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SUPERIOR COURT OF THE STATE OF CALIFORNIA

COUNTY OF SAN MATEO

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| In re SLACK TECHNOLOGIES, INC. SHAREHOLDER LITIGATION | Lead Case No. 19CIV05370 (Consolidated with Nos. 19CIV05411; 19CIV05674; 19CIV05784, 19CIV05840, 19CIV05681 and 20-CIV-02589) |
| This Document Relates To: ALL ACTIONS. | CLASS ACTION |
| | FIRST AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE SECURITIES ACT OF 1933 |
| | DEMAND FOR JURY TRIAL |

Plaintiffs Nicole Farina, Brian Knapp, Andrew R. Norell, Laurent Chardonnet, Martin Ren, Imran Naushahi, Vinodkumar Kazhipurath, and Mason Chu (collectively, "Plaintiffs"), individually and on behalf of all others similarly situated, by Plaintiffs' undersigned attorneys, allege the following based upon personal knowledge, as to Plaintiffs and Plaintiffs' own acts, and upon information and belief, as to all other matters, based on the investigation conducted by and through Plaintiffs' attorneys, which included, among other things, a review of U.S. Securities and Exchange Commission ("SEC") filings, analyst and media reports, other commentary analysis concerning Slack Technologies, Inc. ("Slack" or the "Company") and consultations with persons knowledgeable about Slack's business. Plaintiffs' investigation into the matters alleged herein is continuing and many relevant facts are known only to, or are exclusively within the custody and control of, the Defendants (defined below). Plaintiffs believe that substantial additional evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for formal discovery.

## NATURE AND SUMMARY OF THE ACTION

1. This is a securities class action on behalf of all those who purchased or otherwise acquired Slack common stock pursuant or traceable to the Company's Registration Statement and the incorporated Prospectus (collectively, the "Offering Documents") that offered over 283 million shares of Class A common stock issued in connection with Slack's June 2019 direct public offering (the "Offering"). Plaintiffs bring this action pursuant to §§11, 12 and 15 of the Securities Act of 1933 (the "1933 Act"). The Offering Documents contained untrue statements of material fact and omitted to state material facts required to be stated therein or necessary to make statements therein not misleading.

2. Slack is a San Francisco-based technology company that offers a cloud-based collaboration and productivity platform that brings people, applications, and data together into a single, centralized hub where work can be executed — "often . . . replac[ing] the use of email inside the organization." Slack utilizes "team-based" channels to maintain a record of conversations, data, documents, and application workflows relevant to a project or a specific topic, while also integrating with thousands of third-party applications to ensure critical business information flows, is acted upon

and transformed, and is then quickly routed to its desired destination. Slack works on a subscription freemium basis, providing users a basic, free version of its service (for an unlimited period of time) or the option to pay for other plans (*e.g.*, Standard, Plus or Enterprise Grid).

3. On June 20, 2019, the Company completed a direct listing of its Class A stock on the New York Stock Exchange ("NYSE"), offering for sale to the public up to 118,429,640 registered shares and 164,932,646 unregistered shares purportedly exempt from registration.

4. The public began purchasing Slack stock on the NYSE under the ticker symbol "WORK" on June 20, 2019, at an opening price per share of $38.50 (the "Offering Price").

5. On September 4, 2019, Slack issued a press release announcing its second quarter fiscal 2020 ("2Q2020") results and admitted that "[r]evenue was negatively impacted by $8.2 million of credits related to service level disruption in the quarter."

6. The value of Slack shares dropped precipitously. News outlets such as *Forbes* reacted with headlines such as: "Slack Stock Has Plunged 33%. Here's What Happened."[1] The Offering opening price of $38.50 fell 33% to $26. As of this filing, Slack shares are trading in the range of $21 per share.

7. Unbeknownst to shareholders, Slack had omitted in its Offering Documents material facts concerning the Company's excessively punitive contracts with existing customers that were forcing the Company to suffer much higher revenue losses than anticipated. The Company had agreed to award customers credits in the event of even a *de minimis* disruption in its service – that is, service availability that fell below a 99.99% "uptime" threshold. Slack's internally-known service interruptions as of the Offering were requiring the Company to credit its customers millions of dollars as a result of Slacks "up-time" commitments. Indeed, Slack's infrastructure could not support the 99.99% service level requirement in light of expanding customer needs (including large enterprise customers) in advance of the Offering, and multiple significant outages occurred in the months

[1] Sergei Kiebnikov, "Slack Stock Has Plunged 33%. Here's What Happened.," *Forbes*, Sept. 11, 2019, https://www.forbes.com/sites/sergeiklebnikov/2019/09/11/slack-stock-has-plunged-33-heres-what-happened/#6b3e0b18550e (last visited Dec. 19, 2019).

leading up to the Offering. Moreover, Slack was even awarding credits in significant amounts to customers unaffected by service interruptions.

8. Days after the Offering, Slack's platform had three notable service disruptions, resulting in uptime performance of only 99.9%. This triggered the penalties in customers' contracts for falling below the 99.99% service level requirement. The Company was forced to award millions of dollars' worth of credits, which deeply offset revenue for that quarter.

9. Only after the abysmally high losses were revealed on September 4, 2019, did Chief Executive Officer ("CEO") Defendant Stewart Butterfield admit that the contract provisions were "***outrageously customer-centric***." He also admitted that the 99.99% "uptime" requirement is an extraordinary and unusual standard in the industry. He stated that Slack competitors such as Salesforce.com, Inc. ("Salesforce") or Microsoft Corporation ("Microsoft") would not have had to pay credits because they have committed to the lower 99.9% ("three nines") industry standard. He also admitted that the Company's policy is to ***proactively award credits to customers, even those unaffected by service outages***. Thus, many customers who experienced no service outage were still awarded credits.

10. Chief Financial Officer ("CFO") Defendant Allen Shim further admitted that the Company had committed to an "exceptionally ***generous credit payout multiplier***" in customer contracts, which compounded the financial impact of the service disruptions occurring in June and July 2019.

11. These "outrageously consumer-centric" policies and contract provisions resulted in a deduction of over $8 million from revenue in one period alone.

12. The Company's historic inability to maintain the promised 99.99% service-level availability demonstrates that a consumer credit payout was inevitable and that the consumer centric contracts and policies have a material impact on the Company's financial success. Slack has historically failed to consistently perform at 99.99%. In 2018, the Company performed below the 99.99% standard in 7 months out of 12.

13. Furthermore, the Offering Documents omitted the significant and intensifying competition Slack was experiencing from Microsoft Teams (or "Teams") and the inability of the Company to penetrate the lucrative "enterprise" market in light of Slack's problem scaling its platform to serve enterprise clients without service disruptions.

14. Slack has not been able to maintain the 99.99% threshold due to its attempt to reach enterprise customers. As discovered in plaintiffs' extensive investigation, Slack lacked the infrastructure to support a 99.99% uptime guarantee and was particularly vulnerable because of frequent changes to its codebase, indicating that there could be dozens of new code updates daily. As a result, service outages, including outages on a global scale, occurred with far greater frequency than the near-perfect ("four nines") reliability guaranteed by Slack.

15. In sum, the Offering Documents were false and misleading and omitted to state material facts both required by governing regulations and necessary to make the statements made therein not misleading. More specifically, contrary to the Offering Documents' hyping of the Company's "go-to-market" enterprise business growth strategy and product scalability:

(a) the Company was experiencing significant and intensifying competition from Microsoft Teams due in part to Microsoft's bundled business productivity suite;

(b) Slack's attempt to attract and serve enterprise clients was creating vulnerabilities in its platform, including service disruptions, and Slack was having significant technical difficulties preventing adequate scaling of its platform;

(c) Slack could not support its non-industry standard **uptime guarantee of 99.99%** and had failed to satisfy this threshold in 7 months out of 12 in 2018;

(d) Slack's failure to satisfy its uptime guarantee results in the award of credits to customers;

(e) the credit award is subject to an "'exceptionally generous credit payout multiplier in [its] contracts,'" requiring Slack, in the event of an interruption in service, to compensate customers **up to 100 times the value of the lost service**;

(f) even customers unaffected by service disruptions are granted credits; and

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