All About Customer Relationships

- Focus on a need based and repeat oriented segment – The most fundamental and basic of baby staples – diapers, wipes and baby formula.

- Offer the best value proposition – the fastest free shipping, the largest selection, lowest consumable prices, and overall the-top customer service.

- Up-sell / Cross-sell higher margin goods and services.
Customer Value Proposition

- Fastest Free Shipping
  - Late 6:00pm Local cut-off
  - 74% get Overnight Delivery
  - 99% receive within 2 Days

- Over-the-Top Customer Service
  - Almost No Drop Shipping
  - No Questions Asked Returns Policy
  - Emails Answered within 20 minutes, 24x7
  - High In-Stock Rates in Closest Warehouse

- Widest Selection

- Very Competitive Pricing
A Focus on Logistics, Technology and Efficiency

- 3 Company Managed Warehouses Strategically Positioned to Maximize Ship Speed and Minimize Cost
- Robotic Picking System
- Multi-Carrier Shipping Network

- Custom Built Supply Chain, Inventory Management and Order Management Systems
- Proprietary Algorithms e.g. Boxem
- Technology Team based in China – 70% cost savings
Quarterly Revenue Trends

**Annual Revenue**
- 2008 - $89 mil
- 2009 - $182 mil
- 2010 - $300 mil
Diapers.com: Traffic & Conversion Trends
Diapers.com: New Buyer Trends
Purchase Frequency

Purchase Cycle (days)

<table>
<thead>
<tr>
<th>Cycle</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-7 (every wk)</td>
<td>10%</td>
</tr>
<tr>
<td>8-15 (every 1-2 wks)</td>
<td>14%</td>
</tr>
<tr>
<td>16-30 (every 2-4 wks)</td>
<td>32%</td>
</tr>
<tr>
<td>31-45 (every 1.5 mos)</td>
<td>18%</td>
</tr>
<tr>
<td>46-60 (every 1.5-2 mos)</td>
<td>8%</td>
</tr>
<tr>
<td>60-90 (every 2-3 mos)</td>
<td>8%</td>
</tr>
<tr>
<td>90+ (every 3 mos+)</td>
<td>10%</td>
</tr>
</tbody>
</table>

17 Orders @ $98 AOS
Quarterly Gross Profit Trends

Annual Gross Margin
2008 – 15.1%
2009 – 16.8%
2010 – 17.3%
Current – 18.8%
Quarterly Contributed Profit Trends

**Annual Contributed Profit**
- **2008**: $8.0 mil
- **2009**: $19.2 mil
- **2010**: $29.5 mil
Quidsi Economic Model

Improve LTV / COA Relationship

Marketing Investment
(Where COA < LTV)

More Customers

Lower Costs %

Higher Return on WC

Improved Customer Value Prop

Lower Prices
And/or
Better Service
More Skus

Improve LTV / COA Relationship
# Lifetime Value of a Customer

## Repeat Diaper Buyer LTV

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Avg. # Orders</td>
<td>17</td>
</tr>
<tr>
<td>Avg. Order Size</td>
<td>$98</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$1,666</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>19.20%</td>
</tr>
<tr>
<td>Variable Fulfillment / CS</td>
<td>5.70%</td>
</tr>
<tr>
<td>Marginal Fixed Expenses</td>
<td>1.70%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>11.8%</td>
</tr>
</tbody>
</table>

**Free Cashflow**

<p>| | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>EBITDA</td>
<td>$197</td>
</tr>
<tr>
<td>Working Cap</td>
<td>$21</td>
</tr>
<tr>
<td>CapEx</td>
<td>($43)</td>
</tr>
<tr>
<td><strong>Cashflow</strong></td>
<td>$219</td>
</tr>
</tbody>
</table>

**DCF @ 15%**

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>$160</td>
</tr>
</tbody>
</table>
Soap is already a $40 million annual business

Soap weekly sales, annualized ($MM)

- Week 0: $9.9
- Week 1: $12.2
- Week 2: $15.7
- Week 3: $18.6
- Week 4: $25.3
- Week 5: $26.2
- Week 6: $24.6
- Week 7: $21.6
- Week 8: $28.2
- Week 9: $39.6

Note: Week 0 is based on partial week of launch (July 15 through 17)
The Vision
Quidsi Strategy

- Focus on Building Best-in-Class Proprietary Systems and Logistics Capabilities so that we can Distribute Product at the Lowest Cost

- Get to Scale Fast
  - Market Aggressively
  - Focus on US E-Commerce

- Focus on the Mom Demographic

- Build Specialized Brands that Serve Specific Shopping Occasions which Share the Same Back-End Systems/Logistics

- Offer Unmatched Service and Delight the Customer in Amazing Ways (Inspire Passion)

- Selection, Selection, Selection
Quarterly EBITDA Trends

Millions $

Annual EBITDA
2008 - ($2.8) mil
2009 - ($2.8) mil
2010 - ($19.2) mil
($7.4 mil Diapers.com)
Quarterly Free Cash Flow Trends

Annual Cash Flow
- 2008 - ($7.5) mil
- 2009 - ($25.5) mil
- 2010 - ($69.8) mil
10-Year Free Cashflow Projections

Revenue

EBITDA

(-) Interest

(-) Taxes

(-) Chg. WC

(-) Capex

% Revenue

Free Cash Flow

% Revenue

Conversion Ratio
8 Key Near-Term Strategic Initiatives

1) Get the Right Long Term Partner—Invest in Lower Prices.
2) Selection, Selection, Selection—Add Products to Existing Sites and Launch Yoyo and Pets in 2011.
3) Improve Perfect Fulfillment Order Rate to 98%.
4) Keep Getting Faster—Expand Overnight & Same Day Footprint.
5) Continue to Get Smarter & Better with LTV Marketing.
6) Launch Mobile and iPad Initiatives.
8) Build Further Capabilities for Growth.
Near-Term Opportunities

- Faster Growth with Better Pricing
- Add Products & Categories Faster
- Increased LTV & Better Profitability with more Focus
- Mobile
Near-Term Risks

- Increased Competition and/or Predatory Pricing
- Difficult to Maintain Culture with Accelerated Growth and/or Acquisition
A Shared Vision

Shopping Occasion
- Baby
- Health & Beauty
- Toys
- Birthday
- Pets
- Wellness
- Home
- Paper
- Sporting Goods
- Jewelry
- Clothes & Shoes
- Electronics

One-Stop Shop
- AMAZON
- AMAZON PRIME

Demo
- Price Everyone
- Service

Price Service
- MOM
- Future Quidsi
- Diapers.com
- Soap.com
- Yoyo.com
- Tiny Prints

Teenagers College Single Elderly
How We Can Work Together

- Fulfillment
  - Better Pricing on Boxes, Dunnage, Shipping Rates, etc.
  - We can Potentially Fulfill Consumables for Amazon (infrastructure built for consumables)
  - Leverage Boxem

- Supply Chain
  - Leverage Purchasing Power
  - Leverage Extended Terms
  - Lower Inbound Freight Costs
  - Increase Inventory Turns

Premise: Quidsi would like to retain its independence and is fairly self-sufficient. Amazon has limited bandwidth. Keep brands separate but leverage obvious back-end synergies.
How We Can Work Together (cont.)

- Merchandising
  - Amazon's 2 million SKU's. Valuable Data & Much Faster Set-up.
  - We have access to Premium Brands that we can email Amazon customers.

- Other Areas
  - Leverage Amazon Web Services
  - Culture & Geography (Can we learn from each other and offer our employees more opportunity?)
  - Access to Private Label Credit Card
  - Private Label Consumable Products Become More Accessible with Scale