.3%	2.6%	-1.4%	-2.3%	-13.0%	-4.2%
Earnings Quality														
GAAP Net Income (Pre-NCI)	$136	-$68	$11	$61	$152	$261	$285	$235	$371	$427	$146	$816	$136	$837
Adj. CFO > Net Income (Pre-NCI)	No	Yes	No	Yes	Yes	No	Yes	No	Yes	No	Yes	No	No	No

(1) As reported, prior to restatement. Q1 2022 revenue excludes an estimated $7m of royalty income to conform reporting to prior periods

The deterioration of Skechers' cash flow margins since 2018, coupled with a history of mismatch between its CFO and net income (before non-controlling interest) and thus highly suspect earnings quality, suggests that something is fundamentally wrong with the Company's financial model.

Source: Skechers 10-K filings for fiscal years 2011 through 2021

SPRUCE POINT CAPITAL MANAGEMENT

Skechers Has Demonstrated Practically Zero Operating Leverage Despite Nearly Quadrupling Revenue

Despite adding $4.7 billion of revenue over the past ten years, Skechers' General & Administrative expense as a percent of revenue has barely budged. Furthermore, often blamed supply chain expenses don't seem to be a major driver. We view this as a colossal example of poor financial management.

Skechers G&A Expense Analysis

$ in mm	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue (1)	$1,606	$1,560	$1,846	$2,378	$3,147	$3,563	$4,164	$4,642	$5,220	$4,597	$6,285
G&A Expense Breakdown											
Reported G&A Expense (1)	$569	$533	$579	$691	$849	$1,021	$1,245	$1,456	$1,625	$1,754	$2,067
Warehouse and Distribution	$114	$119	$123	$135	$167	$187	$220	$250	$276	$316	$377
Product Design and Development	$16	$10	$9	$10	$11	$14	$19	$19	$17	$18	$25
Stock-Based Compensation	$14	$12	$2	$9	$18	$23	$29	$30	$41	$65	$60
Depreciation and Amortization (2)	$35	$42	$43	$48	$53	$79	$97	$110	$112	$143	$140
G&A Expense Less Reported Items	$390	$350	$402	$489	$600	$718	$882	$1,048	$1,180	$1,212	$1,466
As a Percent of Revenue											
Reported G&A Expense (1)	35.4%	34.2%	31.4%	29.1%	27.0%	28.6%	29.9%	31.4%	31.1%	38.2%	32.9%
Warehouse and Distribution	7.1%	7.6%	6.7%	5.7%	5.3%	5.3%	5.3%	5.4%	5.3%	6.9%	6.0%
Product Design and Development	1.0%	0.6%	0.5%	0.4%	0.4%	0.4%	0.5%	0.4%	0.3%	0.4%	0.4%
Stock-Based Compensation	0.9%	0.7%	0.1%	0.4%	0.6%	0.6%	0.7%	0.7%	0.8%	1.4%	1.0%
Depreciation and Amortization	2.2%	2.7%	2.3%	2.0%	1.7%	2.2%	2.3%	2.4%	2.1%	3.1%	2.2%
G&A Expense Less Reported Items	**24.3%**	**22.5%**	**21.8%**	**20.6%**	**19.1%**	**20.1%**	**21.2%**	**22.6%**	**22.6%**	**26.4%**	**23.3%**

(1) As reported, prior to restatement
(2) The last time Skechers defined Cost of Sales, it did not include depreciation or amortization so we assume it all flows through G&A

Source: Skechers 10-K filings for fiscal years 2011 through 2021

SPRUCE POINT CAPITAL MANAGEMENT

We Believe Skechers' Reporting Practices Obfuscate The True Underlying Drivers of the Business

Some analysts have lauded Skechers for making small positive changes in its communications, such as finally providing annual financial guidance to the Street in 2021. However, we see a sustained effort by the Company to reduce reporting transparency over the past two years. We believe the recent reporting changes further complicate comparisons and financial analysis.

Recent Reporting Changes

- Beginning in Q1 2022, Skechers changed its reporting segments for revenue
  - Old: Direct-to-Consumer, Domestic Wholesale, International Wholesale
  - New: Direct-to-Consumer, Wholesale
- As a result, joint venture activities are now bifurcated between the Direct-to-Consumer and Wholesale segments
- In addition, the Company has:
  - Moved royalty income to sales
  - Moving certain digital platform costs to selling expenses from G&A
  - Augmented geographic reporting

Spruce Point Reaction and Observations on Skechers' Disclosure

We find the timing of these changes suspicious given the other decreases in transparency to be discussed. In addition, we ask:

- Despite the change, why does revenue segmentation still fail to provide channel clarity. Why are third-party "Skechers branded" stores in Wholesale? Why is e-commerce still split between Wholesale and DTC?
- Given the growth of e-commerce, why does Skechers still include online sales in its same-store sales calculation?
- Why has the Company chosen now, after repeated disappointments in the achievement of G&A leverage, to reallocate digital platform costs? What type of expenses were transferred and what type remain in G&A?

Furthermore, why does the Company:

- Fail to disclose greater granularity around JV performance given the structural and management differences?
- Fail to disclose greater detail around "pure" distribution versus other wholesale activities?

Source: Skechers presentation on new segment reporting published 4/14/2022

SPRUCE POINT CAPITAL MANAGEMENT

Over The Past Two Years, Skechers Has Dramatically Reduced Its Financial Disclosures

Over the past few years, many analysts have adopted the narrative that Skechers has become more shareholder-friendly. We believe the opposite to be the case. Since 2019, Skechers has eliminated a significant volume of key business and financial disclosures, particularly about the operations of its JV partners.

Financial Disclosures Eliminated / Reduced From 2019 to 2021

Store count by type and JV country

	Number of Store Locations December 31, 2018	Opened during 2019	Closed during 2019	Number of Store Locations December 31, 2019
Domestic stores				
Concept	114	—	(5)	109
Factory Outlet	171	1	(1)	171
Warehouse Outlet	185	32	—	217
Domestic stores total	470	33	(6)	497
International stores				
Concept	191 (1)	15	(6)	200
Factory Outlet	82 (1)	11	—	93
Warehouse Outlet	10	—	—	10
International stores total	283	26	(6)	303
Joint venture stores				
China	131	49	(23)	157
Hong Kong	43	9	(5)	47
Israel	12	3	—	15
Mexico	—	81	—	81
South Korea	22	13	(18)	17
South East Asia	28	9	—	37
Joint venture stores total	236	164	(46)	354
Total domestic, international and joint venture stores	989	223	(58)	1,154

Net Income and Taxes Paid by Jurisdiction

	Years Ended December 31,					
	2019		2018		2017	
Income tax jurisdiction	Earnings (loss) before income taxes	Income tax expense	Earnings (loss) before income taxes	Income tax expense (benefit)	Earnings (loss) before income taxes	Income tax expense
United States (1)	$ 4,999	[illegible]	$ 16,597	$ 11,500	$ 25,628	$ 113,607
Peoples Republic of China ("China")	121,702	[illegible]	89,429	19,595	95,668	12,971
Hong Kong	50,131	[illegible]	48,352	8,106	17,778	5,030
Jersey (2)	245,561	[illegible]	213,327	—	198,048	—
Non-benefited loss operations (3)	(7,685)	[illegible]	(11,422)	(3,387)	(17,350)	3,306
Other jurisdictions (4)	101,297	[illegible]	75,601	24,797	64,488	14,242
Earnings before income taxes	$ 516,005	88.[illegible]	$ 431,884	$ 60,611	$ 384,260	$ 149,156
Effective tax rate (5)		17.2%		14.0%		38.8%

VIE Entity Distributions and Contributions

	Year Ended December 31,		
	2019	2018	2017
Net earnings attributable to non-controlling interests	$ 80,692	$ 70,232	$ 55,914
Distributions to:			
HF Logistics-SKX, LLC	3,784	4,374	3,787
Skechers China Limited	32,245	19,915	20,620
Skechers Southeast Asia Limited	2,028	2,025	1,347
Skechers Hong Kong Limited	618	618	199
India distribution joint ventures	—	68	—
Contributions from:			
Skechers Korea Co., Ltd.	6,594	—	—
Skechers Footwear Ltd. (Israel)	—	—	46
HF Logistics-SKX, LLC	7,565	—	—
Manhattan SKMX, S. de R.L. de C.V.	22,776	—	—

Contractual Obligations and Commercial Commitments

	Total	Less than One Year	One to Three Years	Three to Five Years	More Than Five Years
Short-term borrowings	[illegible]	$ 5,789	$ —	$ —	$ —
Long-term borrowings (1)	[illegible]	65,413	51,725	—	—
Operating lease obligations (2)	[illegible]	236,604	394,299	317,290	439,766
Purchase obligations (3)	[illegible]	1,290,431	—	—	—
Warehouse and equipment (4)	[illegible]	127,940	175,000	—	—
Corporate construction contracts (5)	[illegible]	85,162	67,288	—	—
Minimum payments related to other arrangements	[illegible]	22,266	28,854	—	—
Total (6)	$ 3,307,827	$ 1,833,605	$ 717,166	$ 317,290	$ 439,766

Summary Balance Sheet Information For VIEs, by Type

(12) NONCONTROLLING INTERESTS

The following VIEs are consolidated into the Company's consolidated financial statements and the carrying amounts and classification of assets and liabilities were as follows (in thousands):

HF Logistics (1)	December 31, 2019	December 31, 2018
Current assets	$ 5,297	$ 2,121
Non-current assets	104,527	98,148
Total assets	$ 109,824	$ 100,269
Current liabilities	$ 64,600	$ 2,738
Non-current liabilities	1,009	64,702
Total liabilities	$ 65,609	$ 67,440

Product distribution joint ventures	December 31, 2019 (2)	December 31, 2018 (3)
Current assets	$ 747,668	$ 540,768
Non-current assets	325,283	128,250
Total assets	$ 1,072,951	$ 669,018
Current liabilities	$ 430,282	$ 294,640
Non-current liabilities	135,903	26,444
Total liabilities	$ 566,185	$ 321,084

Comparing Skechers' 2019 and 2021 10-Ks, the word count of the Business, Risk Factors, and MD&A sections have declined -71%, -17%, and -66%, respectively, and the page count of the Notes to Consolidated Financial Statements has declined -35%.

Source: Skechers 10-K for years 2019 and 2021

We See 30% -50% Downside Risk To Skechers Share Price

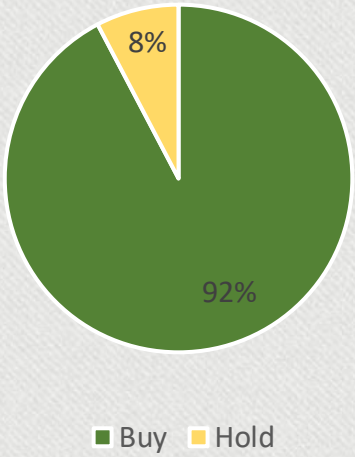
Capital Structure

Skechers capital structure includes two classes of stock, with Class B holders entitled to 10 votes. The Greenberg's thereby control 42.9% of the vote, while allies of the family such as Mr. Schwartzberg beneficially own 18.0% of the eligible votes. Despite the obvious governance issues and other considerations we've raised, sell-side analysts are resoundingly bullish and not a single one says "Sell". The consensus view sees fair value at a wildly optimistic $58.67 per share, which suggests 58% upside.

$ in mm, except shares	Skechers
Stock Price US$	**$37.12**
Class A	135.1
Class B	20.9
Diluted	1.4
Market Capitalization	**$5,846**
Revolving Credit due Dec 2026	$50
Current Portion of LT Debt	$59
Operating Leases	$226
Total Short-Term Debt	**$335**
Long-Term Debt (various loans)	$265
Operating Leases	$1,064
Total Long-Term Debt	**$1,330**
Total Short and Long-Term Debt	**$1,664**
Plus: NCI at book value	$298
Less: Cash and Equivalents	($695)
Enterprise Value	**$7,114**

Debt Structure[1]

Analyst Recommendation Mix



1) Includes interest rate swap and assumes China working capital loans are fixed

SPRUCE POINT CAPITAL MANAGEMENT

Comparable Company Analysis

We do not believe that high multiple, premier performance athletic shoe companies are credible comparables for Skechers. Furthermore, we believe Skechers growth rate will compress and its multiple will contract.

Skechers Comparable Company Analysis

Name (Ticker)	Stock Price 7/18/2022	Adj Ent. Value	2022E Gross Margin	2022E Capex Margin	2022E CFO Margin	2022E EBITDA Margin	Sales Growth 21-'22E	Sales Growth '22E-'23E	EV / Sales 2022E	EV / Sales 2023E	Price / EPS 2022E	Price / EPS 2023E	EV/CFO 2022E	Net Debt 2022E EBITDA	Dividend Yield
Nike (NKE)	$103.94	$165,414	46.1%	2.9%	14.4%	16.0%	7.2%	10.3%	3.4x	3.1x	26.9x	23.6x	22.6x	0.0x	1.2%
Adidas (ADS)	$165.18	$32,941	50.6%	3.3%	10.5%	14.4%	-3.9%	8.9%	1.4x	1.2x	18.5x	15.2x	13.1x	0.3x	2.0%
Puma (PUM)	$65.24	$10,280	47.6%	3.0%	7.2%	13.0%	-1.1%	10.9%	1.3x	1.1x	24.5x	19.1x	18.0x	0.4x	1.1%
Deckers (DECK)	$275.91	$6,931	51.3%	2.5%	15.8%	19.7%	4.2%	11.1%	2.2x	2.0x	17.2x	14.5x	12.5x	-1.0x	0.0%
Crocs (CROX)	$54.99	$6,284	58.4%	5.4%	18.4%	27.9%	51.6%	15.6%	1.8x	0.8x	5.2x	4.7x	9.7x	2.6x	0.0%
Under Armour (UAA)	$8.24	$4,352	48.1%	2.9%	6.9%	9.0%	6.6%	6.8%	0.7x	0.6x	12.5x	9.8x	10.4x	0.7x	0.0%
Wolverine Worldwide (WWW)	$21.57	$2,885	43.0%	1.0%	1.9%	12.1%	16.2%	6.8%	1.0x	0.6x	8.4x	7.4x	54.3x	3.0x	1.9%
Steve Madden (SHOO)	$32.25	$2,504	41.0%	0.8%	10.8%	15.1%	15.1%	5.8%	1.2x	1.1x	10.8x	9.8x	10.8x	-0.2x	2.6%
Designer Brands (DBI)	$13.92	$2,083	33.3%	1.2%	15.0%	9.2%	6.4%	3.5%	0.6x	0.6x	7.3x	6.9x	4.1x	3.2x	1.4%
Caleres (CAL)	$26.94	$1,837	43.6%	1.3%	5.9%	9.7%	4.9%	3.0%	0.6x	0.6x	6.2x	5.8x	10.7x	3.0x	1.0%
Genesco (GCO)	$54.21	$1,108	48.2%	2.2%	3.4%	8.2%	1.5%	2.2%	0.5x	0.4x	7.4x	6.8x	13.2x	1.9x	0.0%
		Max	58.4%	5.4%	18.4%	27.9%	51.6%	15.6%	3.4x	3.1x	26.9x	23.6x	54.3x	3.2x	2.6%
		Average	46.5%	2.4%	10.0%	14.0%	9.9%	7.7%	1.3x	1.1x	13.2x	11.2x	16.3x	1.3x	1.0%
		Min	33.3%	0.8%	1.9%	8.2%	-3.9%	2.2%	0.5x	0.4x	5.2x	4.7x	4.1x	-1.0x	0.0%
Skechers (SKX)	**$37.12**	**$7,114**	**47.9%**	**4.0%**	**8.5%**	**11.1%**	**16.7%**	**10.4%**	**1.0x**	**0.9x**	**12.7x**	**10.1x**	**11.4x**	**1.2x**	**0.0%**

Source: Bloomberg estimates and Spruce Point Research

SPRUCE POINT CAPITAL MANAGEMENT

We See 30% to 50% Downside in Skechers Shares

We believe Skechers' stock price has been largely driven by outsized China growth. Absent the China story, we believe Skechers is "just" a moderate growth, "fast follower" shoe company that will likely never be able to compete with the performance athletic shoe companies that have vastly larger markets and stronger brands. Finally, we find many reasons for Skechers to trade at a discount to its broader shoe peers given its below average free cash flow generation and governance weaknesses.

Spruce Point Price Target

$ in mm, except per share figures	At Street Consensus (1)	At SPCM Est.
2022E Net Income to SKX (1)	$452	$392
Comparable 2022E P/E	9.0x	9.0x
Spruce Point Discount		20%
Applied 2022E P/E	**9.0x**	**7.2x**
Market Capitalization	$4,068	$2,822
FD Shares Outstanding	157.5	157.5
Implied Stock Price	**$25.83**	**$17.92**
Current Price	$37.12	$37.12
Downside From Current	**-30%**	**-51%**

(1) Bloomberg consensus as of 7/15/22

Our estimate of 2022E net income attributable to Skechers assumes a downward revision of YoY growth to 2.5% in Q2 and 10% in Q3 and Q4 and 0-120 bps of net margin miss over the next three quarters, all of which we believe could be overly optimistic.

Rationale For Valuation Multiple Discount

- Reversion to reduced revenue growth rate
- Longer-term challenges in Chinese market
- Greater inventory concerns relative to peers
- Business model instability as a fashion "fast follower"
- Post-COVID19 demand reversion from casual to fashion
- Consistently poor cash generation
- Potential for margin pressures from discounting and the strong U.S. dollar
- Track record of failing to achieve meaningful operating leverage
- Declining financial and business transparency
- Reliance on opaque joint venture structures
- Dual-class share structure
- Exceedingly poor corporate governance
- Shareholder unfriendly Board composition
- Sustainability of current management structure and succession planning
- Concerns of nepotism, self-enrichment and related dealing
- Reputational risk driven by questionable JV partners and indicators suggesting abusive labor practices
- High capex spending with limited observable benefits