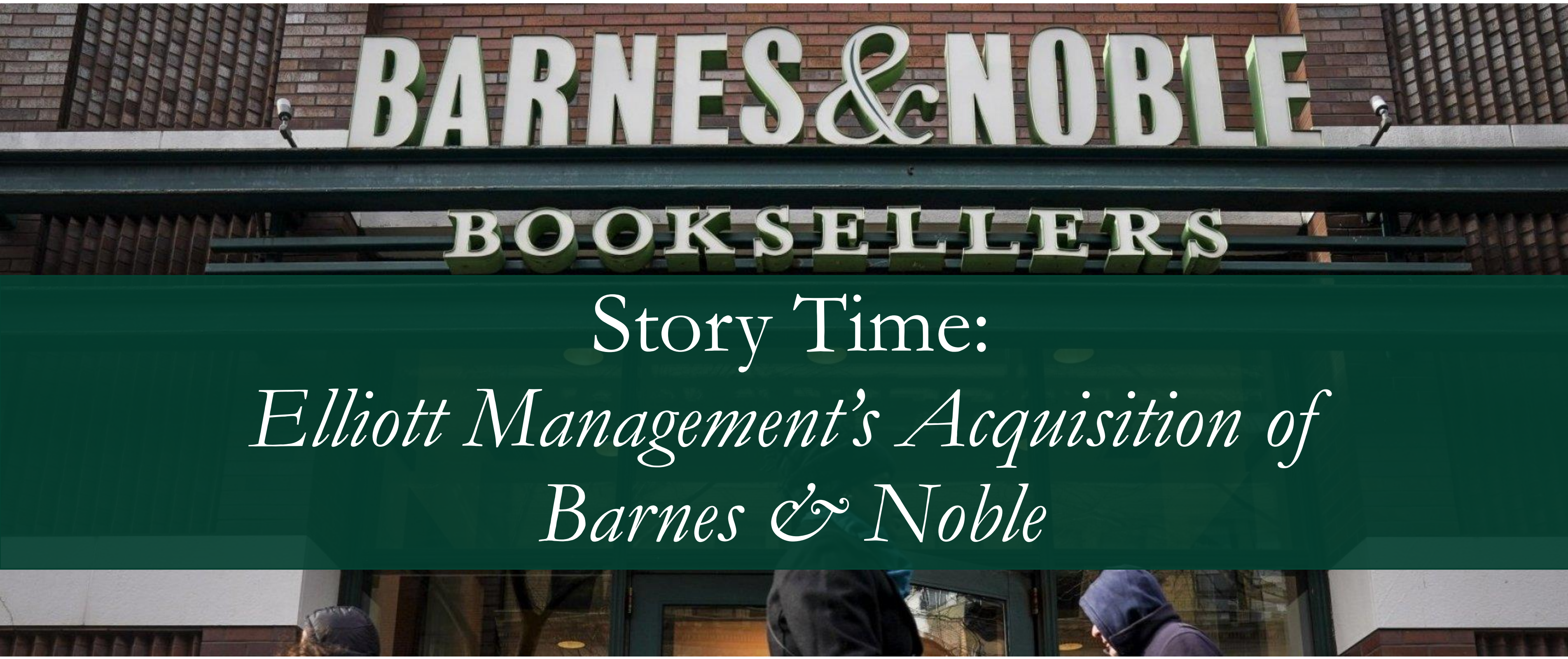
ELLIOTT BARNES&NOBLE



Story Time:
Elliott Management's Acquisition of Barnes & Noble

December 1, 2020

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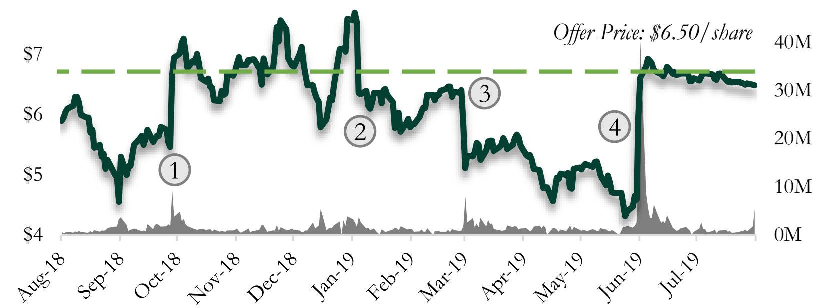
Transaction Overview

Transaction Details

- Elliott's all-cash deal took Barnes & Noble private at $6.50 per share and a total transactional value of $683 million including the assumption of debt
- The deal amounted to a 48.1% premium over the May closing price of $4.39
- The transaction officially closed on August 7th, 2019 and as a result of a tender offer and the merger, Barnes & Noble became a privately held wholly-owned subsidiary of Elliott
- It was funded using $700 million asset-based revolving credit and $125 million first in, last out credit
- James Daunt, who previously revived Waterstones, became the CEO of both companies

52-Week Stock Performance

1. ***October 3, 2018*** *announcement of takeover interest from multiple parties and the formation of a strategic review committee*
2. ***January 10, 2019*** *10% decrease in earnings guidance; increased expenses*
3. ***March 7, 2019*** *B&N decreased full-year adjusted EBIDTA outlook to $140-155M from $175-200M due to weak sales*
4. ***June 7th, 2019*** *takeover announced*



Party Overview

Sponsor
- $41 Billion AUM Fund
- Previously acquired Waterstones, largest retail bookseller in the United Kingdom, in 2018

Target
- Barnes & Noble is the #1 bookseller in the United States and served 627 different communities across all 50 states

Market Reactions

"**Somebody else had to save Barnes & Noble** — the present ownership succeeded in a completely different environment and was not ready to jump into the 21st century, the fact that they own Waterstones certainly puts them in the right direction."

June 7, 2019

"While this could improve profitability, **the competitive landscape as a whole remains tough**, so the success of this acquisition will depend on how Elliott can make BKS relevant again so that it can effectively compete with value and online players."

June 7, 2019

Sources: Company Filings, Barnes & Noble, Seeking Alpha, Bloomberg, Elliott Management

Overview of Financial Sponsor

Elliott Management

Fund Overview

Fund History

- Founded in 1977, Elliott Management is a Florida-based hedge fund with $73B in AUM
- They utilize a variety of investment strategies focused on taking the lead in event-driven situations to create value or manage risk, trading in securities across the capital structure
- The firm recently moved into traditional PE, specializing in technology, retail, and travel
- In the past five years, they've launched campaigns at more than 50 companies with only one battle going against their demands

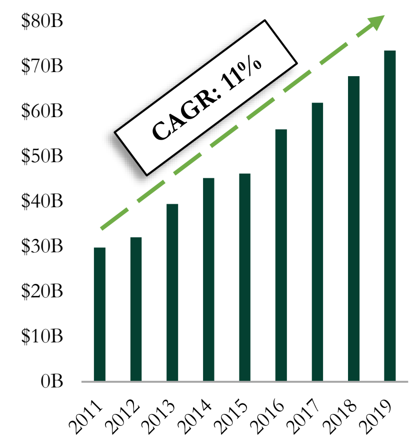
Investment Criteria

Tangible value-creation opportunities
- Elliott commonly takes a stake in companies in order to pressure them to make changes as they see fit

Complexity in legal agreements
- Many of their previous engagements have ended in court appeals regarding specific terms in the agreements

Opportunities to reduce volatility
- To reduce portfolio volatility, they utilize a variety of instruments to protect against adverse conditions

AUM Overview



Previous Transactions & Portfolio

Activist

Private Equity

Credit

Sources: Elliott Management, New York Times, Wall Street Journal, S&P Market Intelligence

Elliott Management – Past Campaigns

ELLIOTT BARNES&NOBLE

Argentine Bonds

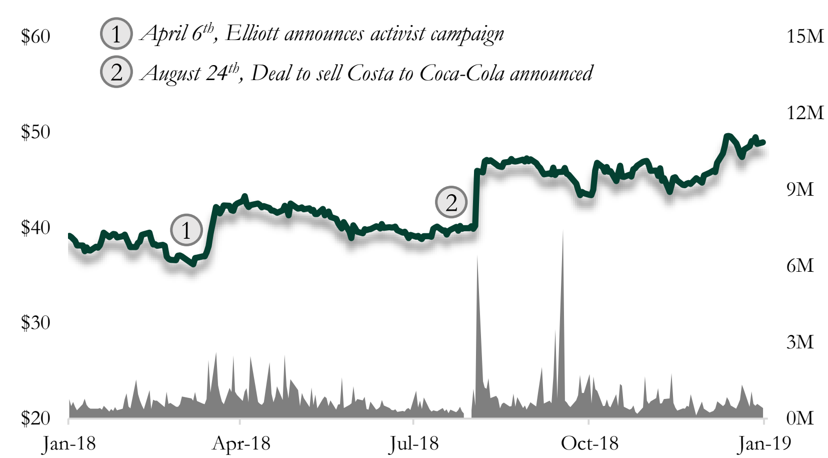
- **1998** — Elliott and other hedge funds acquired a large number of Argentinian floating-rate bonds
- **2001** — Recession wipes out ~28% of Argentina's GDP, causing widespread unemployment
- **2002** — Argentina defaults on $93B of debt, triggering the need for large-scale sovereign debt restructuring
- **2005** — Over 90% of investors agree to new terms, but Elliott and other funds hold out for full value
- **2012** — Elliott attempts to detain an Argentine naval vessel in Ghana to force repayment
- **2014** — Elliott unsuccessfully sues for two SpaceX satellite contracts owned by Argentina valued at $113M
- **2014** — Argentina defaults on ~$20B worth of debt after failing to make $539M in interest payments
- **2016** — Argentina reaches a settlement with remaining creditors, regaining access to debt markets

Fund	ELLIOTT	AURELIUS	DavidsonKempner	Montreux Equity Partners	Bracebridge Capital
Returns	**~$2.4B**	**~$759M**	**~$298M**	**~$350M**	**~$1.1B**

Whitbread/Costa Coffee Spinoff

- Whitbread is multinational British hotel and restaurant company
- Previously, the main brands in their portfolio were Premier Inn, the UK's largest hotel chain and Costa Coffee, the second largest coffee chain in the world behind Starbucks
- In 2018, Elliott became Whitbread's largest investor and alongside activist fund Sachem Head Capital Management, pressured Whitbread to spinoff Costa Coffee with the argument that the separate businesses would be worth up to 40% more
- On April 25, 2018, Whitbread announced the intention to demerge Costa to provide shareholders with investments in two distinct, focused, and market-leading businesses
- In August that year, it was announced that Costa would be sold to Coca-Cola for £3.9B, causing the stock to increase by 20%

Whitbread Annotated Stock Chart



Sources: S&P Capital IQ, Bloomberg, New York Times, CNBC

Industry Overview

Industry Overview

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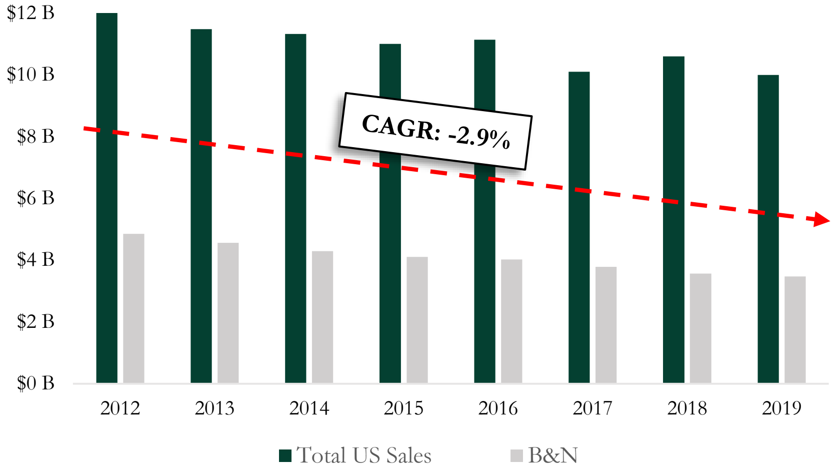
U.S. Retail Bookstore Revenue



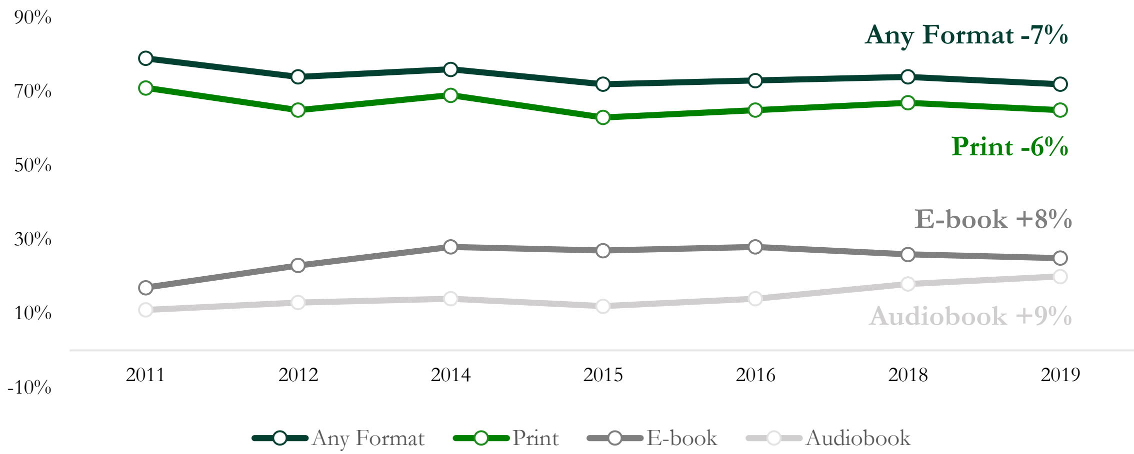
Key Metrics & Industry Trends

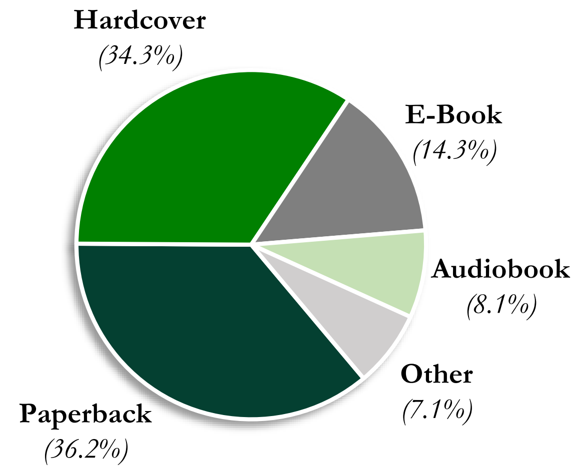
Metric	Measures
Sales Per Square Foot	• Evaluates revenue generation efficiency in relation to store space available
Same-Store Sales	• Evaluates performance over time in established locations

Trends

1. Continued growth of e-commerce bookselling
2. Resurgence of independent bookstores
3. Plateauing e-book market
4. Direct author distribution
5. Growing market for audiobooks

U.S. Adults' Reading Habits by Format & Trade Book Distribution, H1 2019





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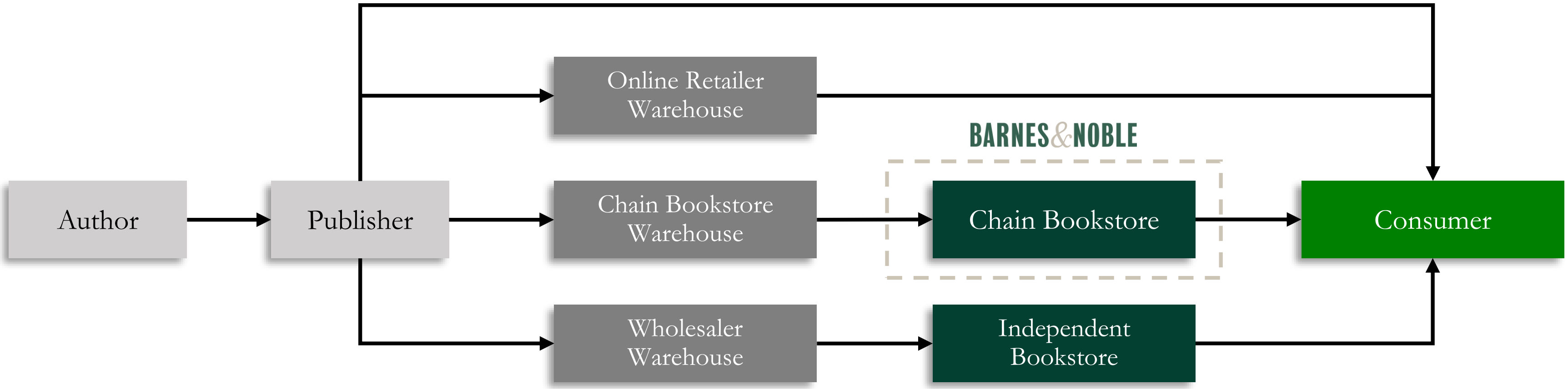
Sources: American Booksellers Association, Bloomberg, IBISWorld, Publishers Weekly, Statista, The Guardian

Industry Overview Cont.

Bookselling Supply Chain



COVID-19 Industry Implications

- Amazon experienced initial slowdown of non-essential items, including books, at the height of the pandemic
- Closure of brick-and-mortar bookstores, notably small independent bookstores that rely on in-person traffic
  - Bookstore.org sees rapid traction from independent bookstores hoping to stay afloat
- Surge in D2C distribution channels; increase in sales from authors' personal pages
- E-commerce channels and audiobook sales continue to grow; e-books see first rise in demand in several years

B&N's Response & Adaptations to COVID-19

- B&N temporarily shut down 400/620 stores in March with employee layoffs; several permanent closures followed
- Experienced complications from distribution centers from navigating new social distancing measures while managing holiday-like volumes
- Loss of in-person experience at B&N: café closures, decreased browsing time, book tour cancellations, etc.
- B&N boosted BOPIS service through re-opening stages
- Opportunity for B&N to overhaul stores and shift towards new decentralized store strategy

Sources: Barnes & Noble, Forbes, Martech, Publishers Weekly, The New York Times, TIME

Target Overview

Target Overview

ELLIOTT BARNES&NOBLE

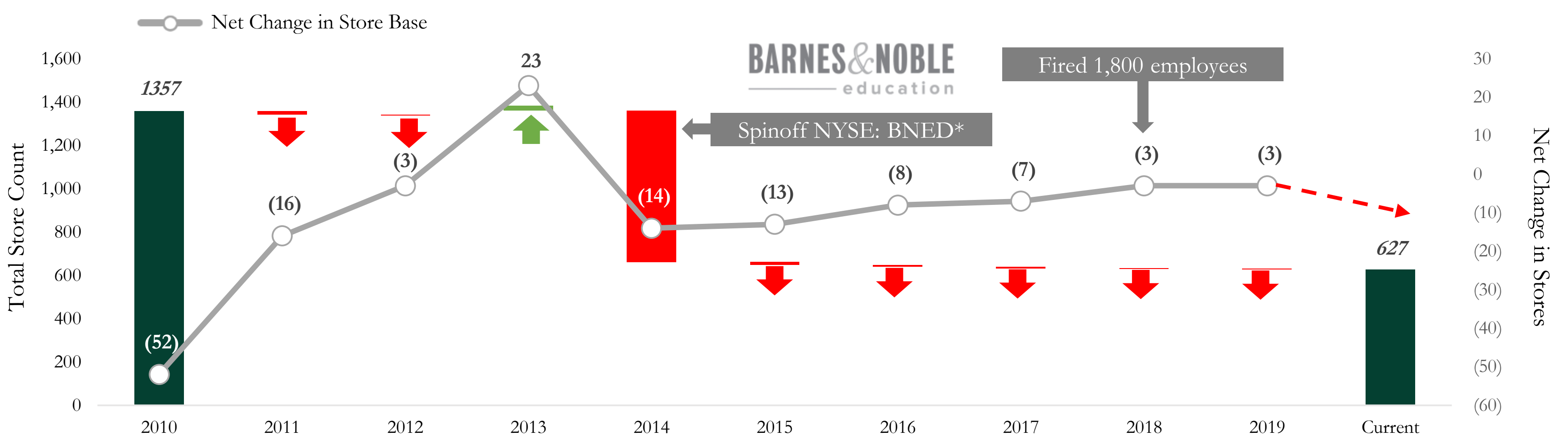
Business Overview

- One of the nation's largest booksellers with a unique omni-channel distribution platform, founded in 1886 in New York
- Revenues segmented into Retail (627 bookstores, 50 states) and NOOK (digital bookstore)
- In 2019, B&N opened 7 stores while closing 10. Store count and same store sales decreasing over the past three years
- Operated a Retail and College business, which was spun-off in 2015 into Barnes & Noble Education (NYSE: BNED)
  - Runs 724 campus stores serving 5mm students and faculty
- Company had five CEOs in the past six years. Most recently, James Daunt was influential in convincing Elliott to buy B&N and apply a similar strategy to expand footprint by opening smaller stores in high traffic city locations

Financials as of LTM April 2019 ($ m)

Revenue	3,552.7	*100%*
EBITDA	112.9	*3.17%*
EBIT	38.6	*1.08%*
Net Income	3.8	*0.11%*
Total Operated Stores	627	
Total Retail Sq. Ft	16,400,000	
Same Store Sales	(1.9%)	

Brick and Mortar Store Base



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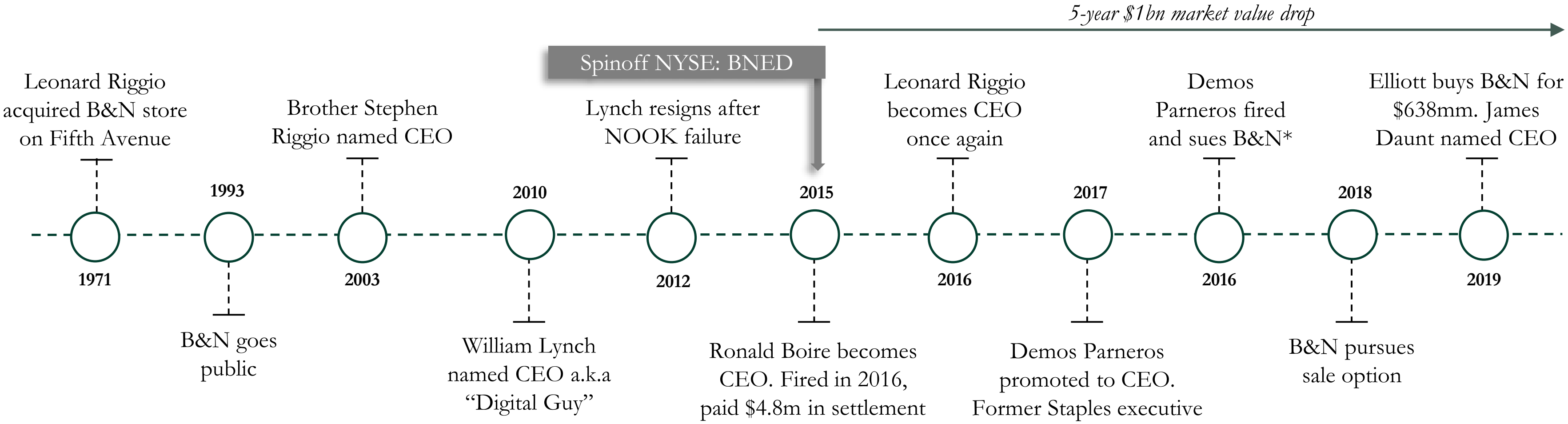
* 2014 store reductions do not include the ~700 stores included in the spinoff of Barnes & Noble Education

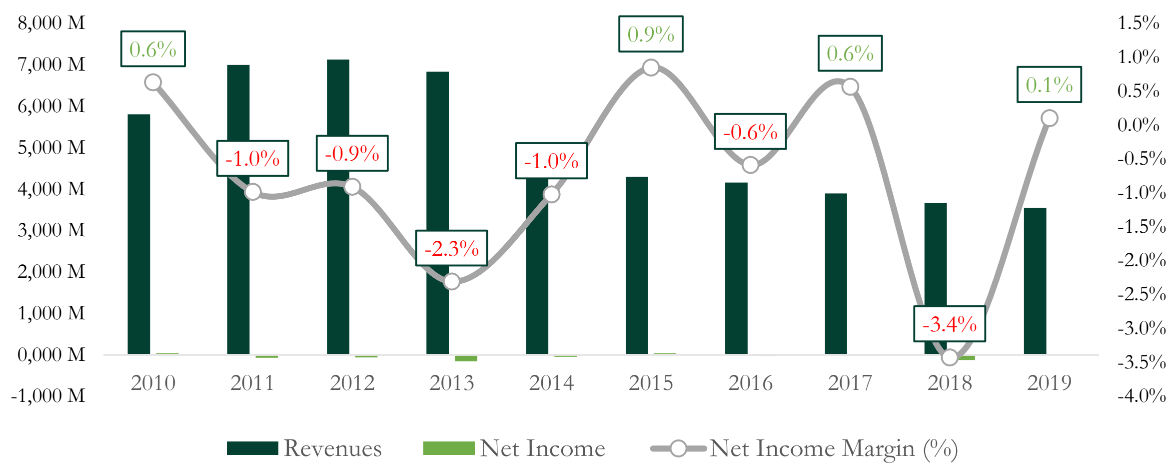
Sources: S&P Capital IQ, New York Times, Annual Report

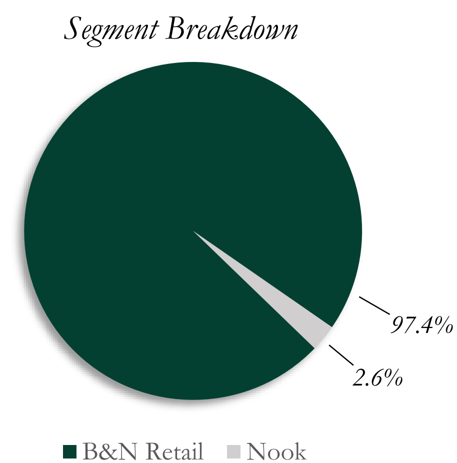
Target Overview – Historical Views

CE-Oh No: Management History



Deteriorating Financial Performance





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* Sued B&N for defamation and baseless termination, claiming he was fired for a fallen deal. B&N states sexual harassment and erratic behaviour issues. Currently pending

Strategic Rationale

Trailblazer – New CEO

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James Daunt

Carnival J.P.Morgan DAUNT BOOKS Summertown WATERSTONE'S


British businessman educated at Sherborne School, before studying history at Pembroke College Cambridge University

- 1984 – Corporate finance at J.P. Morgan in New York
- 1990 – Opens the first Daunt Books
- 2011 – Alexander Mamut buys Waterstones ($66m), hires James
- 2018 – Waterstones sold to Elliott Advisors for $250m+

> *"He's essentially created a series of independent bookstores, with the buying power of a chain"*
> \- **Tom Weldon**, CEO Penguin Random House Books U.K.

> *"We're playing the long game, when those students are rich and famous, they'll buy books from us and the cost of the electricity will be paid back in spades"*
>
> *"Not massively, but mildly. It's a bit ugly, there's piles of crap around the place. It all feels a bit unloved, the booksellers look a bit miserable, it's all a bit run down"*
> \- **James Daunt**, CEO Waterstones

Bookstore Strategy

- Began to run Waterstones in 2011 while close to bankruptcy – returned to profitability in 2015 (10% margin on ~$500m sales)
- Focus customer interests vs books publishers are eager to sell
- Transformed stores into independent locations with cafés attached; creating a social hotspot for students and workers
- Publisher relations
  - Waterstones doesn't take money from publishers to push specefic titles. HQ chooses books to promote (book of the month/year), which almost always become best sellers
- Retail downturn freeing up desirable locations for growth

amazon → *Recommendations based purchases, passive algorithm*

WATERSTONE'S → *Spotlights unknown books that deserve a wide audience*

Potential B&N Playbook

- Elevate bookstore experience, "the only point of a bookstore is to provide a rich experience in contrast to a quick online transaction"
- Focusing on selling the pleasure of the bookstores first and the bookstores second; store books are better than the online ones
- Switch out co-op system similar to Waterstones: B&N (with) returns 20-25% of books to publishers, Waterstone (without) returns 4% of books to publishers
- Use of undercover mystery shoppers to identify weaknesses
- Adjust customer service and workforce; ran an experiment to test phone-answering mastery and stores failed five times
- Shut down underperforming stores

Sources: New York Times, BBC News

Business Model Shifts

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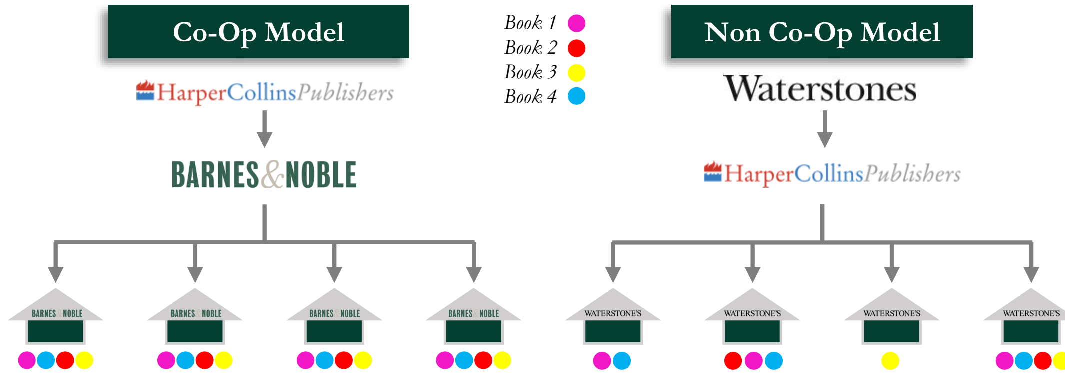
Publisher Relationships

- Bookstore establishes promotions calendar
- Sends calendar to publishers with pricing
- Publishers prioritize highest potential books
- Bookstore chain gets nominations from publishers
- Bookstore negotiates which books will be displayed
- Return unsold books, publisher incurs freight cost



Promotions replicated across the chain
Co-op fees, shipping fees, low discount

Promotions varying by independent store
No co-op fees, no shipping fees, high discount

Targeted Store Experience & Business Model

- Waterstones has prioritized the experiential aspect of their bookstores, allowing it to stay competitive despite increasing competition from digitalization
- In 2012, Waterstones announced that it would be implementing its own-brand coffee chain, Café W, into as many as 130 stores over the next three years
- The 'bookstore experience' has been critical towards Waterstones success. Despite an absence of bestselling titles in 2019, Waterstones' profit increased 30% as a result of 'non-book' items such as food and drink sales at Café W locations, stationary, and board games

Scenarios based on 1,000 copies of a book with retail price of $20

	Scenario 1 (Co-Op)	Scenario 2 ~~(Co-Op)~~
Assumptions	***50% discount, 22.5% return rate, 3% co-op fee charge***	***60% discount, 4% return rate***
Income	($20,000*50%) → **$10,000**	($20,000*40%) → **$8,000**
Returns	($20,000*50%*22.5%) → **$2,250**	($20,000*40%*4%) → **$320**
Co-Op Fee	($20,000*2%) → **$600**	**$0**
Net Income	**$7,150**	**$7,680**

7.1% higher returns

Sources: Thinkubator Publishing, The New-Review Today, Engage Customer, Yahoo Finance

Transaction Case Study

Bookstore Acquisition – Waterstones

Ownership History

Owners	WHSmith	THORN EMI; Advent International GLOBAL PRIVATE EQUITY; hmv		*Loss of £32m*; a&nn	*Return to profitability (2016)*
Mergers & Acquisitions			OTTAKAR'S a love for books		Hodges Figgis; Hatchards; FOYLES
Commentary	Acquired for £47m (1989)	Acquired by HMV Group for £300m – joint venture between EMI, Advent & Tim Waterstone (1998)	Merged with Ottakar's (2006)	Acquired for £53m (2011)	Acquired Foyles, Hatchards, Hodges Figgis

Acquisition Overview

December 31, 1989 – WH Smith, a UK retailing group, purchases WH Smith for £43 million

March 30, 1998 – HMV Media Group PLC, a joint venture between EMI Group PLC, Advent International Group, and Tim Waterstones, acquires Waterstone from WH Smith for £300 million in cash and rival Dillons

July 3, 2006 – Waterstones acquires rival bookseller Ottakar's in a transaction valued at approximately £56.66 million paying £2.85 for each outstanding share, representing a discount of 0.7% from the closing price

June 29, 2011 – A&NN Capital Fund Management Limited acquires Waterstones from HMV for £53 million in cash and the new owner, Alexander Mamut, appoints James Daunt to be the Managing Director of Waterstones

June 6, 2018 – Elliott Advisors (UK) Limited acquires Waterstones for an undisclosed amount

September 7, 2018 – Waterstones purchases bookseller Foyles who previously acquired Hatchards and Hodges Figgis

WHSmith → hmv → OTTAKAR'S → a&nn → ELLIOTT ADVISORS (UK) LIMITED

Failed Retail Acquisition – Toys "R" Us

Party Overview

KKR
$233.8B AUM

- Founded in 1976 – global investment firm managing multiple alternative asset classes
  - PE, Credit, Real Estate, Infrastructure

VORNADO REALTY TRUST
$17.6B AUM

- Founded in 1982 – Real estate investment fund concentrated in NYC, SF, Chicago
  - 23M+ LEED certified buildings



BainCapital
$105B AUM

- Founded in 1984 - Boston-based private multi-asset alternative investment firm
  - PE, VC, Credit, Real estate, Impact

Deal Terms, Rationale & Bankruptcy

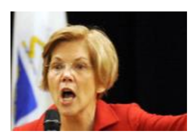
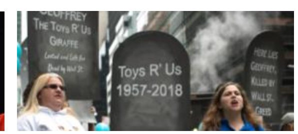
- Acquired for $6.6 billion, plus the assumption of debt
  - $5B debt was added to Toys "R" Us' prior $1.86B debt

Leverage	3.5x → 7.5x	
Coverage	5.1x → 2.0x	

- Acquirers aimed to refocus business model, build on in-person store experiences, and enhance vendors partnerships
- Toys "R" Us filed for Chapter 11 in 2018 due to declining sales and mounting debt
  - E-commerce growth (Amazon factor) continuously siphoned sales; innovation/development remained flat as management efforts were focused on $400M yearly interest payments instead of meaningful change

Reactions & Comparability

- Negative sentiments towards acquirers and overall PE industry
- Toys R Us' liquidation stripped away ~30,000 U.S. jobs without severance; Elizabeth Warren displayed dismay towards acquirers
  - KKR/Bain pressured into creating $20M employee fund
- Similarities with Elliott's deal due to similar secular declines in brick-and-mortar retail and shift to e-commerce
- Elliott investments often employ similar activist strategies; i.e. replacing key management personnel and driving internal change

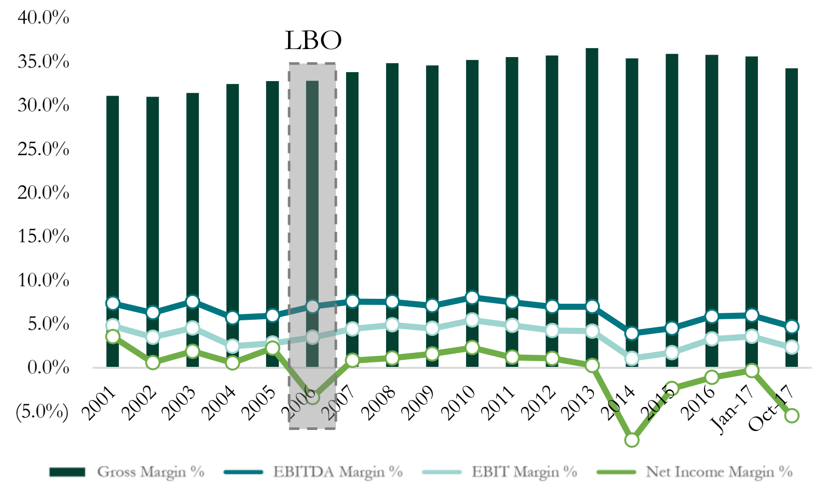
Sources: Bloomberg, CNN, Reuters, The Atlantic, KKR, Bain Capital, Vordano Realty Trust

Failed Retail Acquisition – Toys “R”Us

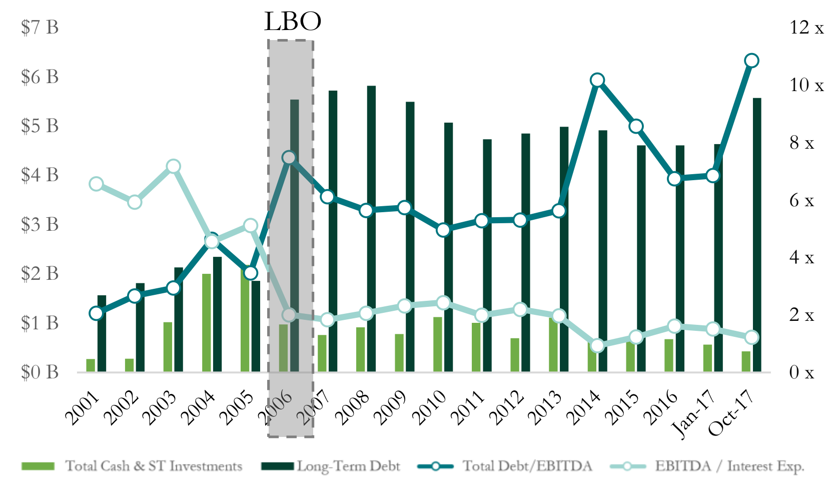
Company Timeline

- **1958** – Charles Lazarus opens baby furniture store in Washington
- **1966** – Lazarus sells company to Interstate Sales, becomes head of its toy division and overseeing the Toys R Us stores
- **1974** – Interstate files for bankruptcy
- **1978** – Toys R Us goes public on the NYSE
- **1994** – Lazarus steps aside as chief executive
- **1996** – First Babies R Us Store opens
- **2001** – Toys R Us Times Square opens in Manhattan. Claimed to be the largest toy store in the world
- **2005** – Bain, KKR, Vornado conduct a **$6.6B leveraged buyout** on Toys R Us, taking it private with a plan of an IPO to exit
- **2009** – acquired Etoys.com, Toys.com, KB Toys, and FAO Schwarz
- **2010** – Registers for IPO
- **2012** – Declining sales and stalling market, withdraws registration
- **2015** – Dave Brandon becomes fourth company CEO in 16 years. Previously led winning IPO for Domino’s
- **2015** – Times Square flagship and FAO Schwarz store on Fifth Avenue closed, apparently due to high rent
- **2016** – Struggling with top line growth, earnings, and LBO debt
- **2017** – Toys R Us filed for Chapter 11 bankruptcy

Financial Performance



Company Leverage



Sources: USA Today, S&P Capital IQ

Valuation & Returns Analysis

Scenario Analysis

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Base Case – *Flat Growth and Minor Cost Reduction*

- Store closures continue at the same rate as historical as management closes unprofitable locations and redefines retail strategy
- Store openings stabilize at 5 per year
- Same Store Sales Growth of 0% for the period
- Revenue per store remains flat for the period
- NOOK segment growth remains flat
- Exit multiple remains at 5.0x EBITDA
- New management identifies areas for SG&A reduction. SG&A as a percent of revenue declines from 26.4% to 24%

Bull Case – *A Proper Turnaround Scenario*

- Stores begin to open at a faster rate and store closures taper off
- Same Store Sales begins to rebound and grows at 4% per year
- Average revenue per store increases back to its 2017 level and begins to improve thereafter
- SG&A reduction as per the base case
- NOOK Segment begins to rebound and hits its 2018 level by the end of 2024
- Multiple expansion of 0.5x EBITDA at exit reflective of the improved business prospects

Crash Case – *Failed Turnaround Leading to Default*

- Store closures accelerate while new store openings taper off by the end of the hold period
- Exit multiple contracts to 4.0x EBITDA
- Same Store Sales Growth declines at the same rate as 2017-2019
- NOOK continues at negative growth similar to 2017-2019
- SG&A as a percent of revenue stays flat
- B&N draws down on its revolver but ultimately cannot service its debt leading to a default or restructuring

	Crash	Base	Bull
IRR	(195.9%)	18.6%	28.4%
MOIC	-.81 x	2.35 x	3.49 x
Intrinsic Value / Share	$ (2.2)	$ 9.2	$ 16.4
Premium to Offer Price	(133.2%)	41.6%	152.5%

Sources: S&P Capital IQ

Discounted Cash Flow Analysis

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Revenue Build

(in thousands $USD except for per share data)

	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Total Revenues	**3894.56**	**3662.28**	**3552.75**	**3525.19**	**3497.59**	**3469.99**	**3442.40**	**3414.80**
% YoY Growth				*-0.78%*	*-0.78%*	*-0.79%*	*-0.80%*	*-0.80%*
EBIT	**68.25**	**23.79**	**38.60**	**140.16**	**139.14**	**138.13**	**137.12**	**136.11**
%Tax Rate	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
(+) D&A	117.89	106.34	97.68	96.12	95.43	94.73	94.04	93.34
(–) CapEx	-96.30	-87.70	-113.70	-92.16	-91.46	-90.77	-90.08	-89.38
(–) Change in NWC	-31.48	-57.93	-25.00	-48.13	-10.06	-10.06	-10.06	-10.06
Unlevered Free Cash Flow	**$44.03**	**-$20.49**	**-$10.53**	**$66.55**	**$103.83**	**$103.03**	**$102.23**	**$101.43**
Present Value of Free Cash Flow				**$60.54**	**$85.92**	**$77.56**	**$70.01**	**$63.18**

Enterprise Value

Terminal Year EBITDA	$229
Exit Multiple	3.6x
Terminal Value	$819
Implied Perpetuity Growth Rate	*(2.2%)*
PV of Terminal Value	$510
PV of Projection Period	$357
Enterprise Value	$867
Add: Cash & Cash Equivalents	$9
Less: Debt	$204
Less: Preferred Equity	-
Less: Minority Interest	-
Market Capitalization	$673
Fully Diluted Shares Outstanding	73.12
Pre-Offer Price	$4.31
Offer Price	$6.50
Implied Share Price	**$9.20**
Offer/Pre-Offer	**50.8%**
Implied/Pre-Offer	**113.4%**
Offer/Implied	**(29.3%)**

WACC

Market Value of Equity	475
Offer Share Price	$ 6.50
Diluted Shares Outstanding	73.1
Market Value of Debt	203.8
Total Capitalization	679
Debt/Equity (D/E)	42.9%
% Equity	70.0%
% Debt	30.0%
Cost of Equity	
Risk-Free Rate	2.1%
Market Risk Premium	10.0%
Levered Beta	1.03
Cost of Equity	12.4%
Cost of Debt	
Interest Rate on Debt	5.3%
Tax Rate	21.0%
After-Tax Cost of Debt	4.2%
WACC	**9.9%**

Sensitivity : Share Price

Exit Multiple	**WACC**				
	7.9%	8.9%	9.9%	10.9%	11.9%
1.6x	$ 5.93	$ 5.64	$ 5.36	$ 5.09	$ 4.83
2.6x	$ 8.08	$ 7.69	$ 7.31	$ 6.96	$ 6.62
3.6x	$ 10.22	$ 9.74	$ 9.27	$ 8.83	$ 8.41
4.6x	$ 12.37	$ 11.78	$ 11.23	$ 10.70	$ 10.20
5.6x	$ 14.52	$ 13.83	$ 13.19	$ 12.57	$ 11.99

Sensitivity : Upside/ Downside

Exit Multiple	**WACC**				
	7.9%	8.9%	9.9%	10.9%	11.9%
1.6x	10%	15%	21%	28%	35%
2.6x	-20%	-15%	-11%	-7%	-2%
3.6x	-36%	-33%	-30%	-26%	-23%
4.6x	-47%	-45%	-42%	-39%	-36%
5.6x	-55%	-53%	-51%	-48%	-46%

Sources: S&P Capital IQ

Leveraged Buyout Analysis

ELLIOTT BARNES&NOBLE

LBO Summary	2020E	2021E	2022E	2023E	2024E
B&N Retail	3,454.2	3,426.4	3,398.6	3,370.9	3,343.1
NOOK	92.1	92.1	92.1	92.1	92.1
Revenue	**3,525.2**	**3,497.6**	**3,470.0**	**3,442.4**	**3,414.8**
% YoY Growth		*-0.8%*	*-0.8%*	*-0.8%*	*-0.8%*
Free Cash Flow for Debt Paydown	**55.8**	**94.6**	**95.8**	**97.0**	**98.8**
% Margin	*1.6%*	*2.7%*	*2.8%*	*2.8%*	*2.9%*
Debt Paydown	**(55.8)**	**(94.6)**	**(95.8)**	**(97.0)**	**(98.8)**

Sources	*Amount*	*Mult*	*% of Total*
Revolver (Drawn)	350	2.57 x	51%
FILO ABL	125	.92 x	18%
Sponsor Equity	208	1.52 x	30%
Total Sources	**683**	**5.01 x**	**100%**

Uses	*Amount*	*Mult*	*% of Total*
Purchase Equity	475	3.49 x	70%
Refinance Net Debt	194	1.43 x	28%
Transaction Fees	13	.1 x	2%
Total Uses	**683**	**5.01 x**	**100%**

Purchase Price Calculation	
Offer Price	$6.5
Pre-Offer Share Price	$3.7
Premium	43%
FD Shares	73.1
Entry Multiple	5.0
Equity Purchase Price	475.3
Enterprise Value	**683.0**

Returns Analysis	
Terminal EBITDA	229.5
Exit Multiple	5.01 x
Enterprise Value	1,150.0
Less: Net Debt	(33.4)
Sponsor Equity at Exit	1,116.6
Sponsor Equity at Closing	475.3
MOIC	**2.35 x**
IRR	**18.6%**

	Crash	Base	Bull
IRR	(195.9%)	18.6%	28.4%
MOIC	-.81 x	2.35 x	3.49 x
Intrinsic Value / Share	$ (2.2)	$ 9.2	$ 16.4
Premium to Offer Price	(133.2%)	41.6%	152.5%

Sources: S&P Capital IQ

Final Thoughts & Opinions

IPC Thoughts

ELLIOTT BARNES&NOBLE

Closing Thoughts

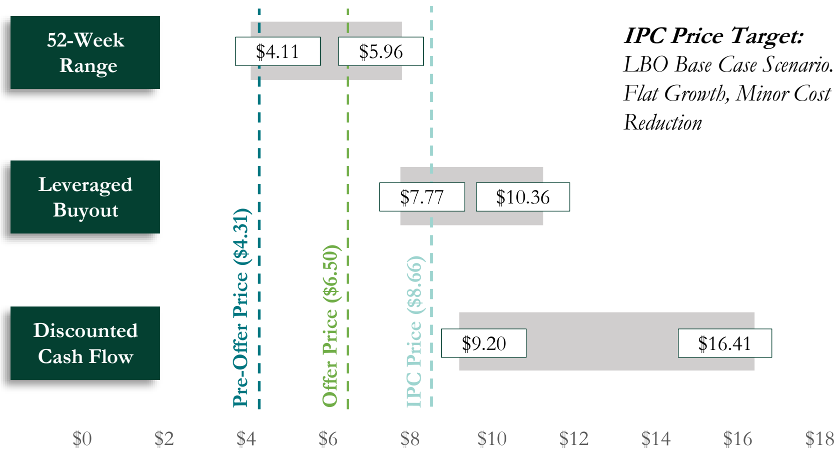
Realistic Base Case Scenario

- Based on the low purchase price at 5.0x EBITDA, Elliott will be able to earn a satisfactory return with minimal cost reduction and flat growth. A full turnaround of B&N to the degree of Waterstones would lead to an extremely lucrative return

Competent CEO and Proven Strategy

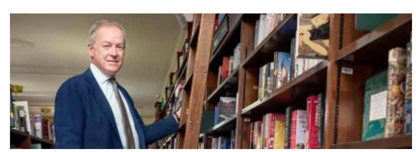
- Elliott has existing experience with a very comparable company, Waterstone, and has applied a similar strategy by bringing James Daunt in as CEO. His fundamental approach to judging business operations and creating a new customer experience for the bookstores appears to be very promising
- Positive image on Elliott considering various groups in the supply chain, namely publishers, depend on the success of retailers

Valuation Summary



Key Questions

- How will the Waterstone strategy be effectively implemented for B&N when it is ~3x larger?
- Given the extensive chain network at B&N, would decentralizing the order system and creating independent stores be efficient? How will B&N be able to oversee such autonomy?
- Did Elliott have any interest in B&N Education Inc?
- How will Elliott exit this investment? No clear strategic buyers and bookstores are not strong IPO candidates – will they consider merging Waterstone and B&N?
- It seems like James Daunt only has experience in physical retail, so how will NOOK be monetized?
- Will the UK experience strategy work in the US, given that cities and neighbourhoods in the UK are generally tighter?



Sources: S&P Capital IQ, The Bookseller

Thank You For Listening.

Appendix

LBO Operating Model

LBO Operating Model

LBO FCF & Debt

DCF UFCF

LBO Operating Model – Part I

ELLIOTT BARNES&NOBLE

Operating Model	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
Revenue								
Stores Opened	3	3	7	5	5	5	5	5
Stores Closed	10	6	10	10	10	10	10	10
Total Stores	633	630	627	622	617	612	607	602
Total Same Store Sales Growth	(6.3%)	(5.4%)	(1.9%)	0.0%	0.0%	0.0%	0.0%	0.0%
Retail Revenues (Existing)				3,426.4	3,398.6	3,370.9	3,343.1	3,315.3
Retail Revenues (New)				27.8	27.8	27.8	27.8	27.8
Retail Revenues (Total)	3,784.7	3,575.6	3,481.9	3,454.2	3,426.4	3,398.6	3,370.9	3,343.1
Total Retail Sq. Ft. (Net)	16,700,000	16,600,000	16,400,000					
Average Retail Sq. Ft. per Store	26,382.3	26,349.2	26,156.3	26,295.9	26,295.9	26,295.9	26,295.9	26,295.9
Average Revenue / Store	6.0	5.7	5.6	5.6	5.6	5.6	5.6	5.6
B&N Retail	3,784.7	3,575.6	3,481.9	3,454.2	3,426.4	3,398.6	3,370.9	3,343.1
Growth		-5.5%	-2.6%	-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
NOOK	146.5	111.5	92.1	92.1	92.1	92.1	92.1	92.1
Growth		-23.9%	-17.4%	0.0%	0.0%	0.0%	0.0%	0.0%
Elimination	(36.6)	(24.8)	(21.3)	(21.1)	(21.0)	(20.8)	(20.6)	(20.5)
Percent of Retail	-1.0%	-0.7%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%	-0.6%
Total Revenues	**3,894.6**	**3,662.3**	**3,552.7**	**3,525.2**	**3,497.6**	**3,470.0**	**3,442.4**	**3,414.8**
Growth				-0.8%	-0.8%	-0.8%	-0.8%	-0.8%
Gross Profit								
B&N Retail	1,148.5	1,054.2	1,028.3	1,036.3	1,027.9	1,019.6	1,011.3	1,002.9
Margin	30.3%	29.5%	29.5%	30.0%	30.0%	30.0%	30.0%	30.0%
NOOK	63.7	57.0	44.7	46.1	46.1	46.1	46.1	46.1
Margin	43.4%	51.1%	48.5%	50.0%	50.0%	50.0%	50.0%	50.0%
COGS	2,682.4	2,551.1	2,479.7	2,442.9	2,423.6	2,404.3	2,385.1	2,365.8
Total Gross Profit	**1,212.2**	**1,111.2**	**1,073.0**	**1,082.3**	**1,074.0**	**1,065.7**	**1,057.3**	**1,049.0**

LBO Operating Model – Part II

ELLIOTT BARNES & NOBLE

Operating Model	2017A	2018A	2019A	2020E	2021E	2022E	2023E	2024E
EBIT								
SG&A	1,026.1	981.1	936.7	846.0	839.4	832.8	826.2	819.6
Percent of Revenue	26.3%	26.8%	26.4%	24.0%	24.0%	24.0%	24.0%	24.0%
D&A								
B&N Retail	98.9	94.3	87.9	86.4	85.7	85.0	84.3	83.6
Percent of Revenue	2.6%	2.6%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
NOOK	19.0	12.0	9.8	9.8	9.8	9.8	9.8	9.8
Percent of Revenue	13.0%	10.8%	10.6%	10.6%	10.6%	10.6%	10.6%	10.6%
D&A Total	117.9	106.3	97.7	96.1	95.4	94.7	94.0	93.3
Total EBIT	**68.2**	**23.8**	**38.6**	**140.2**	**139.1**	**138.1**	**137.1**	**136.1**
Capex								
B&N Retail	(89.7)	(80.7)	(107.9)	(86.4)	(85.7)	(85.0)	(84.3)	(83.6)
Percent of Revenue	-2.4%	-2.3%	-3.1%	-3%	-3%	-3%	-3%	-3%
NOOK	(6.6)	(7.0)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)	(5.8)
Percent of Revenue	-4.5%	-6.3%	-6.3%	-6.3%	-6.3%	-6.3%	-6.3%	-6.3%
Total Capex	**(96.3)**	**(87.7)**	**(113.7)**	**(92.2)**	**(91.5)**	**(90.8)**	**(90.1)**	**(89.4)**
Net Working Capital								
Change in Acc. Receivable	57.6	2.7	3.3	0.1	(0.3)	(0.3)	(0.3)	(0.3)
Change In Inventories	(13.2)	(11.3)	34.5	(42.3)	(7.1)	(7.1)	(7.1)	(7.1)
Change in Acc. Payable	(66.3)	(66.4)	(60.9)	(6.6)	(3.4)	(3.4)	(3.4)	(3.4)
Change in Other Net Operating As	(9.6)	17.0	(1.9)	0.8	0.8	0.8	0.8	0.8
Percent of Revenue		-7%	2%	-3%	-3%	-3%	-3%	-3%
Avg. Days Sales Out.	4.2	4.1	4.1	4.2	4.2	4.2	4.2	4.2
Avg. Days Inventory Out.	127.6	135.9	138.1	133.9	133.9	133.9	133.9	133.9
Avg. Days Payable Out.	64.4	66.2	65.3	65.3	65.3	65.3	65.3	65.3
Total Change in NWC	**(31.5)**	**(57.9)**	**(25.0)**	**(48.1)**	**(10.1)**	**(10.1)**	**(10.1)**	**(10.1)**

LBO Free Cash Flow & Debt Schedule

ELLIOTT BARNES&NOBLE

Free Cash Flow	2020E	2021E	2022E	2023E	2024E
EBITDA	236.3	234.6	232.9	231.2	229.5
Less: Capex	(92.2)	(91.5)	(90.8)	(90.1)	(89.4)
Less: Change in NWC	(48.1)	(10.1)	(10.1)	(10.1)	(10.1)
Less: Cash Interest	(8.9)	(7.6)	(6.0)	(4.3)	(2.2)
Less: Cash Taxes	(31.3)	(30.8)	(30.3)	(29.7)	(29.0)
FCF For Debt Repayment	**55.8**	**94.6**	**95.8**	**97.0**	**98.8**

Debt Schedule		2019A	2020E	2021E	2022E	2023E	2024E
Revolver	*Assumptions*						
Beginning Balance	Rate	L+150	350.3	294.5	199.9	104.2	7.2
Paydown		Yes	(55.8)	(94.6)	(95.8)	(97.0)	(7.2)
Ending Balance		350	294.5	199.9	104.2	7.2	-
Interest Expense			5.5	4.2	2.6	1.0	0.1
FILO ABL	*Assumptions*						
Beginning Balance	Rate	L+250	125.0	125.0	125.0	125.0	125.0
Paydown		Yes	-	-	-	-	(91.6)
Ending Balance		125	125.0	125.0	125.0	125.0	33.4
Interest Expense			3.4	3.4	3.4	3.4	2.1
Total Net Debt		475	419.5	324.9	229.2	132.2	33.4
Total Net Interest Expense			8.9	7.6	6.0	4.3	2.2

DCF UFCF Calculation

ELLIOTT® BARNES&NOBLE

Unlevered Free Cash Flow								
EBIT	68.25	23.79	38.60	140.16	139.14	138.13	137.12	136.11
%Tax Rate	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*	*21.0%*
NOPAT	53.92	18.79	30.49	110.72	109.92	109.12	108.32	107.52
(+) D&A	117.89	106.34	97.68	96.12	95.43	94.73	94.04	93.34
(–) CapEx	-96.30	-87.70	-113.70	-92.16	-91.46	-90.77	-90.08	-89.38
(–) Change in Net Working Capital (NWC)	-31.48	-57.93	-25.00	-48.13	-10.06	-10.06	-10.06	-10.06
Unlevered Free Cash Flow	**44.03**	**-20.49**	**-10.53**	**66.55**	**103.83**	**103.03**	**102.23**	**101.43**
% of Revenue	*1.1%*	*-0.6%*	*-0.3%*	*1.9%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
Discount Period				1.00	2.00	3.00	4.00	5.00
Discount Factor				0.91	0.83	0.75	0.68	0.62
Discount UFCF				**60.54**	**85.92**	**77.56**	**70.01**	**63.18**