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Board of Directors of Quadient S.A. (the "Board")
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By e-mail and by registered letter with acknowledgment of receipt

25th November 2020

Dear Members of the Board,

Teleios Global Opportunities Master Fund, Ltd, a fund exclusively managed by Teleios Capital Partners LLC ("Teleios"), has been a shareholder for almost three years and today holds in excess of 15% of the share capital and voting rights of Quadient S.A. ("Quadient", and, together with its subsidiaries, the "Group"), making it by far the company's largest shareholder of record.

It was recently reported that Accel-KKR and Smart Communications have approached Quadient to acquire its Customer Experience Management business ("CXM") for a valuation in excess of €350 million[1] (the "Offer"), representing more than 80% of the Group's market capitalisation[2].

We are seriously concerned that the Offer – which we believe could create substantial value for all shareholders and strengthen Quadient – may be mishandled by the Board and unjustly rejected. Despite stating yesterday that you "carefully review"[3] expressions of interest, we have no confidence that the Offer will receive the proper consideration it demands.

We are making our views public to help ensure that all shareholders appreciate what is at stake, and that the Board fulfils its fiduciary duty to act in the best interests of the Group and its shareholders.

Our interactions with the Board to date, in which you have exhibited scant willingness to engage on longstanding shareholder concerns, compounded by yesterday's statement that you have no intention to divest CXM[4], have led us to feel it is our responsibility as your largest shareholder to speak up now.

A misguided strategy and the risk of an ill-judged decision

Under its high-risk "Back to Growth" strategy, management seems determined to return the Group to revenue growth at all costs, even where it destroys shareholder value and puts the future of the Group at risk. The

[1] Bloomberg article, 23 November 2020
[2] Bloomberg, 20 November 2020
[3] Quadient Statement, 24 November 2020 https://resources.quadient.com/m/57ac2717584dd84e/original/Quadient-company-statement.pdf
[4] ibid

strategy was endorsed by the Board upon its announcement in January 2019, despite not finding support from any major shareholder, to our knowledge.

We now fear that management will pressure the Board into rejecting the Offer against the will and best interest of shareholders, and we therefore urge the Board to carefully scrutinise management's arguments and motives. Questionable management decisions sanctioned to date have included:

- retaining and integrating three distinct growth divisions active in entirely different and highly competitive end-markets where Quadient has no clear advantage;
- slashing the long-established dividend from €1.70 to an absolute floor of €0.50; and
- greenlighting an irresponsible €400 million M&A program net of divestments, corresponding to over 90% of the Group's market capitalisation.[5]

Management's track record has been underwhelming. Since Geoffrey Godet was appointed chief executive in February 2018, operating profit has continued to decline (-7% in FY19, -34% in H1 FY20)[6] despite easy wins from closing loss-making businesses such as Temando, and shares have underperformed the market by almost 50%points[7], now trading near all-time lows.[8] There is broad consensus among industry experts and former insiders that the Group is stretching itself thinly across too many end-markets with limited synergies between its divisions.

In sharing our views with the Board through our long-running interactions, we have been left confounded and dismayed by your level of apathy. We have long concluded that any internal review of strategic priorities is unlikely to lead to a meaningful change of course, and would likely only reinforce the same self-serving and flawed logic that has impeded the Group from making progress to date.

The advent of the Offer now brings our concerns into even sharper relief. It would be shambolic for the Board to glibly discard the Offer and insist upon inaction by dressing up the impending strategy update[9] as a fully-fledged strategic review. A non-independent update of an existing flawed strategic plan represents neither the holistic rethink of structure and strategy the Group needs, nor grounds for rejecting outright an Offer that commands the Board's attention today.

An opportunity to strengthen CXM and Quadient, and deliver value for shareholders

In our view, accepting the Offer to sell CXM to Smart Communications would achieve three important objectives: it would 1) Strengthen CXM by creating an enterprise software provider of critical mass; it would 2) Strengthen Quadient through improved focus; and it would 3) Generate significant value for Quadient shareholders.

1) Strengthen CXM: A combination of CXM and Smart Communications could constitute a stronger and more competitive business offering all stakeholders, including employees and customers, a better future, by harnessing its enlarged sales and R&D capabilities. We think this has special resonance given that the traditional customer communication management ("CCM") market, where CXM holds a stronger market position today, is losing relevance to the larger and more competitive customer experience market. It seems foolhardy to assume that CXM, a subscale CCM provider owned by a mail equipment group, will be able to compete with IT giants like Adobe, innovative and agile start-ups, and dedicated CCM providers on product capabilities, distribution and talent, in the rapidly evolving customer experience market.

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[5] Quadient Capital Markets Day, 23 January 2019; market capitalisation based on Bloomberg, 20 November 2020
[6] Based on FY19, FY18, H1'20, and H1'19 current operating income excluding expenses related to acquisitions of €185 million, €199 million, €61 million, and €93 million, respectively; Quadient 2019 universal registration statement and July 2020 half-year financial report
[7] SBF120 Index; Bloomberg, 20 November 2020
[8] Bloomberg, 20 November 2020
[9] Quadient – Financial Calendar Update, 21 October 2020 https://resources.quadient.com/m/14475b8e414e0b3f/original/Financial-calendar-update-EN.pdf

We have seen early warning signs to this effect, and are concerned about CXM's long term future under Quadient ownership. Ranked as the leading CCM vendor for many years, CXM lost this accolade to OpenText's Exstream this year[10], which like Smart Communications has a more advanced cloud offering. The ranking judged that CXM's "cloud migration is more measured"[11], presumably because under the current group structure, management faces pressure to deliver short term revenue wins from upfront, on-premise license sales – very possibly mortgaging CXM's long term future in the process.

2) Strengthen Quadient: By divesting CXM, Quadient would gain vital focus, with fewer ancillary business lines to worry about, and greater synergy within the Group. Besides CXM, management splits its focus across a further two growing but discrete and challenging end-markets:

- *Business Process Automation ("BPA")* sells hybrid mail outsourcing and output management software to SMEs. It aspires to enter the receivables and payables automation software market, where it would compete against the likes of Silicon Valley-based Bill.com, a business with ample means to innovate and outcompete given its large market capitalisation of $9 billion[12] and evidenced by its annual revenue growth of 45%[13]
- *Parcel Locker Solutions* mostly sells parcel lockers to residential developers in the U.S., competing against Assa Abloy-owned Luxor, as well as Amazon's Locker division, which has routinely undercut competitors' prices and benefits from its parent's strong brand

These diffuse growth avenues and an irresponsible €400 million M&A program risk distracting management from its most important tasks, including aligning the cost base of its structurally declining core business Mail-Related Solutions ("MRS", or the "Mail Business"), optimising a large portfolio of so-called Additional Operations, and navigating the COVID-19 pandemic and resultant economic recession.

As a group, Quadient's core competence is selling hardware products and services to 500,000 mostly SME customers.[14] The development and sale of enterprise software – essential for businesses like Smart Communications and CXM – marks a major departure from this. Divesting CXM would focus the Group on businesses that are more synergistic with its MRS division, such as BPA which also sells into the SME market.

3) Generate significant value for Quadient shareholders: Reportedly valuing CXM at more than €350 million, over 80% of the Group's €436 million market capitalisation[15], and at a highly compelling earnings multiple, the Offer is undeniably attractive to shareholders. The divestment could immediately capture CXM's full value, which otherwise likely remains hidden within Quadient's complex and diffuse group structure. Prior to the Offer's publication, Quadient traded on a price-to-earnings ratio of less than 6x[16], close to its all-time low valuation. This multiple may be appropriate for the legacy Mail Business which contributes the vast majority of earnings, but the meagre market valuation fails to attribute any meaningful value to CXM, despite management's attempts to draw investor attention to it.

Such attempts at investor education are destined to fall short because the reasons for the Group's chronic undervaluation are structural in nature. The Mail Business appeals to income-seeking value investors, while CXM would appeal to an entirely different investor base that values businesses on future sales and profit potential, not current earnings and dividend capacity. Under the prevailing group structure, the Mail Business will continue to dominate Quadient's earnings, cash flow and balance sheet for many years, and as such the Group will likely stay valued on low earnings multiples that fail to reflect the value of CXM in the Group's share price.

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[10] As per the current Aspire Leaderboard for CCM software vendors https://www.aspireleaderboard.com/best-customer-communications-management-software
[11] https://www.aspireleaderboard.com/review-of-quadient
[12] Bloomberg, 20 November 2020
[13] Based on Bill.com FY20 and FY19 revenues of $158 million and $108 million, respectively; Bill.com Holdings, Inc. Form 10k for the fiscal year ended 30 June 2020
[14] Quadient 2019 Universal Registration Document
[15] Bloomberg, 20 November 2020
[16] Bloomberg 2021 Price/Earnings Ratio, 20 November 2020

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Fiduciary ramifications

We strongly believe that engaging with Accel-KKR and Smart Communications is in the best interest of all stakeholders, including the Group's shareholders, and that it is the Board's fiduciary duty to seriously consider the Offer and to do so independently from management.

Given management's ambition to – in our judgement – pursue reckless, unfocused and value-destructive growth with little regard for the shareholders that foot the bill, a disingenuous rejection of the Offer seems next on the menu. To do so would be unacceptable.

We feel it is high time for the Board to stand up to management and do the right thing for CXM, Quadient, and its shareholders, by giving this compelling Offer the serious consideration it deserves.

Declining to engage would of course denote a decision in itself, and in our view a serious breach of the Board's fiduciary duty. Retaining CXM and thus a complex portfolio of diverse businesses could not only deprive shareholders of an opportunity for significant value creation, but also put the future of Quadient's diverse business units and the Group as a whole at unnecessary risk.

We wish to make clear that we will exercise all rights available to us to hold the Board accountable should it fail to act in the best interest of the company and its shareholders. We expect that you will convene a board meeting to properly deliberate on the Offer shortly, and we expect to be updated on the Board's intentions no later than 30th November.

Yours sincerely,

Igor Kuzniar
Managing Partner

To: Didier Lamouche

Geoffroy Godet

Vincent Mercier

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