# Engine Capital Delivers Letter To PFSweb And Speed Commerce

## Believes That a Strategic Combination of the Two Companies Offers a Compelling Opportunity to Create Significant Value

## States That a Merger Would Create the Undisputed No.2 Player in the Space Behind eBay Enterprise with Significant Scale and Cost-Saving Opportunities

## Thinks That the Combined Entity Could Enjoy at Least 50% Upside to the Status Quo

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**Engine Capital LP** ➞
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NEW YORK, Dec. 29, 2014 /PRNewswire/ -- Engine Capital LP (together with its affiliates, "Engine"), a significant shareholder of each of PFSweb, Inc. (NASDAQ: PFSW) and Speed Commerce, Inc. (NASDAQ: SPDC), with ownership of approximately 4% of PFSweb and 3% of Speed Commerce, today announced that it has delivered a letter to the board of directors of both companies.

The full text of Engine's letter follows:

December 29, 2014

Members of the Board of Directors
c/o Richard Willis, President & CEO
Speed Commerce, Inc.
1303 E. Arapaho Road, Suite 200
Richardson, Texas 75081

Members of the Board of Directors
c/o Michael Willoughby, CEO
PFSweb, Inc.
505 Millennium Drive
Allen, Texas 75013

Dear Board Members:

Engine Capital LP, together with its affiliates ("Engine"), owns approximately 4% of the outstanding shares of PFSweb, Inc. ("PFSW" or "PFSweb") as well as approximatively 3% of the outstanding shares of Speed Commerce, Inc. ("SPDC" or "Speed Commerce"). Both PFSW and SPDC represent significant investments for Engine. We invested in both companies because of their attractive business models (mostly recurrent revenue based on eCommerce transactions), high growth potential (eCommerce is expected to grow significantly for the foreseeable future), and their reasonable valuations compared to their growth profile and comparable transaction multiples. While we think that both companies have significant and exciting standalone prospects, we think that a merger of both companies offers an opportunity to create significant additional value that would not detract in any way from the existing opportunities of both companies.  A strategic combination would create a juggernaut in the space that would be the unequivocal number-two player behind eBay Enterprise. Instead of having the number- two and number-three players (PFSW and SPDC) compete against each other for business, this combination would create a number-two player with significant scale, additional revenue opportunities, significant cost savings opportunities, and potential multiple rerating. Given the fragmented nature of the competition, we don't think this merger would create any antitrust concerns.

The cost saving opportunities are particularly large in relation to the size of both companies. Both company headquarters are located a few miles apart creating an opportunity to reduce duplicative real estate and back-office costs. A combination would also reduce duplicative IT costs as well as call center expenses. The number of warehouses could be optimized with the associated labor and equipment savings. A combined entity would also be able to reduce the significant freight expenses associated with the business model.

We have endeavored to quantify these cost saving opportunities and are conservatively estimating at least $12 million in the following buckets:

| **Cost Savings** | | |
|---|---|---|
| Real estate | $1,000,000 | Optimization of real estate footprint |
| Sales and marketing | $1,500,000 | Duplicative expenses |
| IT expenses | $1,500,000 | Duplicative expenses |
| Public company | $1,500,000 | One public company instead of two |
| Freight | $2,500,000 | Because of increased scale and leverage |
| People | $4,000,000 | Duplicative expenses including senior management, HR, accounting & other back office functions |
| Total | $12,000,000 | |

Achieving these cost savings would have a very material impact on the valuation of the combined entity. Both companies currently trade at around 10x forward EBITDA multiples, which we think is relatively low for companies with a mostly recurrent revenue base, 20% top line growth and even faster EBITDA growth. The cost saving opportunities of $12 million that we have identified would therefore create an additional $120 million of value using the same 10x forward multiple. This represents a 30% increase in value to the pro-forma market capitalization of the combined entities ($120 million divided by the sum of the market capitalization of PFSW of $190 million and the market capitalization of SPDC of $215 million). Assuming a no-premium merger based on each company's market capitalization, both companies' valuations would share this upside on a pro-rata basis and would therefore appreciate by 30%. We very much doubt that PFSW or SPDC are working on any projects that could create this type of step function increase in valuation.

There would be additional synergies and value creation opportunities that we have not quantified but that would be equally important:

1. Increased market share – by becoming the unequivocal number-two player in the space behind eBay Enterprise, we think that the combined entity would increase its combined market share in a still relatively fragmented market where reputation and scale matter. The combined entity would compete more effectively against eBay or the smaller players in the field.
2. Cross-selling opportunities – PFSW has recently focused on developing high-margin professional services, such as marketing services or website development. These services could be sold to SPDC customers.
3. Additional cost-saving opportunities – an additional large cost-saving opportunity would involve integrating the order and warehouse management systems of both companies. While moving both companies to one platform would create significant additional cost savings on top of the ones we have identified above, we recognize that this is not an easy task and we have therefore assumed that the combined entity would continue working with two platforms. We think that over time the new entity would move to one platform and therefore create these additional cost savings; however, we have not assumed that in our analysis. We think that the merits of a merger are undisputable even without assuming this platform integration.
4. Increased valuation multiple – in our opinion, a combined entity would deserve a higher EBITDA multiple than the individual entities' multiples because of the increased growth profile and higher return on capital (because of the higher margin) of the combined entity.

Taking into account the cost savings opportunities, the potential for revenue growth acceleration (through increased market share and cross selling opportunities) and the increased valuation multiple of the combined entity, it isn't difficult to envision at least 50% upside to the status quo. Clearly, we think that the strategic and financial merits of a combination are overwhelming. While we are aware that both companies have had on-and-off talks in the past, we think that a transaction in the past was mathematically difficult to accomplish because the EBITDA multiples of both companies were too far apart. As a result of the stock appreciation of PFSW and the stock decline of SPDC over the last 12 months, the EBITDA multiples of both companies have now converged to a point where a combination of both companies is doable. The historical reason for not merging the companies is no longer an obstacle.

In order to facilitate this transaction and remove any potential conflicts of interest involving management, we would suggest that each Company's board of directors form a special committee, consisting of a small number of independent directors with its own financial advisor to analyze the benefits of this transaction. We would expect this merger to bring together the best of both companies' management. As outsiders, it appears to us that Mike Willoughby's strength lies in operations while Richard Willis' strength lies in Mergers and Acquisitions ("M&A"). We would therefore envision the combined company to be led by Mike Willoughby as CEO with a particular focus on day-to-day operations and by Richard Willis as Chairman with a particular focus on M&A.

In conclusion, we think that the Boards of both companies have a unique opportunity to create a significant amount of value by combining the two businesses. We look forward to working constructively with both companies and continuing our dialogue with both management teams to facilitate such a transaction.

Very truly yours,

Arnaud Ajdler
Managing Partner
Engine Capital LP

**ABOUT ENGINE CAPITAL**
Engine Capital is a value-oriented special situations fund that invests both actively and passively in companies undergoing change.

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