Engine Capital Issues Open Letter To Board Of Care.com

Calls on the Board to Initiate a Parallel Process to Explore Strategic Alternatives while Searching for a New CEO

Believes that Care.com Could be Worth $14.00 to $19.40 per share Today in a Transaction

Recommends Steps be Taken Immediately to Improve Care.com's Corporate Governance, Rationalize its Cost Structure and Optimize its Balance Sheet

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Engine Capital, L.P. →

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NEW YORK, Aug. 15, 2019 /PRNewswire/ -- Engine Capital, L.P. (together with its affiliates, "Engine"), a sizeable shareholder of Care.com, Inc. (the "Company") (NYSE:CRCM), today issued an open letter to the Company's Board of Directors (the "Board") encouraging the Board to initiate a parallel process to explore strategic alternatives while searching for a new Chief Executive Officer and implementing various value enhancing initiatives identified by Engine.

The full text of Engine's letter to the Board can be viewed at the following link:

www.enginecap.com/care

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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Care.com, Inc.
77 Fourth Avenue, Fifth Floor
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Attention: Board of Directors

Dear Members of the Board:

Engine Capital LP (together with its affiliates, "Engine" or "we") has become a sizable shareholder of Care.com, Inc. ("Care.com," "CRCM" or the "Company") and the Company represents a significant investment for Engine. We invested in Care.com because of its leadership position as the largest online marketplace for finding family care, its strong brands, our belief that the Company is deeply undervalued and the fact that there are opportunities readily within the control of the Board of Directors (the "Board") to significantly increase shareholder value.

For context, Engine is a value-oriented investment firm launched in July 2013. Since our launch, Engine has negotiated board representation or settlements with 17 public companies and added 27 highly qualified new board members to these companies. We have followed Care.com for a number of years. As part of our due diligence, we have had an opportunity to discuss the Company and its prospects with competitors, customers and former employees. We also had the opportunity to discuss the business with Michael Echenberg, the Company's Executive Vice President and CFO, and Michael Gross, the Company's Vice President of Finance. These discussions have led us to the conclusion that Care.com is a unique asset that is currently underearning, misunderstood by the market and significantly undervalued. The Company is the undisputed leader in a very large and fragmented market. It has the largest supply of caregivers and the largest number of families in a "winner take all" marketplace. It owns a full suite of payment products. It has a strong brand as evidenced by high net promoter scores. It also owns a valuable separate but related business with Care@Work. And yet, despite all these valuable assets, the Company has miserably failed to create any shareholder value over any relevant measurable period as shown in the below table.[1]

[1] Total shareholder return as of August 12, 2019

	Total Shareholder Return				
	Year-to-Date	**1-Year**	**3-Year**	**5-Year**	**Since IPO**
CRCM	**-52.9%**	**-49.6%**	**-15.3%**	**-0.9%**	**-46.5%**
Russell 2000	10.9%	-11.3%	21.6%	32.0%	28.4%
Nasdaq	18.5%	0.3%	50.3%	79.2%	87.4%
Relative performance to Russell 2000	**-63.8%**	**-38.3%**	**-37.0%**	**-32.9%**	**-74.9%**
Relative performance to Nasdaq	**-71.4%**	**-49.9%**	**-65.6%**	**-80.0%**	**-133.9%**

CRCM's current valuation of approximately 1x revenue represents a deep discount to the valuation of other similar online marketplaces and reflects investors' concerns regarding Care.com's business model and future prospects following the March 8, 2019 Wall Street Journal article questioning the Company's safety practices. This article and its surrounding publicity have jeopardized one of the Company's core pillars, namely, the trust in Care.com's services and in the Company's brand itself. This erosion of trust puts the long-term relationship between Care.com and its consumers at risk and creates significant uncertainty in the Company's long-term financial model. The first cracks to this financial model were visible when the Company reported its Q2 2019 results with paying families in the US consumer business declining quarter-over-quarter and traffic negatively affected by word-of-mouth. The reduced traffic generated from word-of-mouth is particularly troubling as it is one of the lowest cost customer acquisition channels. These negative trends, in addition to the increased spend in safety and cybersecurity, are anticipated to significantly detract from the attractive unit economics the Company has previously enjoyed.

While we believe many of these issues are fixable, it will take time and there are significant execution risks, including the appointment of a new management team, the restoration of the trust factor and the establishment of new unit economics for the business. At the same time, the Company has significant strategic value and certain buyers may be able to pay a price that is superior to the standalone value of the Company, especially taking into account the time value of money and execution risk. We believe the Board has a fiduciary duty to immediately start a parallel process whereby it continues the search for the Company's next leadership team but at the same time explores the Company's strategic options to assess what a buyer may pay for the Company today.

Now is the optimal time to pursue this parallel process for the following reasons:

1. **Succession and Execution Risks:** Care.com's future prospects are obfuscated by the significant changes in its core leadership team. As you are aware, both the CEO and the CFO are in the process of stepping down from their respective roles. Care.com is now embarking on one of the most challenging times in its corporate history as it also looks to replace top leadership positions. The absence of a permanent CEO and CFO significantly increases the Company's execution risk – a very real risk which would be immediately resolved by a change in control transaction with an established strategic acquiror.

As the Board moves forward with the process of hiring new senior executives, it will certainly be examining what value they can provide to the organization and what the prospects for value creation are under their leadership. As the Board examines these prospects, it should give itself the ability to compare the value created under this standalone plan against what a buyer

would be willing to pay for the business. The Board needs to run this parallel evaluation now because once a new CEO is in place, the Board will want to give that person some time to execute his or her business plan. It is therefore imperative that the Board move forward with this parallel process now while there is maximum flexibility to choose between a standalone path or a potential transaction.

2. **Restoration of Trust:** While Care.com has significant potential to create value if it can fix the trust issues discussed above, this course of action comes with significant operating risks and will take time to remediate. Rebuilding trust with customers is a difficult proposition in any industry; however, it is particularly challenging in an industry where the service being offered is as important as caring for one's children or senior relatives. In that regard, a sale of the business could go a long way towards repairing these issues. Under new ownership, it would be easier to establish a clean break from the past. New ownership could hasten the perception that Care.com has changed its operational and safety performance, which could allow for a faster restoration of this trust factor. The timeliness of this potential benefit could go a long way towards accelerating the unit economics improvements and increasing the value of the enterprise.

3. **Strategic Interest:** A combination with a strategic acquiror would create significant synergies for the combined enterprise. The Company spends a considerable amount in R&D, marketing and G&A expenses. A strategic buyer could consolidate or optimize many of these functions. We suspect the optimal strategic acquiror for Care.com is a company with an established online marketplace that could optimize marketing expenses, reduce G&A and take a hard look at the R&D expenses. We believe there would be a long list of interested buyers for this asset. Just last week, the CFO of IAC/InterActiveCorp ("IAC") said IAC is currently targeting new acquisitions in marketplaces where "the incremental user makes it better for the first user on the platform" and where IAC can "apply [its] expertise with businesses with large addressable markets."[2] Three recent acquisitions highlight the significant value creation potential for CRCM shareholders: (i) in December 2018, WeddingWire acquired XO Group for approximately 5.0x revenue, 5.3x gross profit and 23.2x Adjusted EBITDA; (ii) in November 2016, Symantec acquired LifeLock for approximately 3.8x revenue, 4.9x gross profit and 29.4x Adjusted EBITDA; and (iii) in May 2017, IAC acquired Angie's List for approximately 2.2x revenue, 3.2x gross profit and 21.7x Adjusted EBITDA (we note that Angie's List was struggling at the time it was acquired). Given the Company's recent challenges, we suspect CRCM would transact for a lower multiple than these peers; however, conservatively we believe CRCM could transact at a revenue multiple between 2x and 3x, implying a stock price transaction between $14.00 per share and $19.40 per share. At the midpoint of this valuation range, the stock would be at $16.70 per share, a premium of 84% to the Company's current stock price.

4. **Financing Environment:** Interest rates are at historically low levels – enabling potential buyers to effectively finance acquisitions on an accretive basis. This financing environment would also allow CRCM to widen the potential acquiror pool to financial buyers who may have an experienced management team ready to go.

Care.com's Board may argue that the exploration of strategic alternatives today may not lead to a transaction that fully values the business given the Company's favorable prospects once

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[2] "IAC Targets Online Marketplaces as Potential Acquisitions," The Wall Street Journal, August 7, 2019.

its recent issues abate. We are not certain that is the case, which is why we believe the Board needs to run a parallel process with an open mind. Depending on the price it gets, the Board can decide to transact or hire a new CEO. As mentioned before, there are significant execution risks and the turnaround will take time. Factoring in the time value of money and execution risk, in order to justify not pursuing a strategic alternative now, by our calculation, the Board would need to be highly confident that the stock will reach $25.30 per share within three years (at a 15% discount rate and assuming a $16.70 per share acquisition price). Expressing this dynamic in earnings suggests the Board would need to be confident CRCM's EBITDA can reach $58 million within three years (assuming a trading EBITDA multiple of 15x). We seriously question whether the Board could realistically have this level of confidence in CRCM's future prospects when Lead Independent Director George Bell's purchase last week represents the only instance of an insider purchasing shares since August 2014. Instead, a number of directors have been selling when the stock reached levels that we believe are close to those the Company could obtain through a transaction. We note that Duncan Robertson sold 6,000 shares at $19.67 per share and Marla Blow sold 2,770 shares at $19.77 per share in the last few months. We note that though her transaction, Ms. Blow sold her entire position in CRCM (she has since received shares of restricted stock). Again, given the lack of insider buying and taking into account recent insider sales, we believe it would be difficult for the Board to argue that $14.00 to $19.40 per share today would significantly undervalue the business. While we appreciate that a sale process represents an understandably emotional decision (especially for Executive Chairwoman Sheila Lirio Marcelo, who founded the Company), the Board needs to remember that a sale is not an admission of failure; rather, it is simply a rational and analytical decision to maximize value and minimize risk for the owners of the Company, the shareholders.

While the Company pursues this parallel process, it needs to put itself in the best position to succeed whether it engages in a transaction or continues to operate the business as a standalone entity. In order to accomplish this, we believe the Company should immediately work on making the following changes:

1. Improve Corporate Governance: Care.com is in a difficult position relative to other companies contemplating a CEO transition. Ms. Marcelo has been instrumental in the founding and building of the Company and possesses significant knowledge that can be used to assist the new leader. She has also been a champion for families looking to find quality care and an advocate for caregivers searching for meaningful work. However, retaining a former CEO as Chairwoman of the Board (and even more acutely as Executive Chairwoman) is not a best governance practice. Top-tier CEO candidates may be dissuaded from taking a job where he or she would have to report to a Board led by the founder and former CEO acting as Chairwoman. New CEOs often find they are hampered from implementing the decisive changes necessary during challenging times when the founder/former CEO remains the Chairperson or even on the board in any capacity. We believe the Board's decision to make Ms. Marcelo Executive Chairwoman (and eventually non-executive Chairwoman) will only serve to narrow the pool of candidates, lower the quality of the candidates, and ultimately hamper the new CEO. These social issues are complicated and introduce unnecessary risks that Care.com cannot afford to take at this time. It is not a coincidence that when most CEOs leave their position, they also leave the board. Despite the pivotal role Ms. Marcelo has played at the Company, we believe all stakeholders would be better served by having Ms. Marcelo as an outside advisor (that the CEO can consult when he or she needs) instead of as a

Board member. If the Board feels strongly that Ms. Marcelo should remain on the Board, it should institute a term limit for her and we would suggest that a new Chairperson be selected. We are also concerned with the revised compensation agreement between the Company and Ms. Marcelo. For her service as Executive Chairwoman, a part-time role, Ms. Marcelo will receive $250,000 annual base salary, $200,000 in time-vested restricted stock and a travel budget of $50,000. In addition, Ms. Marcelo will be entitled to incur up to $255,000 in expenses for the purpose of authoring a book regarding the care economy, subject to adjustment. We question the Board's decision to pay for a book when it should be focused on reducing costs.

Further, we question the continued service of certain directors on the Board given the immense shareholder disapproval expressed by significant "withhold" votes at the past two annual meetings. For example, at the 2019 Annual Meeting, Mr. Bell had more "withhold" votes than votes cast "for" his re-election (less than 44% of the votes cast voted "for" his re-election). If the Company had a majority voting standard in uncontested elections in accordance with best corporate governance practices, Mr. Bell would not have been re-elected and instead would have had to tender his resignation from the Board. Shareholders also expressed significant disapproval of Daniel Yoo at the 2018 Annual Meeting (only 58% of the votes cast voted "for" his re-election). It is clear to us that shareholders yearn for changes to the composition of the Board, and we believe that the Company would benefit from the addition of new, highly-qualified directors with fresh perspectives.

2. Rationalize the Cost Structure: Considering the uncertain times the Company will be facing, it is imperative that management and the Board work quickly to right-size the cost structure of the Company. While the Company has grown over the last few years, it has been unable to scale its G&A and R&D expenses, which have continued to grow at a rapid pace and are too high for a company of Care.com's size. We would suggest Care.com immediately hire a consulting firm to review the Company's cost structure. These expense reductions would help offset some of the gross margin pressure caused by the enhanced cost of safety. Furthermore, if CRCM is ultimately sold to a strategic acquiror as part of the parallel process, it will capture a higher portion of the value associated with these cost initiatives than if it waited for the acquiror to make these changes. R&D was $34.6 million in 2018, which seems very high to us given the products offered by the Company. We understand for example that the Company has three R&D centers, one in Waltham, Massachusetts, one in the Bay Area and one in a lower cost jurisdiction. Why not consolidate all R&D in a lower-cost jurisdiction? G&A was $44.4 million in 2018, north of 20% of revenue. That number also seems very high to us. We suspect that management and a consulting firm would be able to find significant opportunities to reduce this cost structure.

3. Optimize the Balance Sheet: Care.com ended the second quarter of 2019 with $125 million of cash on its balance sheet, an amount representing almost 40% of CRCM's market capitalization. We understand that the Company has historically carried large cash balances because it wanted the dry powder to partake in potential acquisitions. After the recent quarter, however, we hope that management and the Board understand that there is plenty of work to do to fix the core business and no acquisitions should be pursued for the foreseeable future. It is time for the Company to optimize its balance sheet and start aggressively repurchasing its undervalued shares. Carrying such a high level of cash is an extremely inefficient way to create shareholder value as it creates significant drag on the Company's return on equity. We were very surprised and disappointed that the Board did not announce a share repurchase authorization with its Q2 2019

results. If the Board does not have the confidence to buy back stock at these depressed levels, Engine questions how the Board could argue that now is not a good time to partake in a strategic alternatives process and determine what an interested buyer would be willing to pay for the business.

We firmly believe that the Company is at a crossroads and that time is of the essence for significant changes to be made given the Company's persistent underperformance. The Board has a unique window of opportunity to pursue a parallel strategic review process while working on the value enhancing initiatives described above. It is our desire to work collaboratively with the Board to improve the Company and drive shareholder value, which is why we request an opportunity to discuss these important matters further with the Board. We look forward to engaging with you and other shareholders to discuss these topics further.

Very truly yours,

Arnaud Ajdler
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Engine Capital L.P.

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