quadient

Because connections matter.

3 December, 2020

Quadient
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92220 Bagneux, France

Teleios Capital Partners LLC
Baarerstrasse 12
6300 Zug Switzerland

Dear Mr. Kuzniar,

The Board has received your letter dated from the 25th of November, 2020. While we continue to encourage a constructive dialogue with you, as with all our shareholders, we are taking this opportunity to address your concerns in writing. As you have made your letter public, this response will equally be publicly available.

The Board takes its fiduciary duties extremely seriously. As expressed in the statement we issued on the 24th of November, 2020, the Board carefully reviews unsolicited expressions of interest for parts of Quadient's business and has a policy not to publicly discuss them for both commercial and in some cases legal reasons.

Your letter raised some fundamental concerns on the strategy of Quadient and the Board's ability to independently appraise M&A decisions. We state clearly and unequivocally that the entire Board is supportive of the ongoing 'Back to Growth' strategy, as well as of the current management.

The Board reiterates that the Company has no current intention to divest its Customer Experience Management (CXM) business, which is the backbone of Quadient's global software franchise and a key component of its overall strategy.

In responding to your concerns, we will outline the following:

- 'Back to Growth' is the right strategy to successfully transform Quadient
- Quadient is successfully executing on all fronts
- Divesting CXM for short-term gains would weaken the Company and destroy value for the shareholders
- Capital allocation has been designed to adequately support the strategy
- Our Board of Directors is fully committed to create value for shareholders

1. 'Back to Growth' is the right strategy to successfully transform Quadient

'Back to Growth' is a transformation, not a diversification, with a disciplined focus to move away from 15 independent businesses in 2018 to become one integrated company focused on growth engines with materiality potential greater than >€100 million each, delivering synergies and mitigating the exposure to a declining mail market.

Prior to 'Back to Growth', it is worth remembering the Company was operating 15+ different businesses and 80+ products addressing multiple different end-markets in size and potential, each with a significantly diverse product mix, different customers, technologies, competitors, and operational capacity.

On his appointment as CEO in February 2018, Geoffrey Godet reviewed the Company's strategy, situation and different businesses, launching under the Board's supervision a fully-fledged strategic review. This in-depth review involved months of internal and external analysis, more than 120 managers and experts within the Company and well-established advisory firms. Many different strategic scenarios were contemplated, challenged rigorously, and tested. Our final plan was selected on the grounds of providing the highest value creation prospects for our shareholders while limiting the potential execution risks. It was unanimously approved by the Board and presented to the market in January 2019.

Quadient's strategy is simple: to **progressively reposition the Company's portfolio** by building sustainable businesses with high growth and leading market position potential that are synergistic with its foundational mail-related business. The goal is to create value by continuing to reap the benefits of its strongly profitable and cash generative - but structurally declining mail-related business, hence over time reducing its exposure to mail.

Quadient has chosen to **capitalize on two growth drivers**:

i. Digital transformation: the natural shift from physical to multichannel communications as well as the automation of internal processes of customers of all sizes;
ii. Last mile parcel delivery: the impressive growth of parcel deliveries generated by the buoyant e-commerce market, which is creating huge challenges for carriers, retailers, property managers, corporations as well as parcel recipients.

After announcing the strategy just under two years ago, **Quadient remains focused on a clearly realigned offer, encompassing software and smart hardware solutions for both physical mail and last mile parcel delivery**. The Company shifted from being a holding company, operating numerous brands and entities, into one truly unified organization operating one strong single brand – with one vision, mission, and voice.

Quadient is **benefitting from increasing synergies** across its integrated portfolio – from commercial cross-selling to back-office efficiencies, and from mutualized R&D to integrated supply chains and logistics across smart hardware solutions. The continuous progress in implementing these synergies is regularly communicated during financial presentations.

Quadient's strategy is based on a **highly recurring revenue model** across solutions from rental-based and equipment financing to SaaS subscription and usage fees, as well as maintenance and other service fees.

2. Quadient is successfully executing on all fronts

The first year of 'Back to Growth' delivered strong results

In 2019, Quadient has achieved best organic growth performance since 2013 at +1.6%, reaching a total of **7 consecutive quarters of positive organic growth**. Within Major Operations[1], in the first year of the strategy, our three growth engines recorded strong organic growth:

- +12.6% for Customer Experience Management
- +18.8% for Business Process Automation
- +36.8% for Parcel Locker Solutions

The focus on growth of the new solutions has not been made at the expense of our traditional business. Mail-Related Solutions recorded its best organic performance since 2013 with a minus 2.8% organic decline outperforming the market while benefiting from the synergies with the other solutions.

The decision was made to reinvest at the beginning of the strategic plan to enable the mid-term expansion of our growing software and parcel lockers businesses. Consequently, the lower EBIT[2] was well anticipated, and at € 185 million, we ended up at the **top of the range of the guidance we had provided**, while maintaining a sound level of profitability (24.7% EBITDA[3] margin).

Last but not least, our efforts to "grow, improve or exit" our Additional Operations have been paying off as they moved from a negative EBIT of € 7 million in 2018 to a positive EBIT of € 4 million in 2019.

In 2020, we have seen a strong rebound in Q3 after COVID-19 impact in H1

Whilst the outbreak of the COVID-19 crisis has obviously weighed on Quadient's performance this year, we have been pleased with the resilience, adaptability and necessity of our business which helped the Company **to achieve a sharp rebound in Q3 revenue** (-3.0% organic after -12.8% in H1). All four solutions showed strong improvement compared to previous quarters, including strong double-digit growth in Business Process Automation (+20.0%) and Parcel Locker Solutions (+28.9%).

Tight cost management measures were implemented (an estimated € 35 million Opex reduction excluding bad debt in the first 9 months), enabling us to maintain an EBITDA margin in excess of 21.5% in H1, generate strong free cash flow and preserve a very robust liquidity position.

Despite the impact to Quadient and the challenges faced by its employees during this difficult time, Quadient has introduced new initiatives to further increase synergies (e.g., integration of Parcel Pending including their supply chain with Mail-Relation Solutions), launched several new innovative products, entered new markets, signed new contracts and created new partnerships, and completed the acquisition of YayPay.

With the addition of these recent developments, Quadient remains uniquely positioned to benefit from the accelerated adoption of multichannel and personalized digital communications solutions, as well as the booming e-commerce with more effective last-mile delivery management solutions.

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[1] *Since Q1 2020 revenue presentation, Major Operations combine the Group's four strategic solutions across North America and the Main European countries, as well as the activities of Parcel Locker Solutions in Japan and of Customer Experience Management in the rest of world, now included in the International segment. The figures presented here take into account this scope. Please refer to Quadient's first quarter revenue press release published on 27th of May, 2020 for more information.*

[2] Current operating income before acquisition related expenses

[3] *EBITDA = current operating income + provisions for depreciation of tangible and intangible fixed assets.*

3. Divesting CXM for short-term gains would weaken the Company and destroy value for the shareholders

To implement its strategy, Quadient focuses on businesses it knows very well and sizeable growing markets where it has or is able to quickly gain a significant market share and competitive edge.

Regarding **digital transformation**, Quadient's software R&D team has developed two digital-based platforms:

i. *Quadient Inspire*, dedicated for large enterprises focusing on the personalization of their communication flows and the improvement of customer experience. **Quadient Inspire is the market-leading solution** with great success across several industries (Customer Experience Management-CXM);

ii. *Quadient Impress***, which reuses the Quadient Inspire intellectual property**, is dedicated to the wider market specifically small-medium businesses and addressing the needs of automating business processes, from hybrid-mail to the management of accounts receivables (Business Process Automation- BPA).

CXM is the backbone of our global software business and continues to be at the very heart of our overall strategy designed to accelerate our transformation.

Since the acquisition of GMC Software in 2012, under Quadient's ownership, the business has **grown strongly and profitably from a €43 million business to €203 million in software revenue in 2019**, including € 140 million in CXM and € 63 million in Business Process Automation.

CXM today enjoys 1,600+ customers worldwide and developed a strong knowledge of specific verticals. For instance, CXM customer base now includes 7 of the top 15 largest financial services companies worldwide and 6 of the top 15 largest insurance companies worldwide. CXM is generally presented as the #2 in worldwide market share.

CXM has been proven to benefit from commercial synergies with our Mail-Related Solutions. **Over the last two and a half years, more than 20% of new CXM clients have been driven by our Mail-Related Solutions commercial teams** – which are **helping drive CXM expansion into new accounts** and verticals such as government and utilities. Today, we are seeing nearly € 15 million in revenue a year being generated thanks to our strong mail-related business, and this number continues to increase.

Under Quadient's ownership, the historical Customer Communication Management (CCM) activities have successfully evolved towards Customer Experience Management with the launch of technologies that go beyond communications management and help companies control the entire customer journey and experience. In the meantime, CXM has also successfully embarked on its **transition from license sales to SaaS subscription** with a cloud offering. This successful evolution has been recognized by customers, partners and all leading industry analysts. In this spirit, we also recently announced partnerships with Infosys and Kitewheel, and we will continue to actively study any kind of synergetic partnership or acquisitions in the future.

One should not contemplate a potential divestment of CXM without thoroughly considering what would be Quadient's profile without CXM. The obvious conclusion is that Quadient will be left with an increased exposure to the declining mail market which will revert back well above 80% of total revenue. Consequently, Quadient's growth prospects would be significantly reduced, halting Quadient's transformation towards a more balanced hardware/software business.

Furthermore, divesting CXM would deprive Quadient's Business Process Automation from the strong R&D capabilities today embedded within CXM. The newly launched Quadient Impress platform has been designed by a combined software R&D team, largely made of CXM's R&D engineers and technology support staff. **Quadient Impress and Quadient Inspire share over 60% of code** and together allow us to cover the communication management needs of our customer segments from SMBs to large enterprises.

For the above-mentioned reasons and more, we firmly believe that maintaining CXM within Quadient will deliver much stronger value than divesting it and potentially returning cash to shareholders. We see a high risk of potential value destruction as the rest of Quadient's portfolio could suffer from a derating post CXM divestment, as **a significant share of portfolio synergies will be lost** and the potential of rebalancing the future portfolio towards growth-related activities will be delayed.

4. Capital allocation has been designed to adequately support the strategy

To support our 'Back to Growth' strategy, we required to gain more flexibility in capital allocation and have adjusted our dividend policy accordingly. As announced in January 2019, our new dividend policy has set the payout ratio at a minimum of 20% of net income, with an absolute floor of € 0.50 per share. This year was an exception. Despite the COVID-19 crisis **we decided to maintain a dividend** but proposed a reduced payment of € 0.35 per share, which was vastly approved by the AGM in July 2020.

As a reminder, in January 2019, we announced that we were considering an M&A envelope of € 100 million net of divestments on average per year for the 4-year period 2019-2022, and that we would return the unused part of this envelope to our shareholders.

We have a very strict discipline for M&A in place which involves a dedicated team and a well-structured process, involving both the Strategy and CSR Committee and the Board. This has been demonstrated with a number of transactions including **three divestments delivering back $ 90 million** to the Company and also the successful bolt-on acquisitions and integration of Parcel Pending and YayPay.

Strategic initiatives are carefully reviewed multiple times before being presented to the full Board with careful capital allocation considerations.

In summary, the increased flexibility in our capital allocation allows us to organically invest in our activities and potentially seize M&A opportunities which, in turn, would contribute to accelerate our transformation, further rebalance our business mix, reduce our dependence on the mail business, enhance our growth profile, deliver benefits to our customers while reducing our debt and create more value for our shareholders.

5. Our Board of Directors is fully committed to create value for shareholders

An independent Board regularly strengthened with relevant expertise to support the strategy and enhance Shareholder value

Quadient's governance has evolved considerably in the last two years, helping to manage and support this transformation. The Board of Directors continued its renewal adding relevant skills to support the strategy with two new independent Directors including its Chairman, a position that I have been assuming since June 2019. Except for the CEO and the employees' representatives, all **current Board members are independent** and the Board fully plays its role in a professional and committed way. I have been particularly impressed with the way the Board has risen to the challenges during COVID and the commitment shown to support the Company being very mindful of the shareholders' interests..

The Strategy and CSR Committee, created at the end of 2018, is another key change which has further strengthened the assessment and validation process for acquisitions and divestments by applying strict financial discipline and aligned in accordance with the strategy.

We as a Board make sure we are always available to hear investors' views. In addition to numerous investor meetings and roadshows, we conducted two independent investor surveys in Q4 2018 and in Q4 2019 to gauge market sentiment to ensure our strategy is clearly understood and to listen to criticisms. The Board regularly receives updates on investor roadshows and feedback on results and as you will be aware from our own extensive engagement, we have been responsive.

We also review shareholder views and trading positions. Teleios significantly increased its position in Quadient's share capital after the announcement of our Back to Growth strategy, crossing the 5%, 10% and 15% thresholds in July 2019, October 2019 and October 2020 respectively which was difficult not to see as a strong mark of support at the time.

Conclusion

In this context of profound transformation, over the last two years, the Board has been monitoring thoroughly the effective execution of the strategic plan while assessing the Company's strategy on an ongoing basis. As already announced, we believe it will soon be timely and appropriate to review progress and the Company's outlook mid-way through the 'Back to Growth' strategy, especially in the light of the changing economic environment due to the COVID-19 context. As announced earlier, we will be sharing an update with our investors and analysts at the end of March 2021 for our full-year 2020 results publication.

The Board is convinced that a break-up at any cost and for strategic assets - including and specifically our highly attractive CXM business - might potentially provide a quick short-term return but would be value destructive for all stakeholders including our shareholders.

The Board remains committed to engaging constructively with Teleios and all investors for the benefit of all stakeholders.

Yours sincerely,

Didier Lamouche

Chairman of the Board of Directors

CC:

Geoffrey Godet; Chief Executive Officer

Members of the Board: *Vincent Mercier, Martha Helena Bejar, Hélène Boulet-Supau, Éric Courteille, Virginie Fauvel, William Hoover Jr., Richard Troksa, Nathalie Wright, Christophe Liaudon, Nathalie Labia*