August 20, 2019

By Email
Board of Directors
c/o Pamela Lenehan
Monotype Imaging Holdings Inc.
600 Unicorn Park Drive
Woburn, MA 01801

Dear Members of the Board of Directors (the "Board"),

Gilead Capital LP ("Gilead," "we," or "us") is a long-term shareholder of Monotype Imaging Holdings Inc. ("Monotype" or the "Company"), beneficially owning more than 1 percent of the outstanding shares. We write to make public what we believe is the Board's dereliction of its fiduciary duties in connection with the proposed sale of the Company to HGGC, and to demand that the Board take remedial action to fully inform shareholders about the deal and recent business performance ahead of the shareholder vote.

We invested in Monotype because we saw a world-class font licensing business making near-term investments to monetize its intellectual property within a growing base of users and use cases and believed those investments would likely yield a long-lived, recurring, and highly profitable revenue stream once complete. With that investment program less than half-complete and its benefits obscured by management's self-inflicted mistakes and lack of strategic clarity, the Board now asks shareholders to sell the Company at a price we believe is significantly below Monotype's intrinsic value.

Throughout our ownership, we have constructively raised our concerns about Monotype's governance with the Board and management. When rumors of a potential sale emerged, we spoke with the Board on June 28, 2019, to emphasize the need for a rigorous sale process run by an independent special committee and a reserve price that reflected the long-term value of the business, not just a standard premium to the depressed stock price at the time.

We are taking our views public because it appears the Board has ignored our concerns. The Board claims that the proposed sale offers "tremendous value" and a "significant premium," yet the Company decided not to hold a conference call to explain why and answer its shareholders' questions about the deal and the most recent quarterly earnings, which materially exceeded both market expectations and the upper end of management's own guidance.[1] Instead, both the Board and management have refused our requests to learn more about the sale process and the business performance.

What little we have learned since the deal was announced gives us no confidence that the Board has fulfilled its duties to shareholders and secured a fair price for our Company. Indeed, it appears the Board has agreed to sell Monotype for an inadequate price through an inadequate process for inadequate reasons. To us, this

[1] Q2 2019 Non-GAAP EPS was $0.38 compared to guidance of $0.23 - $0.31 and consensus estimates of $0.28.

is a classic case of a Board asleep at the wheel while management, having tanked the stock price, seeks to capture the Company's long-term intrinsic value for themselves and a preferred buyer by striking a sweetheart deal in a seemingly flawed sale process. We currently intend to vote against this sale.

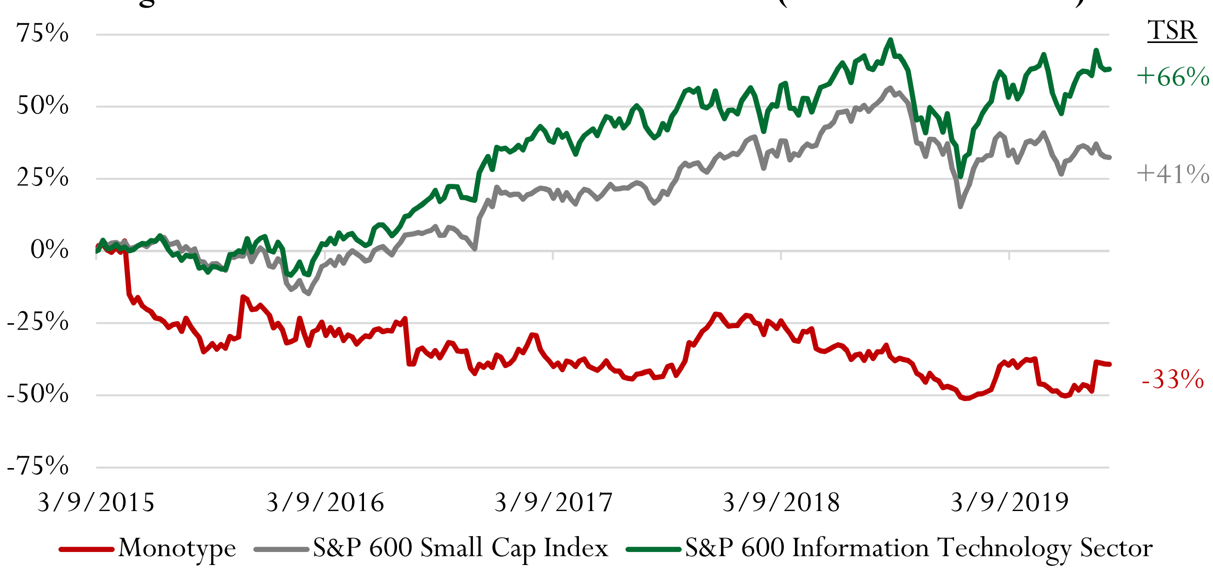
An Inadequate Price

In the press release announcing the deal, Monotype's Chair Pamela Lenehan said, "[T]his agreement with HGGC … enables our shareholders to realize immediate value at a significant premium for their shares. This transaction is clear recognition of the tremendous value and reputation that Monotype has built." We strongly disagree.

We are shocked that the sale price – $19.85 – appears to be the exact same price at which the Board was buying back shares in the second quarter! We struggle to understand how the Board can justify selling full control of our Company at the same price at which it was willing to buy a minority stake – in the same quarter. If selling full control at $19.85 reflects "tremendous value," then what does buying a minority stake at $19.85[2] reflect? The apparent absurdity of the Board's actions gives us little confidence that it recognizes the intrinsic value of the Company.

The "significant premium" that the Chair touts comes on a stock price that is near a six-year low, battered by the shares' consistent underperformance during CEO Scott Landers' tenure (Fig. 1). Furthermore, what the Board calls "significant" is actually a bottom-quartile premium relative to takeover premiums in the North American technology sector in 2019.[3]

Fig. 1: Share Price and Total Shareholder Returns (03/09/15 to 08/19/19)



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[2] Per Note 12 of the Company's 10-Q filed July 26, 2019.

[3] Compare deal premium of 22.8 percent with average premium of 34.8 percent and median premium of 33.8 percent. Bloomberg mergers & acquisitions database.

We believe the deal price grossly undervalues Monotype, offering shareholders a highly discounted multiple on a temporarily depressed earnings base. Even on the low end of management's 2019 earnings per share (EPS) guidance of $1.29,[4] shareholders would receive only 15.4x earnings in the proposed sale. This is a large and unwarranted discount to both the S&P 600, which trades at 22x current earnings, and the company's self-selected proxy peer group, which averages 35x (median 21x). On a revenue multiple, the deal looks even worse, coming in at 3.3x versus 5.2x for recent private equity precedent transactions.[5]

Moreover, based on our analysis, current earnings are well below a reasonable normalized level due to sizable upfront investments in the Company's enterprise font licensing business. Near-term increases in sales and marketing expenses are driving the conversion of the Company's large and growing installed base of enterprise font users into paying customers. Once monetized, often via multi-year contracts, these enterprise customers are extremely sticky and profitable. Most importantly, as penetration increases and initial enterprise conversion efforts subside in the next 3-5 years, the current elevated sales and marketing expenses are expected to fall away and reveal EPS of approximately $3.00 (Table 1). Based on this analysis, we believe that Monotype is worth approximately $30 per share on a standalone basis.[6]

Table 1: Strong Enterprise Growth and Significant Operating Leverage[7]

	2018	2023e	CAGR
Creative Professional - Enterprise	84	135	10%
Creative Professional - Other	75	87	3%
OEM	88	88	0%
Total Revenue	247	310	5%
Gross Margin	*83%*	*84%*	---
Gross Profit[8]	205	260	5%
Operating Expenses	132	132	0%
EBITDA	**73**	**129**	**12%**
EPS[9]	**$1.17**	**$3.00**	**21%**

The most recent quarterly results indicate that value may be even higher than our analysis above suggests. Second-quarter results were meaningfully ahead of consensus estimates on sales, EBITDA, and earnings per diluted share. The Company's decision to cancel its earnings call and refuse to answer questions about the business raises serious concerns and leaves shareholders in the dark about the drivers of the strong performance. By avoiding a public discussion of the results, the Board and management are depriving shareholders of basic information needed to assess the value of the Company.

[4] Per the Q1 2019 earnings press release filed April 26, 2019.
[5] Per the June 20, 2019 research report of J.P. Morgan.
[6] Assumes a 15x multiple on $3.00 of EPS, discounted for four years at 10 percent.
[7] Gilead Capital estimates, including 2018 Creative Professional – Enterprise Sales.
[8] Excludes amortization of acquired technology.
[9] Assumes the Company replaces its quarterly dividend with a one-time $200 million stock repurchase at $20 per share.

In our view, the Company's discounted market valuation reflects a management team that has made destructive capital allocation decisions – most notably the acquisition of Olapic Inc. ("Olapic") – and flitted from one short-term issue to the next (e.g. changing printer royalties from variable to fixed, the timing of enterprise deals) without clearly articulating the long-term strategy and its potential payoff. Yet faced with stock price declines wrought by management, the Board has decided to give away the Company to private equity at prices that, we believe, promise significant excess returns rather than make changes to unlock the Company's potential for shareholders.[10]

An Inadequate Process

Indeed, the Board has given us a deal with substantial hallmarks of a sweetheart arrangement: a low premium on a bottom-tick pre-deal price; strong quarterly results but no earnings call; a hasty and seemingly exclusive process; a mere one-month (August, no less!) go-shop provision that seems tailored to avoid court scrutiny; an oddly-timed departure of the CFO; and a refusal to answer even the most basic questions from shareholders about the results and the sale process.

The lack of transparency about the sale process and recent business performance seemingly indicates an abdication by the Board of its fiduciary duties, as no information has been provided about whether the Board made a reasonable effort to obtain the highest value for the Company. Withholding crucial knowledge from shareholders prejudices their ability to consider the sale on a fully-informed basis and potentially vote it down.

Nothing about this sale process and announcement appears structured to maximize shareholder value. And unfortunately for us and our fellow shareholders, by the time we get the proxy statement and learn more about the background to this transaction, the go-shop will have expired and the termination fees will increase, making it even harder to realize fair value for our Company.

Inadequate Reasons

If the price isn't right and the process was a farce, why exactly does the Board and management think shareholders should approve this deal and hand over control of the business to private equity? What will Monotype be doing as a private company that it can't as a public company?

In the press release from the Company, the CEO said, "As a private company, [Monotype] will have the financial support and added flexibility to invest in ways that deliver more value and improve the overall experience for our customers."

[10] We calculate the management and private equity buyers' IRRs for this deal to be more than 33 percent in a base case and up to 50 percent in scenarios where the OEM segment returns to modest growth. In a June 21, 2019 report, the research analyst at J.P. Morgan, whose corporate finance team is the exclusive advisor to the Company on this transaction, calculated a 28.3 percent IRR despite using an even higher assumed deal price of $20.62.

This justification rings hollow. When Mr. Landers was chosen to be the next CEO in March 2015, he inherited a highly cash-generative Company, a balance sheet with $90 million of cash and no debt, and a pliable Board that gladly greenlit the highly questionable $149 million acquisition of Olapic, which he himself called "a bet with shareholder money."[11] Even today, despite management's mistakes, Monotype has a clean balance sheet and significant strategic optionality. All of the options available to private equity – divestitures, a recap and buyback, cost-cutting, etc. – are available to the Company as a public entity. If the CEO believes that a leveraged buyout will give Monotype "added flexibility" and more "financial support" than past or present, both he and the Company's employees are in for a rude awakening.

We think that Mr. Landers' belief that the Company lacks "flexibility" stems from his own loss of credibility with shareholders, which constrains his actions as a manager but not the Company's. From where we sit, the CEO has lost the market's trust by hazarding shareholders' capital and creating a strategic muddle that has obscured the value of the Company's core business (and, cynically, brought about this opportunity for informed insiders to take advantage of fatigued shareholders). Since the day the board tapped Mr. Landers as its next CEO until the announcement of this sale, Monotype lost more than $580 million in value.[12]

The deal he has engineered restores only a quarter of that to shareholders. Resolving Mr. Landers' loss of credibility by taking the company private – especially at this price – is a first-rate principal-agent problem. A stronger Board would replace the agent, not the principals.

<u>A Better Way Forward</u>

Although the Board has set this disappointing chain of events in motion, it's not too late to address it. If the long-term prospects for the Company have changed so drastically in the brief window between the Board's decisions to buy shares at $19.85 and to sell the entire company at $19.85 that the Board still believes this is a good deal for shareholders, hold a call to explain clearly to the owners of this Company why that is. Articulate why an earnings beat shouldn't raise our expectations of value.

And if the Board is unwilling to hold itself accountable to the shareholders it serves, it should print the proxy statement in Comic Sans. At least then the world will see this process for the mockery that it is.

Sincerely,

Jeffrey A. Strong
Managing Partner

[11] Monotype's earnings conference call for the third quarter of FY2016.
[12] As of March 9, 2015, Monotype's market capitalization was $1,302 million. As of July 25, 2019, it was $667 million. Since March 31, 2015 the company has repurchased approximately $50 million in stock since at an average price of $20.75 per share.