



Overview of Cimpress' Long-Term Incentive Compensation Program Edited Version Posted December 7, 2018

Note: This document describes Cimpress' long-term incentive (LTI) compensation programs and how the related costs are treated in our financial results. This is a supplemental reference document to help current and potential investors, and it covers LTI grants awarded starting in fiscal year 2017 through fiscal year 2019. Please note that in November 2018, we received shareholder approval to make some changes to this program for team members other than Robert Keane and the Board of Directors, which will take effect with grants starting in fiscal year 2020. We will provide an update to this document reflecting those new programs at the start of fiscal year 2020.

Background

Cimpress' uppermost financial objective is to maximize intrinsic value per share (IVPS), which we define as (a) the unlevered free cash flow per diluted share that, in our best judgment, will occur between now and the long-term future, appropriately discounted to reflect our cost of capital, minus (b) net debt per diluted share. We define unlevered free cash flow as free cash flow plus cash interest expense related to borrowings.

In 2016, we implemented a new long-term incentive (LTI) compensation program to support the achievement of this goal. The equity component of the program was approved by our shareholders with overwhelming support (84% of votes cast).

We designed our compensation program to encourage our executives and employees to manage to a long-term time horizon and to forgo short-term actions and metrics that conflict with our long-term goals.

Beginning with fiscal year 2017, we use the following two LTI compensation vehicles:

- Performance share units (PSUs)
- Cash retention bonus awards

How do cash retention bonuses work?

These bonus awards are focused on retention and pay the employee a fixed annual amount in equal payments over several years (typically four years) so long as Cimpress continues to employ the recipient.

How do PSUs work?

We believe this equity-based incentive aligns financial incentives for our executives and other team members with a pragmatic proxy of future changes to our intrinsic value per share. PSUs will pay Cimpress team members handsomely if long-term shareholders do well, and extremely well assuming truly excellent long-term performance levels as reflected in our share price over long periods of time. On the other hand, if Cimpress fails to efficiently deploy the capital that our shareholders entrust to us and that failure is reflected in our share price over long periods of time, the cash value of PSUs will rapidly decline or become null.

Each PSU represents a right to receive between 0 and 2.5 ordinary shares of Cimpress N.V. upon the satisfaction of both service-based vesting over time and performance conditions relating to the compound annual growth rate ("CAGR") of the three-year moving average of the daily closing share price of Cimpress' ordinary shares ("3YMA") over a 6- to 10-year period. We believe PSUs are a better vehicle than standard restricted share units or stock options because a payout cannot be achieved (and in fact, the payout could be \$0) unless we create sustained value for long-term shareholders.

For each PSU award, we calculate a baseline 3YMA as of a specified date close to the time of grant. The baseline 3YMA serves to establish both the number of units to be granted and the starting point metric for future performance measurement. Subject to the service-based vesting condition, beginning on the sixth anniversary of such baseline measurement date, and on each anniversary thereafter through year nine, we will calculate the 3YMA as of such date. On the first such measurement date that the 3YMA equals or exceeds a CAGR of 11%, the 3YMA

performance condition would be satisfied, and we would issue to the participant the number of Cimpress ordinary shares determined by multiplying the number of PSUs subject to the award by a pre-defined sliding-scale performance-based multiplier (see table 1 below). For example, at a 3YMA of 11% to 11.99%, each PSU would be multiplied by 125% to determine the number of shares. In this case, if an employee originally received a grant of 100 PSUs, the employee would receive 125 Cimpress shares. The multiplier increases to 250% at a 3YMA above 20% but is capped so that no award will pay out at a value of more than 10 times the original grant value. Since we expect the potential issuance of ordinary shares in satisfaction of PSU awards to be included in future market valuations of Cimpress shares, we believe that the calculation of the CAGR on our 3YMA has an additional benefit of paying out only *after* taking into account the dilution caused by the PSU program.

Table 1:

3YMA CAGR	Multiplier to the number of PSUs subject to the award
11 to 11.99%	125.0%
12 to 12.99%	137.5%
13 to 13.99%	150.0%
14 to 14.99%	162.5%
15 to 15.99%	175.0%
16 to 16.99%	187.5%
17 to 17.99%	200.0%
18 to 18.99%	212.5%
19 to 19.99%	225.0%
20% to 25.8925%	250.0%
Above 25.8925%	Variable Cap

If the 3YMA has not reached at least 11% on any of the sixth through ninth anniversaries of the baseline measurement date for the PSU award and thus no shares have been issued, then the threshold CAGR level for 3YMA performance at the tenth anniversary of the baseline measurement date is lowered to a 7% CAGR for participants other than Robert Keane and members of our Supervisory Board. If the 3YMA performance meets or exceeds a 7% CAGR on the tenth anniversary, recipients other than Mr. Keane and Supervisory Board members would still receive Cimpress ordinary shares, but at a significantly declining multiple, as set forth in Table 2 below. Table 2 does not apply to PSUs granted to Robert Keane or members of the Supervisory Board, and we will use Table 1 for all measurement dates for PSUs granted to Robert Keane and the Supervisory Board members.

Table 2:

3YMA CAGR	Multiplier to the number of PSUs subject to the award
11% & higher	Same as Table 1 above
10 to 10.99%	112.5%
9 to 9.99%	100.0%
8 to 8.99%	87.5%
7 to 7.99%	75.0%
Less than 7%	—%

If none of the 3YMA CAGR performance goals are achieved by the tenth anniversary of the baseline measurement date for a given PSU award, then that PSU award would be terminated and no Cimpress ordinary shares would be issued with respect to the award.

The element of choice

Since PSU awards are more risky than cash retention bonuses, we allow recipients of an LTI grant other than our CEO Robert Keane and members of our Supervisory Board to choose the levels of risk and reward they wish to undertake by choosing the percentage of their LTI compensation that will be allocated to cash retention bonuses and PSU awards.

Our CEO Robert Keane receives 100% of his LTI awards in the form of PSUs, and the number of PSUs he may receive is capped at a maximum of 75,000 PSUs per fiscal year.

Non-CEO executive officers are subject to a minimum threshold of 60% of LTI compensation allocated to PSUs. Broader-based employees eligible for long-term incentives make a similar choice, with minimum thresholds allocated to PSUs decreasing at lower levels in the organization. This approach recognizes that different employees have a broad spectrum of personal circumstances and attitudes regarding the trade off between risk and reward. Because life events can change an individual's risk appetite, employees are generally allowed to make these choices annually for the following year's LTI award but always subject to the applicable minimum threshold.

What are the accounting and financial reporting ramifications of this LTI program?

The accounting ramifications for awards with a market-based condition (i.e., our PSUs) are different than ones with only a service-based condition (i.e., restricted share units). Our PSUs must be expensed on an accelerated timeline, while the RSUs that we previously granted were expensed on a straight line over the vesting period. Here we illustrate the difference with a hypothetical \$10,000 grant:

RSU Expense Timing:

	Year 1	Year 2	Year 3	Year 4
Total expense	\$2,500	\$2,500	\$2,500	\$2,500
% of total	25%	25%	25%	25%

PSU Expense Timing:

Vesting tranche	Year 1	Year 2	Year 3	Year 4
1	\$2,500			
2	\$1,250	\$1,250		
3	\$833	\$833	\$833	
4	\$625	\$625	\$625	\$625
Total expense	\$5,208	\$2,708	\$1,458	\$625
% of total	52%	27%	15%	6%

After four years, the PSU grant is completely vested and expensed. For PSUs that meet the service vesting condition, the expense recognized over the requisite service period will not be reversed if the 3YMA performance condition is not achieved 2 to 6 years later. Of course, then no shares will be issued either.

Because there are many possible payout scenarios multiple years into the future for PSUs, including ones with significantly higher payouts than the value placed on the grant by the award recipient, the accounting fair value of a grant, determined using a Monte Carlo simulation valuation model, is likely to be higher than the initial perceived value to the recipient. In other words, the accounting cost will be more than an equivalent grant of a cash retention bonus. The dynamics of each grant will be different for a number of reasons, including the then-current share price and the 3YMA, among other inputs.

All of this has resulted in a significant increase in the accounting value of our PSU awards relative to our prior LTI program. Some of that is purely due to the accelerated expense timing, but we also have seen great adoption by team members who are electing a significant portion of their LTI to be granted in PSUs versus cash. As an aside, which will be useful to recall when we describe, below, how these LTI expenses flow through our segment reporting, a cash grant is simple to account for: the fair value of the award is the same as the grant value communicated to a recipient at the time of the award, expensed in a straight line over the vesting period.

Segment reporting treatment

Now let's look at our segment reporting and how LTI expense flows through our financial and operating results.

It is helpful to think about an LTI grant from the perspective of the team member receiving it, as well as by the operating unit that team member works for.

All else being equal, when an employee elects to receive more than the minimum threshold of his or her LTI in PSUs, the accounting value of the grant will be greater than it would be if that team member elected to receive only the minimum.

Yet, even as we provide an element of choice, we prefer that our team members opt into the PSU program because doing so aligns their compensation with our long term financial objectives. We do not want to provide an incentive for our managers to influence their team members to choose cash over PSUs in order to help that business or operating unit achieve their near-term financial targets. Therefore, we charge each of our businesses or operating units the cost of all of the LTI awards as if they were all a cash retention bonus regardless of the proportion of PSUs and cash that a team member elects for each award. We then hold centrally the expense differential between the actual accounting cost of an LTI grant and that cash value.

Let's go back to that hypothetical \$10,000 grant from earlier to illustrate this point. Business A and Business B both issue a \$10,000 LTI grant to team members within their business units. Regardless of the election those team members make regarding what percentage of the award to take in PSUs, Business A and Business B will each take \$10,000 of expense over the four-year service-based period of the grant. That would be \$2,500 of expense for each business each year for 4 years.

Now let's look at the choices made by the team members in Business A and Business B. The team member in Business A decides they want to take 100% of their grant in cash. The team member in Business B takes 100% in PSUs. For purposes of this exercise, we will make up a hypothetical accounting fair value of the PSUs that the team member in Business B is awarded: \$20,000. The excess accounting cost of this award, inclusive of the expense timing difference described above, will be recorded in Central and Corporate Costs, in the "Unallocated SBC" expense category which we have begun to report externally with our Q2 FY18 financial results. In other words, Business A and Business B are on even ground as it relates to the internal tracking of the allocated cost of their equivalent LTI grants, despite the fact that their team members made different allocation choices.

In FY 2018, we granted supplemental PSU (SPSU) awards to a small number of team members including certain executive officers, but excluding our CEO, Robert Keane. SPSUs work the same way as normal PSUs, but have a multi-year financial performance vesting condition in addition to the underlying service-based vesting and the 3YMA performance conditions. Based on the nature of this award, the full accounting cost of these is included in "Unallocated SBC" in Central and Corporate Costs. These awards are subject to mark-to-market accounting throughout the performance vesting period so long as the financial performance vesting condition is probable of being achieved. We began to expense these SPSUs in Q2 FY18, and we expect the related costs to be volatile depending on future share price fluctuations.

Impact on diluted share count

PSU grants will be included in our weighted average diluted share count only when the performance condition (i.e. the 3YMA CAGR threshold) has been achieved as of the end of the period being reported. This makes sense because if the performance condition is not achieved, no shares will ever be issued.

Cash tax considerations

Historically we have received significant cash tax benefits from option exercises and restricted share unit vesting. Given the earliest that a PSU grant can result in the issuance of shares (and therefore become taxable income for the recipient) is six years from the baseline measurement date established at grant, there will be a gap in the timing of when we expense these awards and when we receive the cash tax benefit of a related share issuance, if any.