



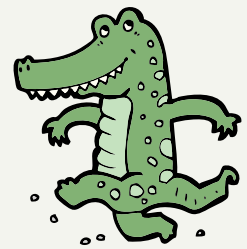
Crocs, Inc.

**BUYOUT
PROPOSAL**



crocs™

Executive Summary

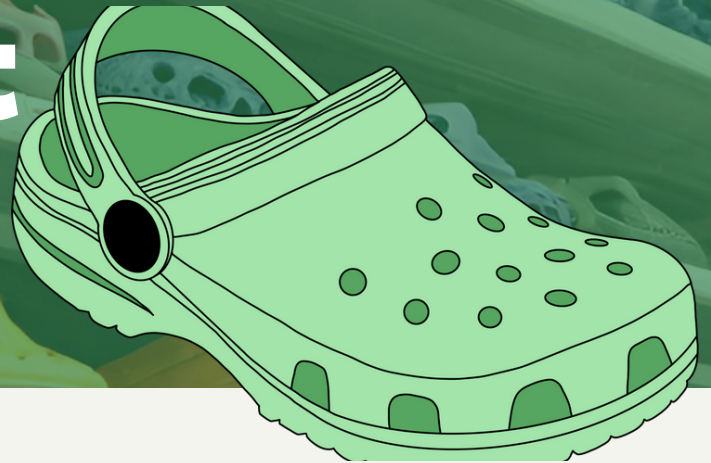


Crocs, Inc., a trailblazer in casual footwear brand since 2002, has solidified its market presence through the strategic acquisition of **HEYDUDE**, enhancing its diverse product lineup. The company boasts a formidable online and physical retail network, with substantial growth fueled by effective penetration in the Asian market and dynamic marketing initiatives. The year 2022 marked a revenue increase of **53.7%**, demonstrating Crocs' growing appeal. Crocs is expected to further to grow alongside with the growth of global footwear industry of **3.47% (CARGO)** and non-athlete footwear industry of **4.2%(CARGO)**.

Crocs' market potential is highlighted through commitment to sustainability and personalized consumer experiences, which resonate with contemporary eco-friendly trends and digital market demands. The buyout is underpinned by a proprietary deal flow and a strong relationship with an experienced management team committed to maintaining the brand's innovation-driven ethos. The buyout plan, with a five-year horizon, could result in a **21% IRR** and **2.6x money multiples** for the investors. The purchase price will be **\$9.79billion**.

In summary, Crocs represents a compelling buyout opportunity, offering significant returns through strategic growth, a solid management partnership, and alignment with market trends and consumer preferences.

Market Context

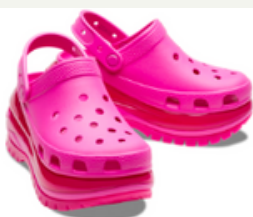


The Business

Founded in **2002**, Crocs, Inc., based in Colorado, is celebrated for creating a casual, comfortable, and fashionable non-athletic footwear brand that caters to customers of all ages. In 2022, the acquisition of **HEYDUDE** highlighted the company's dedication to casualization and diversify produce portfolio under two brands. It broadened its array of offerings from the classic, waterproof clogs to the comfort-oriented and eco-friendly Wally shoe line. Crocs has diversified its portfolio to include a variety of footwear such as clogs, sandals, and the Jibbitz™ charms, each serving as a cornerstone of the brand. The clogs represent Crocs' timeless staple, while sandals serve as a strategic focus within the **\$30 billion** global market, and **Jibbitz™ charms** facilitate continuous innovation and partnerships with celebrities and influencers. Embracing technology and celebrity endorsements has propelled Crocs' growth in both shoes and its brand during the pandemic era and beyond. The brand targets the mass market with its affordably priced products, distributed through comprehensive wholesale and direct-to-consumer channels.



Echo



Mega



Siren



Wally Sox Micro
Black

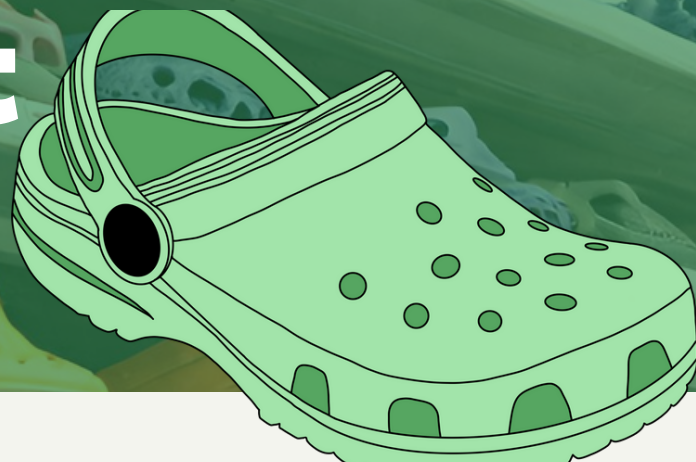


Wendy Funk Mono
Electric Pink



Sirocco Sneaker

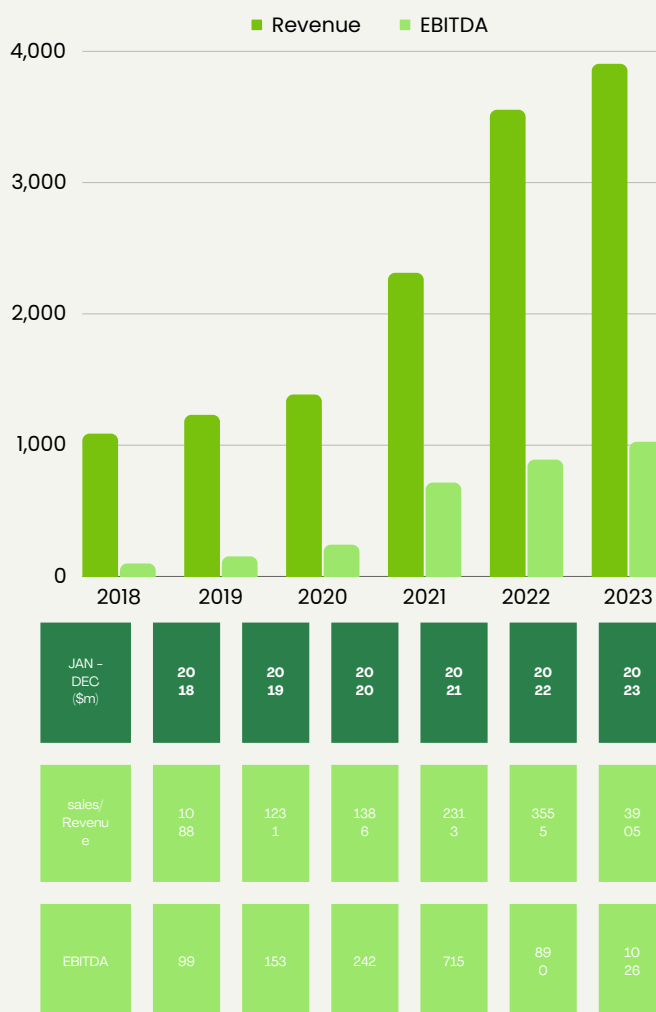
Market Context



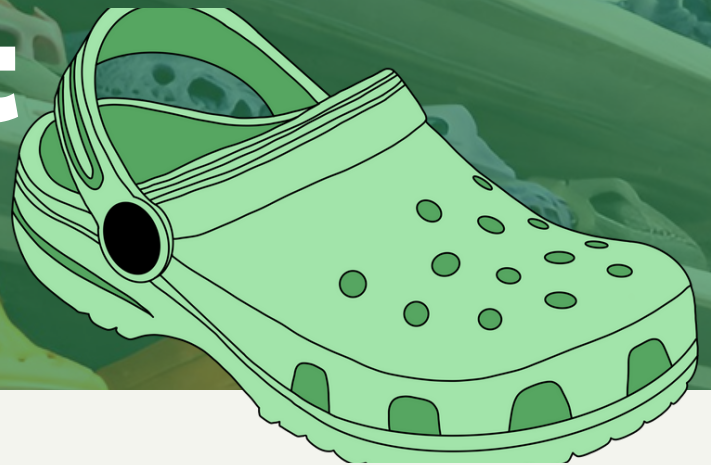
Financial Position:

Over the period from 2018 to 2022, Crocs, Inc. has seen a consistent upward trajectory in both revenue and EBITDA. Notably, in 2022, the company experienced a substantial **53.7%** revenue increase from the previous year, with HEYDUDE contributing **38.7%** to this revenue. However, exchange rate volatility in 2022 had a **4.5%** negative impact on revenue. Looking ahead to 2023, the projected **EBITDA** is expected to be **\$1.026 billion**, with revenues anticipated to reach approximately **\$3.905 billion**.

This growth is largely attributed to an increase in sales volumes of Crocs Sandals, propelled by effective marketing strategies in the Asian market and the expansion of HEYDUDE into new regional markets. Crocs has outpaced its competitors, showing a resurgence in revenue and EBITDA, particularly during the pandemic. Even with supply chain disruptions leading to increased costs of goods, Crocs' products have continued to fulfill the rising demand for comfortable footwear throughout the pandemic and post pandemic markets.

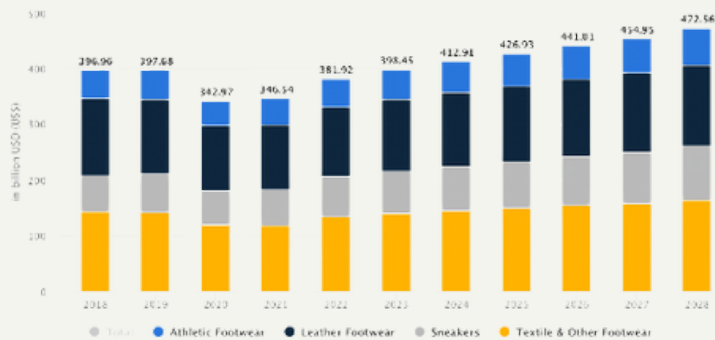


Market Context



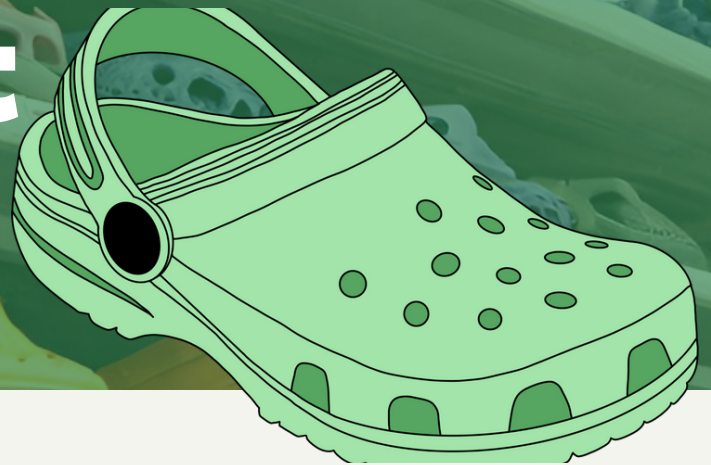
The Industry:

Crocs, Inc., along with its brands Crocs and HEYDUDE, operates within the non-athletic footwear sector. The global footwear industry is projected to generate revenues of \$398.40 billion in 2023, with an annual growth rate of 3.47% (CAGR 2023 – 2028). This upward trend is partly due to the expanding global e-commerce market for footwear, which is predicted to grow at a CAGR of 7.25% from 2022 to 2030. Such expansion in the broader market is poised to create favorable conditions for Crocs's growth.



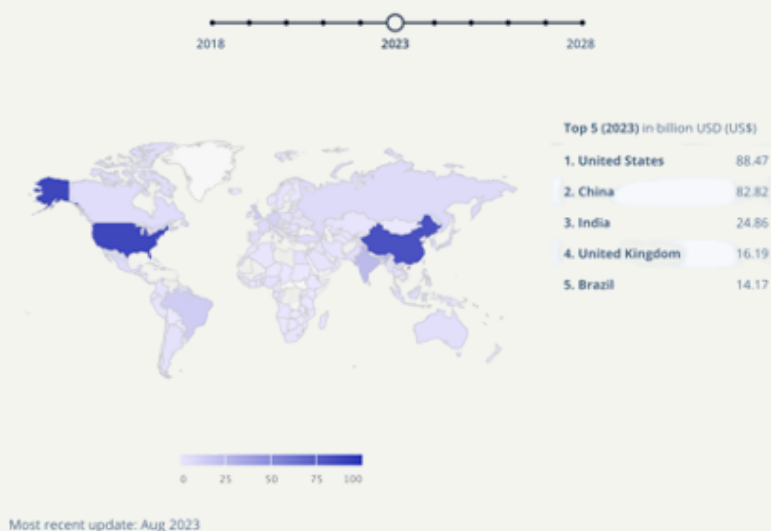
The valuation of the non-athletic footwear segment is forecasted to rise at a CAGR of 4.2% between 2023 and 2031, reaching an estimated \$364.1 billion. This growth is driven by several factors: firstly, the increasing prevalence of health issues related to lifestyle choices is boosting demand for footwear that is both comfortable and stylish; secondly, advancements in technology are enhancing the design and manufacture of such footwear; thirdly, the economic cycle, as predicted by George Tritch, suggests a phase of growth up to 2026; and fourthly, greater marketing investments and the influential role of celebrities in fashion are likely to present lucrative opportunities for the non-athletic footwear market. However, potential challenges such as the volatility of raw material prices, rising labor costs in Asia, and increasing transportation expenses could dampen this growth.

Market Context

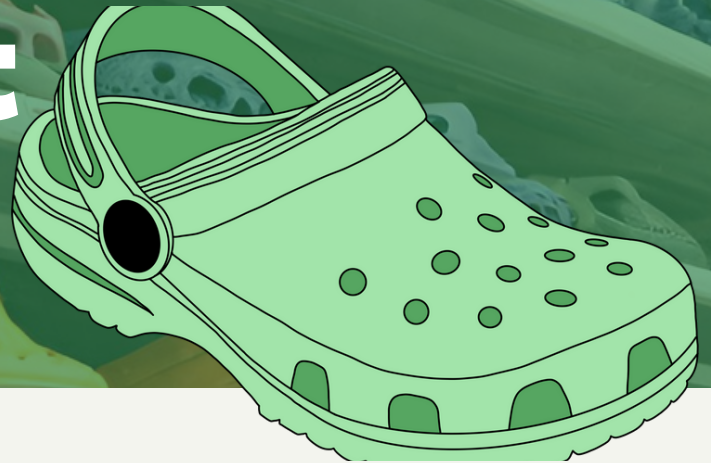


The Industry

Regionally, the Asia Pacific market is expected to experience the fastest growth due to lifestyle changes and rising disposable incomes. North America is anticipated to retain the largest market share throughout the forecast period, with footwear remaining a top purchase for Americans and a growing emphasis on the importance of appearance in the workplace. The footwear industry, being mature and highly segmented by product type, is marked by intense competition; yet, Crocs has managed to maintain a competitive edge within its market segment.

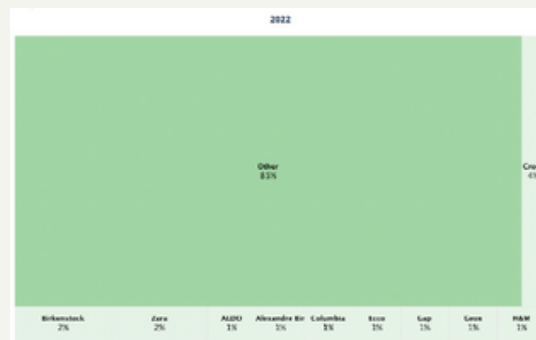


Market Context



Competitors:

Crocs, Inc. asserts a significant presence in the textile and other footwear market, capturing 4% market share with its Croslite™'s range of non-leather and non-athletic shoes.



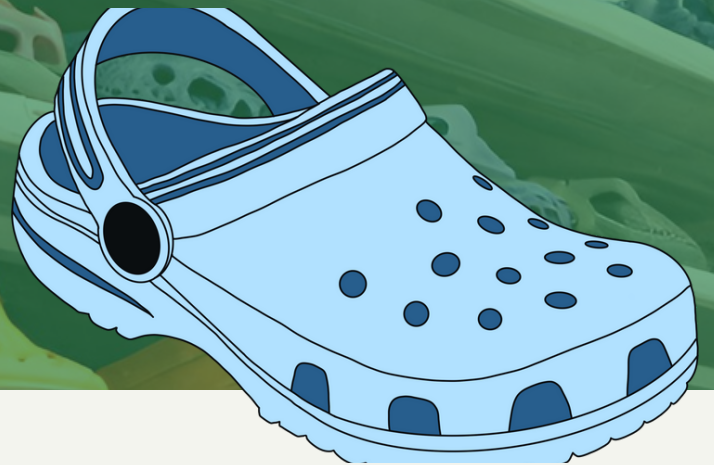
In the same segment, Birkenstock sets itself apart with unique materials and pricing, commanding prices twice as high as Crocs. The German shoe giant Birkenstock is celebrated for its iconic sandals with cork footbeds, layered with suede and jute, that shape to the foot, holding a 2% market share. For the year 2023, Birkenstock is on track to hit revenue targets of €1.47 billion.



(photo taken in Selfridges)

Crocs' rivalry extends to behemoths in the athletic footwear domain, such as Nike (Converse) and Adidas. These giants overshadow Crocs with vast financial clout, expansive product assortments, widespread market penetration, enduring wholesale relationships, extensive operational history, superior distribution networks, and robust brand recognition, all while not being as dependent on a limited selection of brands

The Process

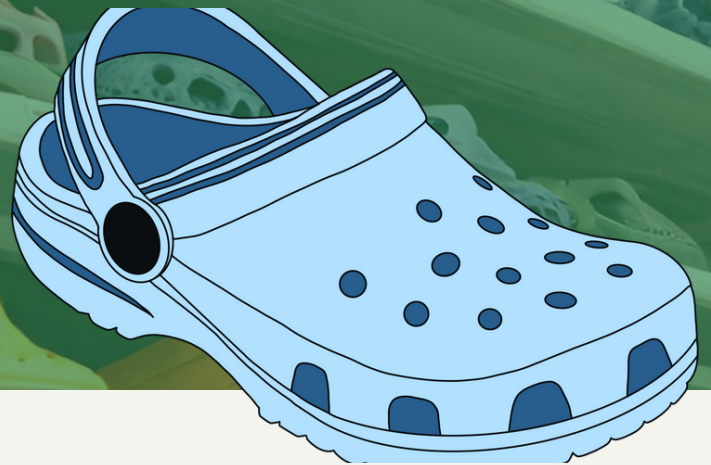


In a competitive market led by Crocs, with a significant share in the textile and non-athletic footwear sector, the company also contends with industry giants like Nike and Adidas. The integration of HEYDUDE marks Crocs' second major growth phase, highlighting the potential for a well-timed buyout, especially as Crocs eyes international expansion, product innovation and digital marketing strategies.

Our approach for this buyout utilizes a proprietary deal flow, leveraging direct engagement with Crocs' management and shareholders, bypassing the need for third-party intermediaries. This direct involvement places us in an advantageous position. CEO Andrew Rees's crucial backing and our primary research indicate that Crocs can generate greater value through this buyout than independently. While Crocs is not in immediate need of capital, its ambitions for growth suggest a premium on our investment but with promising returns.

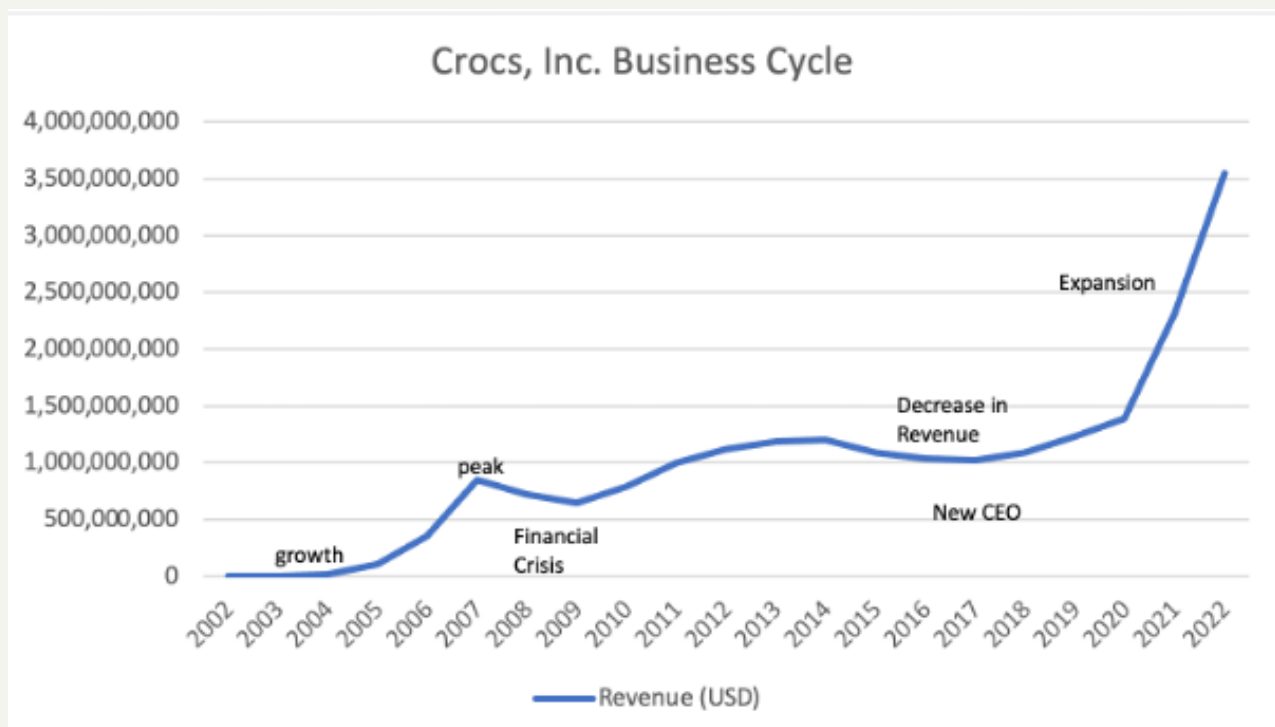


The Process



| Timeline of Crocs | |
|-------------------|--|
| 2002 | Established |
| 2006 | IPO |
| 2007 | revenue surged to 847.35M (Peak) |
| 2008-2009 | global financial crisis |
| 2009-2014 | Decreasing growth |
| 2015 - 2017 | Negative revenue growth |
| 2017, June | New CEO: Andrew Rees, swift company focus to digitalizing marketing. |
| 2018 - 2021 | Increase in revenue growth |
| 2022, February | Acquisition of HEYDUDE |
| 2023 | Estimated Increase in Revenue |

Remaining alert to other potential bidders is crucial, as this could lead to a more competitive and costly acquisition process. However, Crocs' primary goal of value creation and growth, rather than a quick exit, somewhat mitigates this risk. Our focus is therefore on strengthening relationships with Crocs' management and shareholders to ensure we are the preferred choice for this strategic partnership.



The Commercial Opportunities

Innovation

| Innovation | Embracing Sustainability for Growth at Crocs | | | | | | | | | | | | | | | | | | | | |
|------------|--|------|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| | <p>With sustainable fashion becoming increasingly important, the market for eco-friendly footwear is expected to nearly double by 2026. This trend presents a significant opportunity for Crocs to expand its market share by incorporating bio-based plastics like Ecolibrium in its production, aligning with the rising demand for sustainable products. Moreover, as these materials become more affordable due to advancements in technology and increased production scales, Crocs can maintain cost-efficiency while embracing sustainability.</p> <p>This strategy aligns with Crocs' commitment to reduce its carbon footprint by 50 percent per pair of shoes by 2030, emphasizing its journey towards becoming a net-zero brand. By positioning itself as a sustainable brand, Crocs can attract environmentally conscious consumers, boosting sales for both its own line and the HEYDUDE brand.</p> <p>Further, Crocs can innovate in sustainability by further initiating consumer-led programs for donations, recycling, and re-commerce, giving its durable shoes a second life. This approach not only differentiates Crocs from luxury shoe competitors but also enhances its reputation as an eco-friendly and responsible brand, tapping into a growing market segment that values environmental stewardship.</p> <div><p>Share of sustainable Textile and Other Footwear is estimated to increase from 2018 to 2026</p><p>Market Size: Global</p><p>Sustainable footwear share in percent</p><table><thead><tr><th>Year</th><th>Share (%)</th></tr></thead><tbody><tr><td>2018</td><td>3.10</td></tr><tr><td>2019</td><td>3.30</td></tr><tr><td>2020</td><td>3.50</td></tr><tr><td>2021</td><td>3.80</td></tr><tr><td>2022</td><td>4.00</td></tr><tr><td>2023</td><td>4.40</td></tr><tr><td>2024</td><td>4.80</td></tr><tr><td>2025</td><td>5.20</td></tr><tr><td>2026</td><td>5.70</td></tr></tbody></table></div> | Year | Share (%) | 2018 | 3.10 | 2019 | 3.30 | 2020 | 3.50 | 2021 | 3.80 | 2022 | 4.00 | 2023 | 4.40 | 2024 | 4.80 | 2025 | 5.20 | 2026 | 5.70 |
| Year | Share (%) | | | | | | | | | | | | | | | | | | | | |
| 2018 | 3.10 | | | | | | | | | | | | | | | | | | | | |
| 2019 | 3.30 | | | | | | | | | | | | | | | | | | | | |
| 2020 | 3.50 | | | | | | | | | | | | | | | | | | | | |
| 2021 | 3.80 | | | | | | | | | | | | | | | | | | | | |
| 2022 | 4.00 | | | | | | | | | | | | | | | | | | | | |
| 2023 | 4.40 | | | | | | | | | | | | | | | | | | | | |
| 2024 | 4.80 | | | | | | | | | | | | | | | | | | | | |
| 2025 | 5.20 | | | | | | | | | | | | | | | | | | | | |
| 2026 | 5.70 | | | | | | | | | | | | | | | | | | | | |

The Commercial Opportunities

Innovation

| Innovation | Innovation on Products to revitalizing brand identity and aligning with market trends |
|------------|--|
| | <p>Crocs' strategy of expanding its shoe offerings presents a significant commercial opportunity, despite initial challenges such as increased costs and a potentially scattered global marketing strategy. This expansion has occasionally led the brand away from its iconic clog, risking brand identity dilution in the pursuit of product diversification.</p> <p>To capitalize on this opportunity, it is recommended that Crocs reimagine its classic clog, repositioning it as a trendy, fashion-forward product. Such a transformation would not only reinforce the brand's heritage but also cater to a broad spectrum of consumer needs with a well-rounded product line, enhancing its market appeal and establishing a loyal customer base.</p> <p>The expertise of Crocs' management in identifying and catering to consumer trends is a valuable asset. By concentrating on boosting the sales of its most popular styles and refining its range to focus on these high-demand products, Crocs can more effectively align with market trends. This focused approach promises to streamline production and minimize costs, leveraging popular styles for maximum commercial success.</p> |

The Commercial Opportunities

Innovation

| Innovation | Personalization as a Key Driver for Crocs |
|------------|--|
| | <p>In a fashion world increasingly focused on individuality and self-expression, personalization emerges as a critical trend. Crocs, with its Jibbitz charms, already taps into this trend by offering customers a way to personalize their footwear. Further innovation in Jibbitz themes will deepen this customization, aligning with consumers' desire for unique style.</p> <p>Crocs' recent successful collaborations with celebrities like Justin Bieber and fashion brands like Balenciaga have significantly boosted sales and brand visibility. To capitalize on this momentum, Crocs should pursue further partnerships with other high-profile brands, artists, or designers for limited-edition releases. Utilizing these collaborations in digital marketing campaigns can create a buzz and draw in new customers.</p> <p>Building on this, there's a substantial commercial opportunity for Crocs to introduce a service similar to "Nike By You," enabling customers to tailor their Crocs shoes to their personal taste. This could include options to choose colors, materials, and specific design features, enhancing the basic design of Crocs with a distinct sense of ownership and individuality. Embracing this personalized approach caters to the modern consumer's demand for products that reflect their unique needs and preferences, positioning Crocs as not just a footwear brand, but a platform for self-expression.</p> |

The Commercial Opportunities

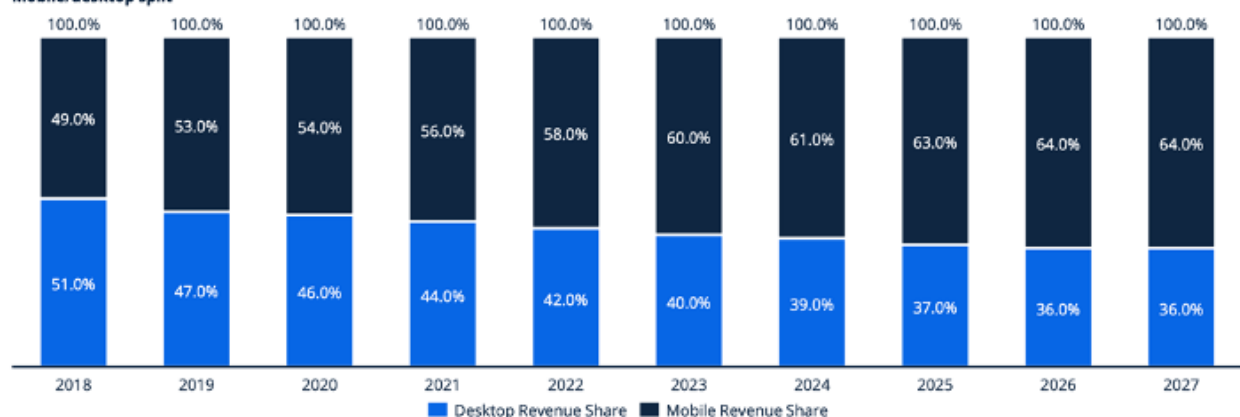
Marketing

| Marketing | Enhancing Crocs' Digital Presence and Collaborative Efforts |
|-----------|--|
| | <p>The growth in digital sales in 2022 indicates a booming global e-commerce market for footwear, presenting a prime opportunity for Crocs to upgrade its online presence in both desktop and mobile platform. By investing in enhancing e-commerce platform, such as website and application, to a user-friendly, responsive platform, complete with personalized features like product recommendations, customer reviews, and a streamlined checkout process, Crocs can significantly enhance its online customer experience.</p> <p>In sync with its resonance in pop culture and celebrity influence, Crocs can amplify its engagement on social media platforms. Interactive content, influencer collaborations, and user-generated campaigns, especially on platforms such as Instagram, TikTok, and Snapchat, can effectively target a younger audience (Gen Z). These efforts can display the diversity of Crocs' products, tapping into the preferences and behaviors of a digitally savvy demographic.</p> |

In the Textile & Other Footwear market mobile revenue share reached 58.0% in 2022

Further Market Analysis

Mobile/desktop split



The Commercial Opportunities

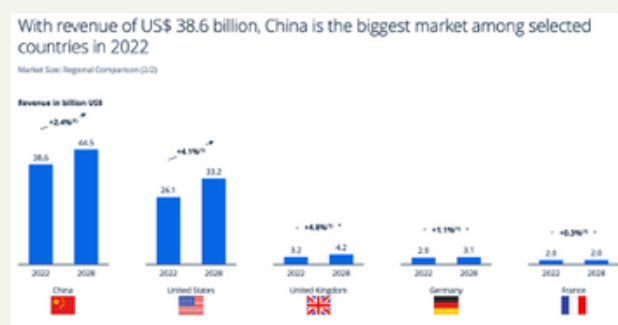
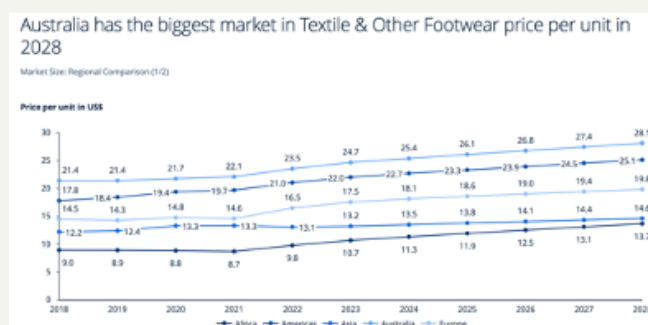
Marketing

| Marketing | Enhancing Customer Engagement and Revenue Streams for Crocs |
|-----------|--|
| | <p>Aligning with the trend of fostering closer customer relationships, Crocs has the opportunity to add a dedicated customer platform in their existing app. This platform can serve as a community hub where customers can share and discuss their personalized Crocs creations, significantly boosting customer engagement. Furthermore, top-rated customer-designed shoes could be transformed into non-fungible tokens (NFTs), allowing them to be traded within the app. This innovative approach not only fosters a sense of community and brand loyalty but also opens up a novel revenue stream for Crocs, tapping into the burgeoning digital asset market. This strategy capitalizes on current marketing trends while embracing the digital transformation in retail and e-commerce.</p> <p>Expanding on its successful approach, Crocs should increase its offline pop-up events, particularly in EMEALA regions. These events, crucial for regions without company-owned stores, can enhance customer engagement and brand loyalty, especially when linked with collaborations or special collections. This strategy leverages experiential retail, strengthening Crocs' market presence and driving sales.</p> |

The Commercial Opportunities

Expansion

| Expansion | Expanding HEYDUDE's Global Footprint |
|-----------|--|
| | <p>HEYDUDE, following its growing presence in North America, is poised for greater international expansion, leveraging heightened brand awareness and distribution. The brand should consider extending its reach into European, Australian, and Asian markets. Notably, Australia, forecasted to become a leading market in other footwear with an average spend of \$28.1 per unit by 2028, presents an attractive entry point due to its similarities in customer preferences with the US and Europe, offering significant potential.</p> <p>Leveraging Crocs' established foothold in the Asian market, particularly in China – Crocs' largest revenue source in Asia – presents a strategic opportunity for HEYDUDE. Tapping into this market can significantly boost HEYDUDE's global reach and revenue, capitalizing on Crocs' existing market insights and distribution networks. This expansion strategy aligns with current trends and offers a path to substantial growth for the HEYDUDE brand..</p> |



The Commercial Opportunities

Expansion

| Expansion | Adapting to Market Trends in China with lower price range |
|-----------|---|
| | <p>In light of the 'consumption downgrade' trend in China, where economic downturns have shifted consumer preferences towards more affordable products over luxury goods, Crocs has a unique commercial opportunity. China's position as a high-volume footwear market with relatively lower average revenue per user compared to the US, UK, and Europe suggests a demand for cost-effective options. Crocs, with its shoes made from Croslite™, a closed-cell resin, has the potential to reduce gross margins and offer products at a lower price point. This strategy aligns with the Asian market's demand for affordable quality footwear with the potential to boost overall revenue in the region. Adapting pricing strategies to meet these market conditions can help Crocs maintain its competitive edge and market share in Asia.</p> |

With average revenue per user of US\$ 77.9, the United States is the biggest market among selected countries in 2022

Market Size: Regional Comparison (2/2)

Average revenue per capita in US\$



With volume of 2.3 billion pairs, China is the biggest market among selected countries in 2022

Market Size: Regional Comparison (2/2)

Volume in billion pairs



Risks

| Risks | Commentary and Method of Mitigation | Priority |
|-------------------------|---|----------|
| Market Competition risk | <p>While the casual footwear market, growing at a CAGR of 4.2%, presents an opportunity, it also introduces a significant Market Competition Risk. The sector is intensely competitive in, with numerous brands competing for market share, often leading to price wars and squeezed profit margins. In addition, Crocs are positioned to compete with market giant in athletic-footwear market, e.g. Nike, adidas. Crocs, with its access to materials like Croslite™ and LiteRide™, faces less competition in sourcing. However, the broader market challenge persists.</p> <p>Engaging with a PE firm for substantial funding support could be a strategic move to mitigate this risk by facilitating expansion and creating a competitive edge.</p> | MOD |
| Product and Brand | <p>Crocs faces a distinct Brand and Product Strategy Risk, stemming from its approach of tailoring product ranges to diverse customer demands. This strategy, while catering to localized preferences, risks leading to a fragmented global marketing approach. A significant concern is the reliance on the brand's value and the challenge of maintaining and enhancing this value over time. With a potential risk of the classic clog losing its appeal, Crocs could erode the brand's long-term value. Moreover, ongoing investments in new product development have led to higher costs and challenges in effectively implementing Crocs' long-term growth strategy and predicting product demand and supply.</p> <p>To mitigate this risk, it's advisable for Crocs to consider a strategic reimagination of the classic clog, as outlined in the commercial opportunities section, ensuring it remains relevant and strengthens the overall brand equity.</p> | HIGH |

Risks

| Risks | Commentary and Method of Mitigation | Priority |
|---------------|---|----------|
| Sales | <p>Unlike other footwear companies, Crocs' sales are highly tied to accurately anticipating customer preferences. This is because of its heavy focus on marketing and diverse product offering. A misjudgment in forecasting demand could lead to decreased revenue and increased costs associated with launching new products. Therefore, employing up-to-date customer data collection methods and analytical tools is essential for understanding evolving market needs.</p> <p>Additionally, Crocs encounters Distribution Channel Risk, particularly in the EMEALA regions, where its sales are heavily reliant on wholesale channels and retailers. Maintaining strong relationships with these partners is critical; any deterioration in these relationships could significantly affect Crocs' sales in these markets.</p> | MOD |
| Supply chains | <p>Crocs relies exclusively on third-party manufacturers, predominantly in Vietnam and China, for all footwear production. This dependency subjects Crocs to supply chain risk as it competes for manufacturing capacity while lacking direct control over operations. Such constraints have occasionally led to delays and unmet customer demand. In recent years, a single manufacturer has produced a significant portion of Crocs' unit volume, and there's no assurance of their capacity to meet future demands or quality standards. The potential risk of supply chain disruptions could lead to sales loss, increased production costs, and, if expedited shipping is required, reduced profit margins. Furthermore, the company is vulnerable to risks associated with foreign manufacturing, such as transportation delays, political instability, and fluctuating fuel costs, all of which could adversely impact its financial outcomes.</p> <p>To mitigate this risk, Crocs should seek for more potential manufacturers.</p> | MOD |

Valuation



The 2023 revenue and EBITDA projections are based on the financial results of the first nine months, with anticipated year-over-year growth driven by Heydude's expansion into Europe and other global markets. In line with the company's 2026 objective, sales are expected to surge to \$5 billion. While further expansion and new product innovation suggested in the proposed market opportunities will affect net earnings and thereby EBITDA, the enterprise value is expected to growth accordingly.

This buyout's proprietary nature and the strategic factors involved suggest a likely price premium. However, using public market comparable for valuation is challenging due to the varied trading multiples within the consumer electronics sector, ranging from **25.2x** for industry leaders like **Nike** to **10.8x** for peers like **VF Corporation**.

Thus, a **10x** baseline multiple is established as a sound valuation benchmark. Given the deal's specific features, the entry multiple is raised by **10%**, arriving at an 11x multiple. Although a higher entry multiple, relative to an **Enterprise Value/EBITDA of 8x** and the **industry's 10x standard**, could influence value creation and exit prospects, the outlook remains positive. This confidence is bolstered by Croc's strong cash flow, with projections of growth in the coming five years. With Crocs' **2022 EBITDA of \$890 million**, the calculation leads to an **enterprise valuation of \$9.79billion**.

Valuation



Additional Cost:

In the proposed buyout of Crocs, the deal costs are projected to be **5%** of the enterprise value, covering transaction expenses and service fees paid to third-party financial intermediaries, legal teams, and due diligence providers. This assumption leads to an additional financing need of **\$489.6 million** to cover these associated costs.

Capital Structure:

| | | \$m |
|-------------------|-----|----------|
| Debt | | 4,895.93 |
| Investor Equity | 86% | 153.57 |
| Investor Loan | | 5,206.95 |
| Management Equity | 14% | 25.00 |

Debt:

Examine past performance, Crocs management has a low-medium risk tolerance. For the buyout's financial structuring, factoring in a leverage ratio up to 5.5x is deemed prudent to enhance returns while maintaining low risk levels. Using a **5.5x leverage** as a higher leverage will help balance the effect of an elevated entry multiple on the investment's overall return profile. With Crocs' 2022 EBITDA reported at \$890 million and an applied debt multiple of 5.5x, the resulting debt financing would amount to **\$4.90 billion**.

Equity:

In the Crocs buyout, a significant portion of the funding, amounting to **\$5.21 billion**, will be structured as investor loans, a strategic move to amplify returns for the private equity fund. The remaining capital, **\$178.57 million**, will be allocated between investor and management equity contributions. Management will hold a **14%** equity stake, corresponding to a **\$25 million** investment, while investors will retain an 86% stake with an investment of **\$153.57 million**. This equity distribution is designed to balance ownership incentives with the financial leverage required for a successful buyout.

Investment Returns



Upon holding Crocs for five years and considering the projected revenue and EBITDA margin, along with an anticipated increase in the exit multiple to 11x, the firm's exit valuation is expected to reach \$18.117 billion.

| | | \$Billion |
|---|--------------|-----------|
| Exit Value | $11 * 1.647$ | 18.117 |
| Accrued Cash | | 5.068 |
| External Debt | | (8.250) |
| Cash to share between PE and Management | | 14.935 |

| IRR and Money Multiple | \$Billion |
|------------------------------|-----------|
| Investor Cash Split Year 5 | 14.129 |
| Investor IRR | 21% |
| Investor Money Multiple | 2.6 |
| Management Cash Split Year 5 | 0.806 |
| Management IRR | 100% |
| Management Money Multiple | 32.2 |

Exit Options:

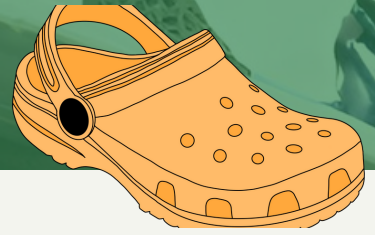
| | |
|-------------------------------|--|
| Strategic Sale | <p>Selling to a strategic third party presents a favorable exit strategy for the Crocs buyout. Prospective acquirers ideally would be key players in the broader footwear and apparel industry, extending beyond just casual footwear manufacturers.</p> <p>Major corporations in the sector, such as Nike, Adidas, or Puma, would be prime candidates. These companies are more substantial in size and have greater financial resources, which could contribute to achieving a higher sale price for Crocs. Engaging with a strategic buyer, the operational synergies and leadership position in casual footwear of Crocs would likely spark their interest in a transaction. The strategic benefits that an acquirer would obtain from incorporating Crocs into their portfolio could justify a premium and higher exit value.</p> |
| Initial Public Offering (IPO) | <p>An alternative exit strategy for Crocs would be to pursue an Initial Public Offering (IPO), potentially offering robust exit multiples. Given the increasing tendency of Nasdaq stock performance, this increase will also add into Crocs's IPO price. The outcome of IPO is highly dependent on market conditions. Yet, the IPO process is typically lengthy and expensive, and the proceeds from selling the initial batch of shares might only support a partial exit. Furthermore, post-IPO, there would be a standard lock-up period—ranging from three to twelve months—during which the private equity fund cannot fully divest its holdings. Completing a total exit post-IPO could extend beyond the anticipated five-year holding period. The dilution of Croc's management ownership could lead to conflicts for the PE firm when considering an IPO as an exit strategy.</p> <p>The success of an IPO also has implications for the private equity fund's reputation. A successful IPO could enhance the fund's stature by drawing significant public interest. Conversely, under a poor economic performance, any missteps during the IPO could negatively affect the fund's reputation in the market and increase the length of exit.</p> |

Exit Options:

| | |
|--|---|
| Sale to PE fund/ Institutional investor | At the conclusion of our five-year holding period, Crocs may attract interest from other private equity entities and institutional investors, such as BlackRock, Apollo Global Management, or TPG. Divesting to these parties represents yet another viable exit strategy. This route may yield a lower return compared to strategic sales or an IPO, rendering it a less favorable option. However, should there be substantial interest, orchestrating an auction between interested entities could potentially elevate the sale price, thereby enhancing our investment returns. |
|--|---|

For the exit strategy, initiating a public offering appears to be the most promising approach to maximize returns. Announcing intentions for an IPO would likely garner public interest and elevate the company's profile. The subsequent move towards taking Crocs public may also draw strategic buyers or investors, opening avenues for potential negotiations. If an attractive offer emerges, engaging with the bidder would be advantageous. Alternatively, should no suitable deal materialize, proceeding with the IPO would be the focal strategy. Considering the sustained growth of the casual footwear market projected through at least 2028, there is an ample window to navigate the IPO process and strategize divestment. Market conditions at the time of sale will ultimately guide the decision.

Buyout Calculation

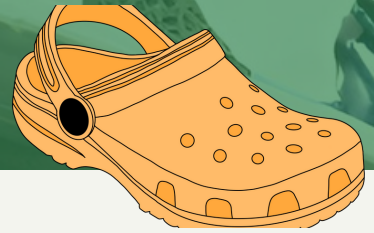


**KING'S
BUSINESS
SCHOOL**

BUYOUT HEADLINE NUMBERS

| \$m | Year end December | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|-------------------------------|-------------------|--------|-------|-------|-------|-------|-------|
| Sales | | 3,555 | 3,946 | 4,427 | 4,861 | 5,347 | 5,882 |
| Growth | | - | 11% | 12% | 10% | 10% | 10% |
| EBITDA | | 890 | 1,105 | 1,195 | 1,313 | 1,497 | 1,647 |
| EBITDA Margin | | 25% | 28% | 27% | 27% | 28% | 28% |
| EBIT | | 890 | 1,105 | 1,195 | 1,313 | 1,497 | 1,647 |
| EBIT Margin | | 25% | 28% | 27% | 27% | 28% | 28% |
| Capex | | - | - | - | - | - | - |
| Leverage assumed (x) | | 5.5 | | | | | |
| Cost of Funds (e.g. SONIA) | | 5.0% | | | | | |
| Margin | | 6.0% | | | | | |
| Investor Loan Coupon | | 12.0% | | | | | |
| Tax Rate | | 25.0% | | | | | |
| Entry Multiple (EBITDA) | | 11 | | | | | |
| Exit Multiple (EBITDA) | | 11 | | | | | |
| Entry Enterprise Value ("EV") | | 9,792 | | | | | |
| New Money | | - | | | | | |
| Fees | | 489.6 | 5% | | | | |
| Total Financing | | 10,281 | | | | | |

Buyout Calculation



Capital Structure

| | | \$m |
|-------------------|-----|----------|
| Debt | | 4,895.93 |
| Investor Equity | 86% | 153.57 |
| Investor Loan | | 5,206.95 |
| Management Equity | 14% | 25.00 |

| | |
|--------------------|-------|
| Cheque Size | 5,361 |
| Entry Multiple | 11 |
| Exit Multiple | 11 |
| Leverage | 50% |
| Investor IRR 5Y | 21% |
| Investor MM 5Y | 2.6 |
| Management Cash 5Y | 806 |

Cash Assumptions

| | Year 3 | Year 5 |
|--|--------|--------|
| Debt (assumes no interest or capital repaid) | 6,696 | 8,250 |
| Investor Loan | 7,315 | 9,176 |
| Cash eq. EBITDA-Tax-Capex | 2,710 | 5,068 |

Illustrative Cash Out Waterfall

| | | | | | | |
|---------------------|----|---|-------|-------|----------------------|------------------------------------|
| Exit Value (Year 5) | 11 | x | 1,647 | = | 18,117 | |
| | | | | plus | 5,068 | (Accrued Cash) |
| | | | | | <u>23,185</u> | |
| | | | | minus | 8,250 | (External Debt) |
| | | | | | <u><u>14,935</u></u> | (cash to share between PE and Mgt) |

IRR Calculation

| 3 year: | | Cash Invested | | Cash Split Year 3 | | Cash Split Year 5 |
|-----------------------------|------|---------------|-------|-------------------|---|-------------------|
| Exit EBITDA multiple | 11 | | | | | |
| Investor IRR | 23% | - | 5,361 | - | - | 10,013 |
| Management IRR | 160% | - | 25 | - | - | 439 |
| Money multiple - investor | 1.9 | | | | | |
| Money multiple - management | 17.6 | | | | | |
| 5 year: | | | | | | |
| Exit EBITDA multiple | 11 | | | | | |
| Investor IRR | 21% | - | 5,361 | - | - | 14,129 |
| Management IRR | 100% | - | 25 | - | - | 806 |
| Money multiple - investor | 2.6 | | | | | |
| Money multiple - management | 32.2 | | | | | |

Recommendation



Given Crocs' growth prospects and market leadership in casual footwear, the buyout deal appears promising, likely to yield favorable returns. Despite potential market volatility and competition, a strong partnership with Crocs' management should steer the investment towards success, making the buyout a recommended action.

