December 1, 2021

CC: Skechers Board of Directors

David and John,

Thank you for spending half a day helping us better understand the impressive business that you, the Greenberg family, and the entire team have thoughtfully built over the past thirty years. As we examine your market opportunity, product, pricing, brand, and distribution capabilities we remain extremely enthusiastic about the future of Skechers.

As long-term shareholders, we share your view that the best way to create lasting shareholder value is by growing the brand. Following our distribution center ("DC") tour, we understand the capital investments in your DC will support growth, improve your e-commerce capabilities, reduce labor costs, and increase optionality through potential drop-ship partnerships down the road. Additionally, we appreciate the progress towards diversifying your board (Ms. Blair's appointment in May 2019), additional communication on ESG topics such as sustainable materials and Uyghur labor concerns (March 2020), and instituting annual guidance (April 2021). We believe these changes improve both your business and the investment case.

Since Skechers has been among our top holdings for years, we are frequently asked by our own investors, "Why is Skechers so inexpensive?" Honestly, this question is puzzling to us as well since the fundamentals of your business are better than peers over an extended period of time. Specifically, over the past decade, Skechers has grown revenue faster than Nike, Adidas, Puma, Under Armour, Crocs, and any other relevant peer. While Skechers' margins are lower, we remain confident in the margin progression and in the view that Skechers' margins have greater upside potential than peers. <u>Despite these impressive facts, Skechers continues to trade at less than half of the earnings multiples of these peers.</u> In our experience, the businesses with the highest sustainable growth tend to trade at premium multiples over peers, not discounts.

Skechers is unique among its peers because the founding family continues to control the business through super-voting shares. The evidence would suggest that the Greenberg family has proven to be arguably the best management in all of footwear in recent years. However, we often hear concerns about SG&A volatility, lack of dividends, lack of buybacks, lack of capital markets days, lack of internal investor relations, and frequent share sales by insiders. Those not involved in the stock (or in some cases short) point to these factors and suggest that the family is not truly focused on shareholders. This narrative is limiting value creation for all shareholders, including the Greenberg family.

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We know management is highly aligned with shareholders as the Greenberg family owns ~$1.1B of stock. However, we believe our suggestions could create greater than **$4B of incremental value** over the next ~10 years just for the Greenberg family alone, and we are happy to walk you through our assumptions. Most of these concerns can be addressed relatively easily. We believe once those concerns are addressed, shareholders will likely feel so aligned with management and the Greenberg family that unease around the founding family dynamics will dissipate, driving the multiple higher and creating tremendous value for all shareholders. Beyond the obvious shareholder value creation, we believe a higher share price would create additional value by attracting more top talent, motivating employees through RSU's, and allowing potentially accretive acquisitions down the road.

We suggest the following:

- **Eliminate the Dual Share Class Structure (by removing super-voting shares)**
    - In our view, this is the single largest overhang on the stock. While we are not suggesting any changes to the day-to-day operations of the business, this change would reassure the market that Skechers will continue to be run in shareholders' best interests.
    - We believe the family absolutely should continue to hold the same key management positions and significant Board representation.
- **Initiate an Aggressive Buyback**
    - We believe Skechers can conservatively buyback ~40% of the business over the next 10 years (unless there is material multiple expansion during that period) while still continuing to build a net cash balance sheet.
        - This results in a greater than 60% uplift to EPS in year 2030 (versus no buybacks)
    - This additional EPS growth and prudent capital allocation should close the multiple gap over time creating another ~100% upside (because peers trade at more than twice SKX's current forward multiple)
        - We do not expect this multiple gap to close quickly. Additionally, as long-term shareholders, we hope that the multiple remains low so the company can buyback more shares!
    - Lastly, this would highlight that your own shares are more attractive than any potential acquisition in the market right now which is something we strongly believe
- **Initiate a Dividend**
    - Even a small dividend reduces the need for insider share sales
    - Attracts a more diverse investor base
    - Reduces total shareholder return volatility

    - Illustrates the sustained earnings power of the business
- **Host a Capital Markets Event**
    - Shows the active engagement of management with shareholders
    - Highlights the value of higher growth, under-earning markets where shareholders have historically received little detail and thus been unwilling to ascribe value
    - Explains the expense savings achieved through significant DC investments in recent years, and the corresponding increase in excess cash flow going forward
    - Provides a forum in which to show a clear path to medium-term revenue and earnings targets, reducing focus solely on quarterly results
- **Internal Investor Relations**
    - Someone working closely with John Vandemore (CFO) should be able to host more prospective investor conversations, allowing the company to cast a wider net for interested investors
    - Consistent with other players in the industry, it shows a concern for shareholders and it frees up more of John's time for other responsibilities including growth strategy, capital allocation, and expense management

As promised, we have sent *The Outsiders* by William Thorndike. We hope that you will share these copies with the Greenbergs and other Board members as we believe these detailed examples of eight CEOs whose stocks outperformed the S&P by over 20x during their tenures are quite powerful. More importantly, their strategies are repeatable and applicable in the case of Skechers as it is a sustainable, highly cash generative business trading at an inexplicably low multiple. This creates the opportunity to generate many billions of dollars in value for the Greenberg family and other shareholders through thoughtful capital allocation that focuses on maximizing long-term shareholder value.

We look forward to continuing the discussion. Once again, thank you for taking the time to explain some of the exciting aspects of your business at your DC recently.

Sincerely,

Brett Barakett, Austin Stephen, and Bryan Walsh

Tremblant Capital Group