



January 3, 2022

Board of Directors
Zendesk, Inc.
989 Market Street
San Francisco, CA 94103

Members of the Board,

As we outlined in our November 30th letter, the proposed acquisition by Zendesk, Inc. (“Zendesk” or the “Company”) of Momentive Global Inc. (“Momentive”) lacks financial merit, has questionable strategic logic and introduces a high degree of execution risk. We are writing today to raise new concerns stemming from the Company’s December 6th preliminary proxy, which make it even more apparent that the proposed acquisition is the wrong choice for Zendesk and its shareholders. While we are pleased Zendesk management has affirmed to other institutional shareholders its commitment to make the Momentive acquisition dependent upon a Zendesk shareholder vote, our discussions with shareholders over the past month leave us even more convinced that they do not support this transaction. We therefore call on the board to promptly terminate the transaction and focus on unlocking Zendesk’s significant untapped value potential, rather than wasting time and money pursuing an ill-advised acquisition shareholders are certain to reject.

Zendesk’s proposed acquisition of Momentive appears to be a reactive and impulsive decision, made only in response to outreach by Momentive’s advisors as part of a broad sale process at the end of August 2021, rather than the product of a well-thought-out strategy.

Material contacts between merger parties in the two-year period prior to a transaction are disclosed in the background of the merger section of a proxy statement. However, despite claims by Zendesk that its pursuit of Momentive resulted from a considered evaluation of strategic options, conspicuously absent from the merger background is any contact between Zendesk and Momentive prior to the end of August 2021, when Momentive’s advisors contacted Zendesk as part of a broad auction process they were conducting. It stands to reason that if Momentive is as strategically important to Zendesk’s future as the Company claims, there would have been at least one instance of Zendesk contacting Momentive. After all, making contact would have been

effortless given the well-documented friendship between the Zendesk and Momentive CEOs (e.g., NY Post "[CEO buddies under scrutiny in \\$4B Zendesk and Momentive merger](#)").

Zendesk's proposed acquisition of Momentive demonstrates a reckless disregard for shareholder capital.

A. Issuing equity that Zendesk's advisor determined to be substantially undervalued.

Goldman Sachs's fairness opinion for the Zendesk board calculated a midpoint fair value for Zendesk of ~\$176 per share, a value ~40% greater than the ~\$124 per share Zendesk's board inexplicably elected to value the Zendesk equity being issued to Momentive shareholders.¹ This equates to Zendesk offering equity worth ~\$6 billion to consummate the ~\$4 billion acquisition of Momentive. Today, as a consequence of the damage caused by the pursuit of Momentive, the midpoint of Zendesk's fair value is ~70% higher than the current stock price of ~\$104 per share.

B. Calculating an exchange ratio using an artificially depressed price for Zendesk.

In calculating the share exchange ratio with Momentive, Zendesk used its average trading price just prior to announcing Q3 earnings, despite knowing the strength of both its Q3 results and the above-street Q4 outlook it would be providing. In other words, Zendesk chose to issue its equity at an artificially depressed stock price, immediately before the market could reflect the positive news that would have otherwise resulted in an upward re-rating of Zendesk's stock price.

Zendesk's proposed acquisition of Momentive fails to properly account for substantial execution risk.

As disclosed in the proxy, the Momentive acquisition is justified by assuming the full realization of revenue synergies that, if achieved, would add a meager 1% to Zendesk's topline growth rate and ~10% to Zendesk's future stock price (or closer to 0% upside if standalone Zendesk was valued in-line with peers rather than continuing to receive the discounted multiple assumed in the fairness opinion). It is incomprehensible how this *de minimis* potential benefit to growth and value could justify the monumental integration risk of executing Zendesk's first ever large acquisition (by a factor of ~50x) with a management team with new / unproven executives, particularly considering the Company's own struggles with execution challenges that have caused it to trade at a growing discount to peers.²

¹ We believe Goldman Sachs's fairness opinion understates Zendesk's standalone fair value. Specifically, it assumes the Company is in a perpetual multiple penalty box by utilizing Zendesk's recent depressed historical multiples in its future stock price valuation analysis rather than the higher multiples enjoyed by comparable companies.

² Analysts have noted the minimal benefit and significant risk of the acquisition. For example, Cowen notes, "[W]e don't think this changes concerns around folding in a \$4B+ acq with a co that has uncertain levels of synergies, alongside ambitious targets for a co. that has never done large M&A." (11/19/21). Moreover, Morgan Stanley writes, "[W]ith the substantial risk inherent in making an acquisition of this size, and considering such a different revenue growth and profitability profile, in hopes of capturing an additional 1 point of revenue CAGR 2021-20[2]5, we think the risk/reward skews too negative." (11/19/21).

The merger proxy leaves us baffled by the Zendesk board's decision to issue billions of dollars of undervalued equity to make its first ever scale acquisition of a target with questionable strategic merit, significant integration risk, and minimal benefits in even a best-case scenario, all based on what appears to be a total whim.

Given the universally negative feedback from market participants, it should now be glaringly obvious to Zendesk's board that shareholders do not support the proposed Momentive acquisition. The Company's proxy only provides additional reasons for shareholders to oppose the acquisition, while further fueling speculation that the acquisition is motivated by other, more problematic priorities that are inconsistent with the Zendesk board exercising its duties to shareholders. Rather than wasting more time and more shareholder capital on a value-destroying acquisition that is destined to be rejected by shareholders, the board should immediately terminate the transaction and pivot to focusing on far more promising avenues to resolve Zendesk's growing discount to fair value. Should you wish to discuss this matter further, we can be reached at (212) 455-0900.

Sincerely,

Barry Rosenstein

Managing Partner
JANA Partners LLC