



LEGION PARTNERS

July 16, 2019

Dear Partner:

The Legion Partners Composite Index (the “LPC Index”) net return for Q2 2019 was -5.8% versus +2.1% for the Russell 2000 Total Return Index (“R2K TR Index”) and +2.3% for the HFRI Activist Hedge Fund Index (“HFRI Activist Index”). Since Inception on August 22, 2011, the LPC Index is up 237.7% net versus 168.2% and 75.9% for the R2K TR Index and HFRI Activist index, respectively. The tear sheet at the back of this letter splits our LPC Index into its two components, the consolidated net returns of our commingled funds (“LP Commingled Index” or “Commingled”) which was -6.2% in Q2 2019 and the consolidated net returns of our co-investment funds (“LP Co-Investment Index” or “Co-Investments”) which was -4.0% in Q2 2019.

The net performance of the Legion Partners Composite Index and its market benchmarks since inception are summarized in the table below:

	Q2 2019 Net	ANNUALIZED (NET)				
		1 YR	3 YRS	5 YRS	ITD*	Cumulative*
LPC Index Net	-5.8%	-4.2%	17.9%	8.8%	16.7%	237.7%
R2K TR Index	2.1%	-3.3%	12.3%	7.1%	13.4%	168.2%
R2K Value TR Index	1.4%	-6.2%	9.8%	5.4%	12.1%	146.2%
HFRI Activist Index	2.3%	-1.8%	5.5%	4.0%	7.4%	75.9%

* Inception date is 8/22/11 for LPC Index and benchmarks; see Notes and Disclosures on tear sheet

As of June 30, 2019, our commingled funds had nine meaningful positions (13 positions in total), five of which are also co-investments, with exposure to four of the nine Russell 2000 sectors (producer durables, consumer staples, consumer discretionary and technology). Legion’s investments in the producer durables sector had a positive impact on results in the second quarter, while our investments in the other three sectors negatively impacted results.

As you are likely aware, we recently reached a settlement with Bed Bath & Beyond (“BBBY” or the “Company”), appointing four new independent board members from our slate of sixteen nominees (in addition to the five new independent board members recently appointed by BBBY). This outcome was the culmination of an approximately two-month proxy fight, which resulted in the removal of the CEO and the immediate resignation of seven other long tenured directors (including the two Executive Chairmen who founded the Company). Our comments that follow provide more details on our efforts and why we are so excited about the future of Bed Bath & Beyond.



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In January 2019, after watching BBBY's stock decline precipitously over the prior two years to a level that we felt was too attractive to wait any longer, we began to acquire the Company's stock. Subsequently, we partnered with a group of investors to nominate a full slate of directors to replace the Company's entire board. Our extensive due diligence provided us with the ammunition needed to argue for meaningful change at BBBY. In our 168-page presentation that we filed publicly in April 2019, we highlighted the numerous corporate governance issues and poor track record of the existing management team and outlined our detailed plan for improving Bed Bath & Beyond, including a full 100-day operational plan. The operational plan was developed through months of proprietary research, engagement with a nationally recognized consulting firm, comprehensive consumer survey work and "shadow" board meetings we conducted with our sixteen highly qualified board nominees. Our public indictment of the Company generated a swift response, whereby the Company in April 2019 orchestrated the resignation of seven long-tenured directors and added five new independent directors, but fell short of replacing the CEO.

Despite the meaningful change that had occurred, we decided to move forward with our campaign as we felt additional change, particularly at the CEO position, was required. About three weeks later in early May, the CEO stepped down. Following the CEO change, we concluded that a settlement would be the best path forward given the substantial changes that had already occurred and our desire to collaborate with the new board to quickly find a new leader.

As part of our settlement with the Company, we placed four new, independent directors on the board. Our directors received two seats on the Transformation & Strategy Committee and two seats on the CEO Search Committee. This agreement gives us confidence that these committees will make smart strategic decisions and select an exceptional CEO to take over the reins at Bed Bath & Beyond. We've received tremendous unsolicited outreach from highly-qualified CEO candidates and we believe this is a coveted position that will attract top talent. As we stated during our campaign, with the right management team and alignment towards fixing the supply chain and streamlining the merchandising architecture, it's our belief that this business can achieve over \$1 billion in EBITDA over the next few years.

Bed Bath & Beyond owns a collection of valuable retail concepts and real estate that we believe are not being properly valued by the market. The Company operates 994 Bed Bath & Beyond stores, 124 buybuy BABY locations, 280 Cost Plus World Markets, 81 Christmas Tree Shops and 55 Harmon Face Values, and owns over 4.4 million square feet of real estate, including high value office and industrial space. As we noted in our investor presentation, we believe the Company's non-core assets (all stores except the 994 Bed Bath & Beyond stores) are conservatively worth about \$1.2 billion and that its real estate assets are



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conservatively worth another \$600 million (valued at cost based on gross land and buildings from the balance sheet).

As such, we continue to believe that sales of these non-core assets would simplify the portfolio and allow the market to value the core Bed Bath & Beyond stores on their own. With new leadership, we see a significant opportunity to improve the profitability of these stores through better inventory management, sourcing, private labeling and other online initiatives.

Today, BBBY trades at under 3x EBITDA (enterprise value of \$2.0 billion and approximately \$700 million of EBITDA). When considering our estimated value of the non-core businesses and non-core real estate, we have effectively bought the “core” Bed Bath & Beyond concept for \$200 million. This equates to a multiple of 0.4x EBITDA, as we believe the core business will generate about \$500 million in EBITDA this year. In addition, we believe that about \$500 million of the \$2.6 billion in inventory on the balance sheet could be rationalized (today 70% of inventory is purchased by local store managers) generating further proceeds to enhance investor returns.

At Legion, we prefer to work collaboratively with boards, but occasionally find a situation where more immediate and drastic change is warranted. Given the quick results we were able to achieve through a well-orchestrated public campaign at BBBY, we’re hopeful it will be even easier going forward to find less contentious avenues for accomplishing our primary goals of enhancing shareholder value at our current and future portfolio companies.

We enter the third quarter of 2019 with a portfolio that is nearly fully invested and which we believe has material upside. We continue to work diligently on our existing portfolio company activist engagements and look forward to sharing more details in the future. Please contact us if you have any questions or an interest in making or increasing your investment in Legion Partners.

Sincerely,

Chris Kiper
Managing Director

Ted White
Managing Director

David Katz
Chief Operating Officer



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Legion Partners Overview

Legion Partners Asset Management, LLC ("Legion") was formed April 2012 with the mission of becoming the premier small-cap activist fund for high net worth and institutional investors. Legion's strategy utilizes deep fundamental research, concentrated positions and professional long-term oriented active engagement to achieve superior risk adjusted returns. The firm has a distinct competitive advantage derived from the partners' extensive experience and strong institutional relationships, including CalSTRS, its seed investor. Legion is headquartered in Los Angeles, California and has a satellite office in Sacramento, California.

Investment Strategy and Process:

Our target universe is comprised of deep-value, small-cap companies primarily in the R2K. We focus on strong businesses that are generally misunderstood where we believe our activist campaigns can add material value for all shareholders. Our investment process was designed and refined by Legion's Portfolio Managers over the last two decades. The process consists of five distinct steps: 1) Prospecting and Origination; 2) Research; 3) Valuation; 4) Action Plan; and 5) Execution. Our due diligence resembles the detailed analysis conducted by private equity firms prior to initiating a buyout, as we view ourselves as business owners despite owning only a minority of our portfolio companies. The research intensive nature of the strategy results in conviction weighted portfolio construction and multi-year holding periods. Our intimate knowledge of each investment and our continuous review and monitoring of each engagement serves as our primary risk management framework and allows us to regularly evaluate the relationship between price and value, an important component of our strong sell discipline.

Performance Analysis^{1,2,3}

	Commingled	R2K	R2K Value	HFRI Activist
1 Yr. Annualized	-4.5%	-3.3%	-6.2%	-1.8%
3 Yr. Annualized	18.1%	12.3%	9.8%	5.5%
5 Yr. Annualized	3.3%	7.1%	5.4%	4.0%
ITD Annualized	6.0%	7.0%	5.7%	4.2%
Cumulative ²	37.5%	45.2%	35.5%	25.2%

	Co-Investments	R2K	R2K Value	HFRI Activist
1 Yr. Annualized	-2.5%	-3.3%	-6.2%	-1.8%
3 Yr. Annualized	15.7%	12.3%	9.8%	5.5%
5 Yr. Annualized	17.6%	7.1%	5.4%	4.0%
ITD Annualized	21.1%	13.4%	12.1%	7.4%
Cumulative	350.6%	168.2%	146.2%	75.9%

Risk Metrics to Benchmarks^{1,2,3}

	R2K	R2K Value	HFRI Activist
Commingled Correlation	50.8%	48.3%	51.2%
Co-Investment Correlation	33.4%	32.4%	37.9%

Monthly Net Returns^{1,2,3}**Legion Partners Commingled**

	Month												Full Year ²	R2K
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2019	4.6%	9.9%	(0.7%)	1.8%	(8.8%)	1.1%							7.1%	17.0%
2018	(1.2%)	2.6%	0.5%	2.1%	10.1%	2.8%	1.7%	5.9%	(0.9%)	(6.6%)	(4.2%)	(6.6%)	5.1%	(11.0%)
2017	(1.4%)	(5.1%)	3.7%	1.8%	8.2%	0.3%	(1.2%)	8.9%	4.0%	3.2%	4.8%	0.9%	30.8%	14.6%
2016	(6.2%)	2.2%	7.3%	2.7%	(12.9%)	5.8%	(1.5%)	0.4%	5.5%	(1.6%)	3.9%	5.0%	9.0%	21.3%
2015	(3.0%)	3.4%	(1.3%)	5.1%	(1.4%)	(0.5%)	(1.6%)	(3.8%)	(5.0%)	3.7%	(2.9%)	(0.4%)	(8.1%)	(4.4%)
2014	0.0%	5.7%	(3.4%)	3.1%	2.6%	8.3%	(8.8%)	4.1%	(9.3%)	(7.3%)	1.3%	(1.6%)	(6.9%)	4.9%

Legion Partners Co-Investments

	Month												Full Year	R2K
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
2019	5.6%	2.8%	7.2%	3.3%	(7.4%)	0.3%							11.8%	17.0%
2018	(1.4%)	2.2%	(1.2%)	1.0%	1.5%	8.2%	4.5%	4.8%	(6.4%)	1.1%	(6.7%)	(9.7%)	(3.6%)	(11.0%)
2017	(7.2%)	11.0%	1.1%	2.9%	0.9%	3.2%	(3.0%)	0.2%	8.2%	3.1%	6.4%	(2.9%)	25.1%	14.6%
2016	(12.7%)	25.3%	1.6%	5.1%	(11.6%)	0.4%	3.5%	4.2%	6.1%	1.0%	(1.0%)	0.4%	19.2%	21.3%
2015	(9.2%)	0.4%	3.0%	(0.9%)	(2.0%)	(2.2%)	0.7%	(0.1%)	(2.8%)	4.0%	1.4%	13.0%	3.9%	(4.4%)
2014	(2.9%)	2.0%	(2.1%)	0.3%	(4.3%)	(0.9%)	4.0%	8.0%	0.8%	0.4%	14.6%	3.5%	24.4%	4.9%
2013	9.3%	1.3%	3.3%	(6.4%)	6.6%	(1.9%)	(0.5%)	3.8%	4.0%	4.8%	0.2%	6.2%	34.1%	38.8%
2012	4.0%	11.7%	1.4%	(1.5%)	3.0%	(2.9%)	(18.1%)	9.6%	(6.3%)	5.3%	12.4%	4.9%	21.1%	16.3%
2011								8.7%	(0.2%)	19.4%	3.2%	(0.0%)	33.7%	14.4%

Past performance is not a guarantee of future results.

Fund Terms

Commingled / Firm AUM ¹ :	\$319 / \$386 Million	Subscriptions:	Monthly	Auditor:	KPMG
Management Fee ² :	Founders Terms - 1%	Withdrawals ³ :	Founders Terms - 50% 2 yrs.; 50% 3 yrs.	Fund Legal:	Winston & Strawn
Performance Allocation:	20% per annum after 6% hurdle with HWM	Prime Broker:	Wells Fargo	Activist Legal:	Olshan
Minimum Investment:	\$1,000,000	Administrator:	ALPS (SS&C owned)	Compliance:	Gordian

Key Professionals:

Christopher S. Kiper, Managing Director - Shamrock Activist Value Fund, Ridgestone Small Cap Value Fund, E&Y (inactive CPA), B.S. University of Nebraska
Raymond (Ted) White, CFA, Managing Director - Knight Vinke Asset Mgmt, CII, CalPERS, California State Treasurer's Office, MBA Cal State Sacramento
David Katz, COO - Compass North Advisors, K&P Capital, Montgomery & Co, Bain & Co, B.A. Dartmouth College, MBA UCLA Anderson

¹ Legion Partners Commingled - A time and dollar weighted composite of the net returns of Legion's two commingled funds - LP I, the CalSTRS fund-of-one, launched 1/2/14 and LP II, launched 8/1/14, which is open to new investors; investments are made pro rata; general fund related costs are allocated pro rata; See Notes and Disclosures

² Legion Partners Commingled net returns in the first four years are burdened by the seeding arrangement with CalSTRS. In particular, Legion Partners, L.P. I took management fees on all of the CalSTRS committed capital rather than on the actual capital drawn (to ensure sufficient capital to fund operations). If instead Legion took its normal 1% management fee from CalSTRS based on the quarterly market value of the capital actually drawn (as occurs today), the pro forma Legion Partners Commingled net returns in 2014 - 2017 would have been -2.7%, -6.5%, +11.0% and +31.1%, respectively (+4.2%, +1.6%, +2.0% and +0.3% higher, respectively, than reflected in the table above). On a cumulative basis, the pro forma Legion Partners Commingled net return would have been +49.0% instead of the actual net return of +37.5% as shown in the table above

³ Legion Partners Co-Investments - a time and dollar weighted composite of the net returns of all of Legion's co-investments** dating back to August 22, 2011; 2%/20% fee model prior to 2014 and actual fees charged from 2014 onwards; see Notes and Disclosures

⁴ As of the start of the month

NOTES AND DISCLOSURES

Interests in any of Legion Partners' investment vehicles ("Vehicles") are not offered by this document. An offer may only be made after you have received a Private Offering Memorandum concerning a Legion Partners Vehicle. This document does not provide all information material to an investor's decision to invest in a Legion Partners Vehicle, including, but not limited to, the risk factors. This document should not be construed as investment advice and should be kept confidential. This document may not be distributed without the prior written consent of Legion Partners Asset Management, LLC. This document is for informational purposes only and does not constitute a solicitation to purchase interests in a Legion Partners Vehicle. Prospective investors may not subscribe for interests in a Legion Partners Vehicle until they are determined to have met certain criteria described in the respective Vehicle's Private Offering Memorandum. Prospective investors are advised to review the Private Offering Memorandum and consult their own advisors regarding any potential investment in a Legion Partners Vehicle.

Legion Partners Co-Investments data includes: Completed Projects: 1) Co-investment** project in CRI (8/22/11 - 4/16/12) - prior to the actual formation of Legion Partners Asset Management in April 2012, the Legion Principals identified the investment opportunity, developed the strategy and assisted the client with the engagement on this investment, but the client had discretion over the assets, allowing the client to handle the trading on their own desk and to have a say in determining the timing of both purchasing and selling the investment; 2) Co-investment** project in TKR (6/5/12 - 5/17/13) - Legion Partners identified the investment opportunity, developed the strategy and led the engagement on this investment, but the client had discretion over the assets, allowing the client to handle the trading on their own desk and to have a say in determining the timing of both purchasing and selling the investment; 3) Co-investment** project in RCMT (11/1/11 - 11/14/17) - prior to the actual formation of Legion Partners Asset Management in April 2012, the Legion Principals identified the investment opportunity, developed the strategy, led the engagement, won the proxy contest and had discretion over the assets; 4) Legion Partners Special Opportunities, L.P. IV (co-investment) which was launched 6/1/16 and exited 10/18/17; 5) Legion Partners Special Opportunities, L.P. VI (co-investment) which was launched 6/7/17 and exited 11/29/17; 6) Legion Partners Special Opportunities, L.P. III (co-investment) which was launched 4/5/16 and exited 12/31/17; 7) Legion Partners Special Opportunities, L.P. V (co-investment) which was launched 1/30/17 and exited 5/22/18; 8) Legion Partners Special Opportunities, L.P. VII which was launched 7/31/17 and exited 9/7/18; 9) Legion Partners Special Opportunities, L.P. X which was launched 6/11/18 and exited 12/21/18 and 10) Legion Partners Special Opportunities, L.P. VIII which was launched 12/13/17 and exited 1/18/19; and Ongoing Projects: 1) Legion Partners Special Opportunities, L.P. I which was launched 7/1/14 (6 co-investment projects to-date of which 5 are exited, with 6th launched 9/10/18); 2) Legion Partners Special Opportunities, L.P. II (co-investment) which was launched 12/14/15; 3) Legion Partners Special Opportunities, L.P. IX (co-investment) which was launched 4/23/18; 4) Legion Partners Special Opportunities, L.P. XI (co-investment) which was launched 2/07/19 and 5) Legion Partners Special Opportunities, L.P. XII (co-investment) which was launched 3/19/19. Legion Partners Commingled includes 1) Legion Partners, L.P. I (CalSTRS fund-of-one) which was launched 1/2/14 and 2) Legion Partners, L.P. II (commingled fund) which was launched 8/1/14. Comparison of Legion's Composite performance or the performance of any of Legion's individual Vehicles to a market index may be inappropriate because, among other things, the respective Legion Vehicle is not as diversified as a market index. Each market index assumes all dividends are reinvested back into its index. Market index returns are from the first co-investment's inception date 8/22/11. Market index information was compiled from sources that Legion Partners believes are reliable. However, Legion Partners makes no representation or guarantees about the accuracy and completeness of such information. Unlike the Composite which is actively managed, draws down and returns capital over time and may maintain a cash position, an index is unmanaged and fully invested. The comparison of the Composite's performance to these indices may be inappropriate because the Composite may be more or less volatile than these indices. Russell 2000. The Russell 2000 is a small-cap stock market index of the smallest 2,000 stocks in the Russell 3000 Index (3,000 publicly held US companies representing approximately 98% of the investable US stock market) representing about 10% of the total market capitalization of that index. The Russell 2000 Value Index includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values. HFRI ED: Activist Index - represents an index of funds that report data to HFRI who over a given market cycle would expect to have greater than 50% of their portfolio in activist positions (HFRI definitions available upon request) - note HFRI reported data tends to change for a few months before it is finalized.

Solely for its own purpose and reliance, Legion Partners engaged KMPG to perform an agreed upon procedures engagement, which addressed the gross calculation methodologies followed, and no exceptions were reported. This engagement did not constitute an audit or an attestation under the GIPS standards and no procedures were performed for periods subsequent to April, 30, 2014. Past performance is not indicative of future returns. The results for all years are based on Legion Partners' internal books and records. Unless otherwise specified, the Fund's performance results reflect the return of cash from dividends from the co-investments made prior to 2014 and the retention of dividends in the vehicles launched in 2014 or thereafter. Performance results include trading commissions. Unless otherwise specified, the Legion Partners Co-Investment's and the Legion Partners Commingled performance results represent the returns experienced by a hypothetical full fee paying investor for money invested on the launch date, 8/22/11 for Co-Investments and 1/2/14 for Commingled, and allocated pro rata over time at the start date of each of the investments that are included in the respective grouping. Returns experienced by individual investors may vary depending on various factors, including their date of investment and eligibility to receive "new issue" profits and losses. The investment environment and market conditions may be markedly different in the future and investment returns will fluctuate in value.

Legion Partners, L.P. I - only \$100,000 capital initially drawn on launch 1/2/14; first trading day on 2/6/14; expenses include management fees, accrued performance fees and all other fund operating, research and trading expenses; fund organizational legal startup expenses accrued and amortized over 60 months from February 2014; January 2014 expenses included in February figures; high expense ratio early on as noted above. Legion Partners, L.P. II - expenses include management fees (1% founders class), accrued performance fees (20% with 6% annual hurdle) and all other fund operating, research and trading expenses (operating and research costs capped at 1% annualized if needed); fund organizational/legal startup expenses accrued and amortized over 60 months from August 2014. Legion Partners Special Opportunities, L.P. I - expenses include all fund operating, research and trading expenses and accrued performance fees (no management fees); fund organizational/legal startup expenses accrued and amortized over 60 months from July 2014; high expense ratio in 2014 due to performance fees from strong relative outperformance versus hurdle. Legion Partners Special Opportunities II-X - expenses include management fees (1%), accrued performance fees (20% with 6% annual hurdle) and all other fund operating, research and trading expenses (operating and research costs capped around 1% annualized); nominal fund organizational/legal startup expenses expensed upfront.

An investment in a Legion Fund involves significant risk, including the risk of loss of all or substantially all of an investor's investment in the Fund. No assurance can be given that the investment objectives of the Fund will be achieved. An investment in the Fund is suitable only for sophisticated investors for whom such an investment does not constitute a complete investment program and who understand fully, are willing to assume, and have the financial resources necessary to withstand, the risks involved in the specialized investment program in which the Fund will engage. Each prospective investor is urged to consult its own advisers to determine the suitability of an investment in the Fund, and the relationship of such an investment to the prospective investor's overall investment program and financial and tax position.

* Upon expiration of Founder's Terms, Legion offers a sliding management fee scale based on the agreed upon lock-up as follows: 1.5% for a 2 year lock; 1.25% for a 3 year lock; 0.75% for a 5 year lock

** Note these co-investments may depart from the industry standard definition of a co-investment project