February 7, 2022

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

Members of the Board,

The facts could not be more obvious to us: Zendesk, Inc.'s ("Zendesk" or the "Company") proposed acquisition of Momentive Global Inc. ("Momentive") lacks financial and strategic merit, introduces substantial execution risk and relies on highly questionable synergy and pro forma trading multiple assumptions, all while appearing to be *"out of left field"*[1] as the result of an impulsive process.

The Momentive acquisition announcement was immediately followed by a dramatic decline in Zendesk's stock, 14 Zendesk analyst target price cuts, widespread investor rebuke (including over 90% who do not think it is a good transaction[2]), and has even led to speculation the transaction was motivated by more problematic considerations.[3] After more than three months of attempting to explain the transaction, including an Analyst Day dedicated to justifying it, the fact remains clear: this is a bad deal for shareholders.

This morning, as part of a last-ditch effort, Zendesk released a presentation attempting to downplay the transaction's many risks and shortcomings (while choosing to ignore other criticisms we and others have raised). As we clarify in response below, Zendesk's latest arguments miss the mark across the board.

- **"Consideration offered":**
    - Zendesk's board attempts to present the purchase price of Momentive as a bargain for Zendesk shareholders, because the $22 price being paid as of February 4th is now below the $27.25 cash offer Momentive's board rejected in its sale process (and the $28 price as of announcement). Perversely, Zendesk is now using the self-inflicted collapse in its own stock price – caused by the board announcing the Momentive acquisition – to suggest it is getting a bargain. Using this kind of circular logic raises serious concerns about what Zendesk's board could do next.

[1] Cowen, October 29, 2021.
[2] Wolfe Research, November 30, 2021.
[3] NY Post, "*CEO buddies under scrutiny in $4B Zendesk and Momentive merger*", (December 22, 2021).

- Having failed to provide a financial justification for the transaction, Zendesk cites a three year stock price comparison to support the transaction exchange ratio. This novel justification was not cited as part of the financial analysis underpinning the fairness opinions for either company because it ignores valuation and is driven by unrelated factors, such as Zendesk's significantly higher growth rate. It also does not address the fact that it was actually one of the worst possible times for Zendesk to issue equity to Momentive (Zendesk was at a 52-week low relative valuation to Momentive and Zendesk's stock was determined to be worth 40% more than the value at which it is being given away to Momentive).

- **<u>"Team stability" / "Integration risk":</u>**
  - Zendesk cites the recent hiring of a CFO as evidence of team stability yet ignores the wholesale turnover of its finance and strategy team preceding the deal, with more than a dozen senior finance and strategy executives having left Zendesk within the last year, including its CFO, Deputy CFO/SVP Strategy, VP Finance & Strategy, Senior Director, Finance & Strategy, and SVP & Chief Accounting Officer.[4]
  - Zendesk ignores the fact that they have never done a large scale M&A transaction, with Momentive being Zendesk's largest deal by a factor of 50x. Zendesk also ignores the fact they have an entirely new and unproven finance team who underwrote the financial forecasts (including the problematic synergy targets) and who is now tasked with overseeing execution of Zendesk's first large integration.
- **<u>"Scale and timing of synergies" / "Competitive implications" / "Partner vs. buy":</u>**
  - Comparable SaaS acquisitions do not support Zendesk's lofty synergy claims, which assume a more than 60% increase to Momentive's total revenue, and a more than <u>300% increase</u> to Momentive's LTM sales assisted revenue.
  - It is with great irony that Zendesk cites first year synergy achievement for SAP's acquisition of Qualtrics to justify the Momentive acquisition. SAP's experience with Qualtrics is the antithesis of the logic of the proposed transaction: after ~18 months of ownership SAP reversed course and announced a separation of Qualtrics, namely to ensure *"greater autonomy in expanding and leveraging its footprint both within SAP's customer base and beyond."*[5]
  - Zendesk claims the proposed acquisition does not lessen its commitment to open API standards, but they readily ignore the risks of a competitive response across both product sets. A core attribute of Zendesk's go-to-market strategy is scuttled and a significant component of Momentive's revenue growth is fueled by Zendesk's competitor, Salesforce.
  - Zendesk claims the transaction will create *"pro forma margin expansion of 270bps vs. Zendesk standalone (15.2% vs. 12.5% in 2025, respectively)."* However, in reality this is simply the latest attempt by Zendesk to move back the goal posts for

[4] Company filings, LinkedIn.
[5] Christian Klein, CEO SAP, July 27, 2020.

margin expansion and represents another reduction versus expectations. In fact, only a year ago – under the predecessor CFO – consensus expectations called for ~17% margins in standalone Zendesk in 2025.[6]

- **“Customer overlap”:** While Zendesk now attempts to provide clarity on customer overlap, at the time of the acquisition Zendesk’s CEO asserted a big overlap in customers, which only a few weeks later was contradicted by the exact opposite claim. This disconnect raises serious questions regarding the granularity and rigor of diligence conducted on a key component of synergies.[7]
- **“Board process”:** The merger proxy shows that the decision to pursue Momentive was reactive, impulsive and ill-timed. Zendesk claims the acquisition was part of its strategy yet, as the proxy reveals, Zendesk did absolutely nothing proactive about it in the prior two years (despite the two CEOs being friends) until contacted by Momentive’s advisors as part of a broad auction process. Then, with Zendesk underperforming expectations and trading at close to a low relative multiple to Momentive, the Zendesk board pounced on the opportunity to issue billions of dollars of equity to Momentive at a value of $124 per share despite the board believing Zendesk’s stock was worth 40% more ($176), rather than first addressing this undervaluation.

As we have previously stated, the market has spoken: the proposed Momentive transaction is the wrong path forward for Zendesk. Shareholders are simply unwilling to take the same ‘leap of faith’ that Zendesk’s board did in approving this transaction, and based on contact we have received, we now wonder how much support for the acquisition there was even within Zendesk. It is time for the board to stop going to such great lengths to sell a value-destructive acquisition shareholders are destined to reject and to start focusing on driving actual value for shareholders. Should you wish to discuss this matter further, we can be reached at (212) 455-0900.

Sincerely,

Barry Rosenstein

Managing Partner
JANA Partners LLC

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[6] Visible Alpha, as of February 7, 2021.

[7] On its Q3 earnings announcing the acquisition (October 28, 2021), Zendesk’s CEO stated: *“we’ve always been partners in many different ways and we have, of course, a big overlap in customers”*. In contrast, Zendesk’s head of IR stated: *“The actual overlap is relatively small. So there is certainly a meaningful amount of greenfield opportunity where we’re going to cross-sell” (*Wells Fargo Conference, November 30, 2021).