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# PROJECT HERMES

Executive Summary

January 18, 2017

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# Opportunity Summary

Project Hermes is a b2b technology company engaged in email service provision with roughly \$0.75mm of EBITDA (adj). Hermes intends to solicit preliminary, non-binding indications of interest from selected parties interested in recapitalizing the Company in a control transaction. A meaningful rollover is acceptable. The owner is open to staying with the company up to two years. The Company will evaluate each proposal and invite a limited number of parties to proceed with further due diligence, including access to the Company's facilities and discussions with the Company's management team.

## Change of Control

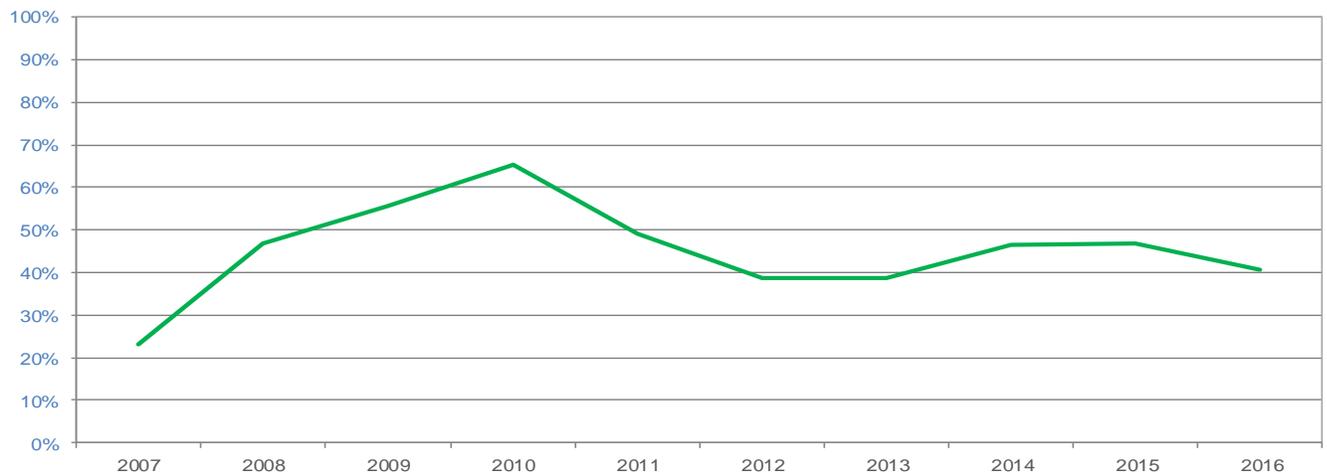
The current owner of Hermes has elected to pursue a change of control transaction because he is a technically oriented inventor rather than a marketing or salesman. The owner reports that he enjoys coming up with a concept, building the foundation, building the service itself, bringing initial customers on board, and then optimizing operations. The company has reached the point where it is technical optimized. In the owner's view, he has achieved his goal, and believes the company would be more valuable if transitioned to someone that has a greater sales orientation. Sales is the company's weakest function and is currently outsourced

## Key Company Attributes

Hermes is a unique and valuable company for the following reasons:

- + High EBITDA margins of 40.6<sup>1</sup> compared to Constant Contact margin of 13.2%<sup>2</sup>
- + 8.8% CAGR of sales 2007-2016
- + High reoccurring income
- + Highly scalable platform
- + De minimis working capital required of 1.4% of sales and CAPEX less than 5% of sales
- + Low cost provider of full service email in a highly fragmented market
- + Superb technology with material opportunity for top line growth
- Concentration of Sales with two customers of 79% causes year-to-year revenue fluctuations
- Sole salesman is 1099 and sales discipline

**EBITDA Margins (adj.) 2007-2015**



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<sup>1</sup> Adjusted only for owner compensation above or below benchmark, Chief Executive Magazine.

<sup>2</sup> CTCT 2014 10-

<sup>4</sup>[https://www.sec.gov/Archives/edgar/data/1405277/000119312515062867/d841846d10k.htm#toc841846\\_3](https://www.sec.gov/Archives/edgar/data/1405277/000119312515062867/d841846d10k.htm#toc841846_3)

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# Business Overview

## Investment Theses

We believe there are three primary buyer segments that would find the Company an attractive acquisition:

1. strategic investors engaged in technology and b2b services
2. PEGs with portfolio companies focused on technology and b2b services with cross-sell capabilities, and
3. search funds with capabilities in b2b sales and marketing

## Business

Hermes is an email (outbound marketing) service provider (Email Service Provider, or ESP), including related analytics. Hermes supplies Small to Mid-Sized Businesses (SMBs) email marketing, text/SMS messaging, auto-response, email series delivery, and analytics services. Included in those services are real time data/list/address validation, content management, with all features and functions accessible via the web and through an API. Hermes also offers custom script development for any feature to help clients integrate almost any diverse in-house applications with the Hermes service. The Hermes service is fully automated to the point the system can be instructed to fetch the client message to deliver, automatically load the message, launch a test mailing, and finally launch a live mailing to the client list without the client ever interacting with their account.

Hermes is a preferred provider for companies that want to experience a higher response rate (more people reading/responding to a message) at a significantly lower cost, while enjoying all of the benefits of an "all inclusive" service that the largest ESP's offer. Benefits include no-cost dedicated delivery servers/IP addresses, live customer support, real-time whitelist monitoring and ISP delivery assistance.

## Industry

The email service provider industry is highly fragmented<sup>3</sup>. All industry participants are private. The best data comes from the last 10-K for Constant Contact, which was \$331mm in revenues at 12/31/14, with an average revenue per customer per month of \$44.94 for its 635,000 customers. There are 28 million small businesses in the U.S. suggesting a 2.2% share. The largest industry participants focus on small companies, as stated by Constant Contact: "Small organizations typically have small marketing budgets. They generally cannot afford to hire in-house staff or engage an outside marketing agency to develop, execute and evaluate an email marketing campaign."

Of the 447 known industry participants, only a few have name recognition (e.g. Constant Contact, MailChimp, AWeber) but market share is believed to be small relative to total market size. The largest players have a standard product with little or no ability to customize. As a result they appeal to small companies and non-profits. Constant Contact's revenue per month per customer was only \$44.94 in 2014. This provides a market opportunity to mid-sized market participants to attract customers with higher service needs and higher income per customer..

Email is the highest ROI marketing tool, with an estimated \$38 of return for each dollar invested. Email is increasingly integrated into social media. Segmentation and personalization is increasing in sophistication and effectiveness.

## Financial Attributes

Hermes' unique attributes are as follows:

- High EBITDA margins of 40%<sup>4</sup> compared to Constant Contact margin of 13.2%<sup>5</sup>

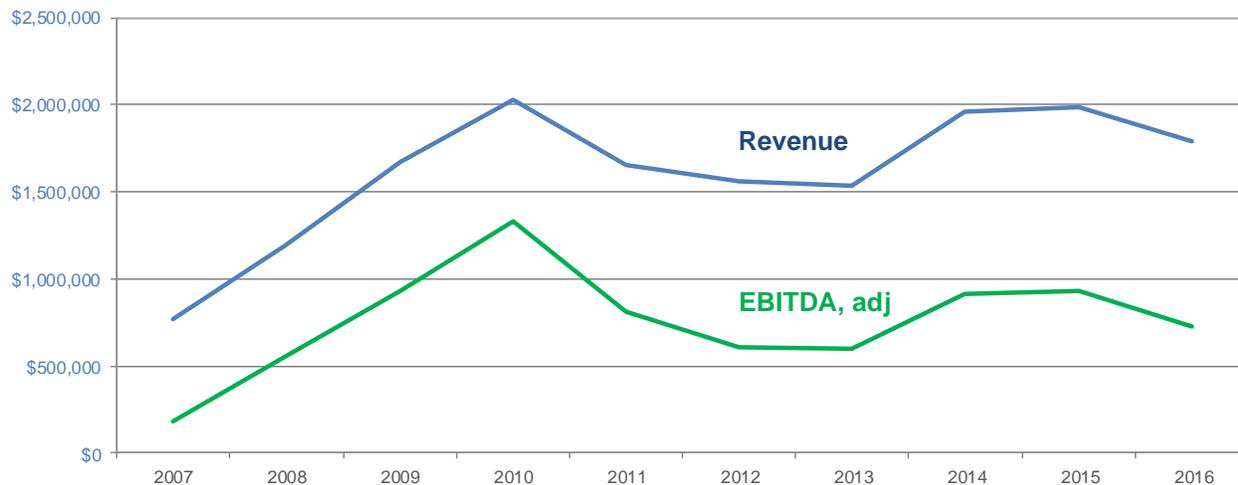
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<sup>3</sup>"The Two Scenarios That Can Impact Constant Contact's Valuation In Opposite Ways", Trefis Team, Forbes Magazine, July 1, 2015 <http://www.forbes.com/sites/greatspeculations/2015/07/01/the-two-scenarios-that-can-impact-constant-contacts-valuation-in-opposite-ways/#47ab71db3d71>

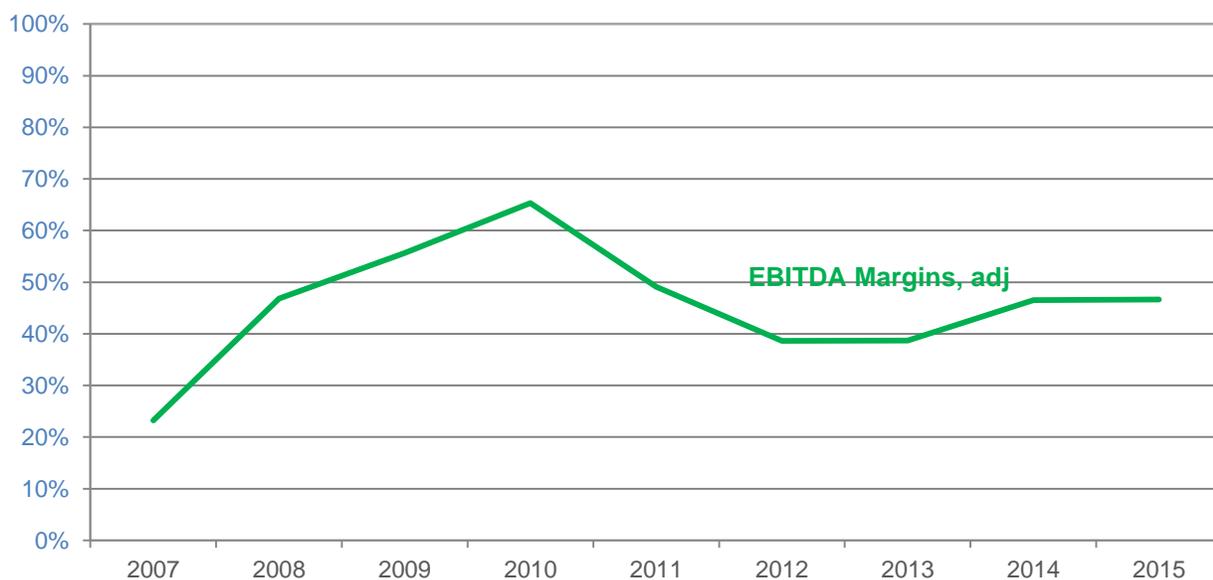
<sup>4</sup> Adjusted only for owner compensation above or below benchmark, Chief Executive Magazine.

- 8.8 % CAGR of sales 2007-2015
- High reoccurring income
- Highly scalable platform
- De minimis working capital required of 1.4% of sales and CAPEX less than 5% of sales

**Revenue and EBITDA (adj.)**  
2004-2015



**EBITDA Margins (adj.)**  
2007-2015



<sup>5</sup> CTCT 2014 10-  
4[https://www.sec.gov/Archives/edgar/data/1405277/000119312515062867/d841846d10k.htm#toc841846\\_3](https://www.sec.gov/Archives/edgar/data/1405277/000119312515062867/d841846d10k.htm#toc841846_3)

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## Structural Capital

Hermes has developed highly refined and optimized technologies. Clients can easily log into their account, upload or create the message they want to send, select the mailing list to use, and launch the campaign all in a matter of minutes. The automation used by Hermes turns very difficult list segmentation and suppression functions into very easy and rapid tasks performed by the system instead of by the client. Reporting features are robust and adjustable on every level to give the client real-time reporting on their campaign performance. The most commonly used reports detail how many messages were sent, how many messages bounced (and more importantly, why), who opened the message, who took action on the message (clicked on a link), who complained, unsubscribed, or forwarded the message, and how long the message took to deliver.

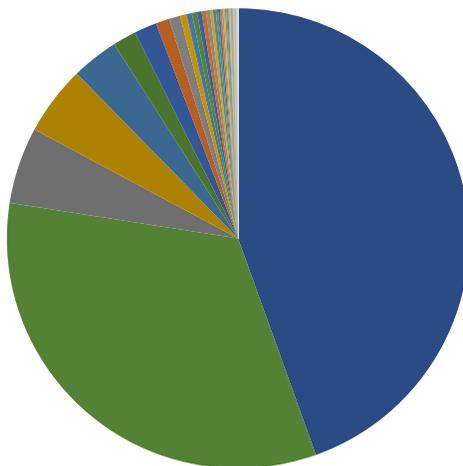
Deliverability is one of the top specialties Hermes offers. The ESP industry is plagued by poor inbox and overall poor deliveries due to bad reputations of most ESPs. The ESP community has many bad players because they allow any company to sign-up and send mail from their service. The end result is massive spamming, blacklisting, and high complaint rates. Hermes takes care to examine companies prior to opening their account which, to date, provided Hermes with a 100% spam free reputation. In addition, Hermes gives every account a minimum of two (2) dedicated delivery servers and IP's to send mail from which keeps each client contained in case a mailing generated more than normal complaints or bounces. Hermes provides 24/7 automated deliverability monitoring to fix problems clients may cause (every sender gets blocked from time to time) which allows Hermes to achieve some of the highest inbox arrival rates in the industry.

## Human Capital

Hermes employs 4 W2 and 3 1099 employees

## Relational Capital – Customers

Top Customers - 2016



## Market

The Company's customers are predominantly in the financial industry, which presents a major opportunity due to the potential for further growth.

## Geographic Market

Hermes' competes nationally

# Financial Summary

Hermes produces its financial statements on a cash basis.

## Recent Operating Performance

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Operating Revenue:	772,566	1,191,948	1,671,679	2,033,893	1,655,709	1,560,705	1,538,773	1,959,961	1,986,115	1,793,438
EBITDA (adj)	179,575	558,084	929,980	1,328,478	813,421	602,636	595,813	911,246	926,408	728,586

## 2007-15 Common Sized Income Statement Metrics

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2007-16
Revenue Growth, % (Average: CAGR)		54.3%	40.2%	21.7%	-18.6%	-5.7%	-1.4%	27.4%	1.3%	-9.7%	8.8%
Operating Expenses	53.9%	38.3%	33.7%	25.9%	39.9%	49.9%	49.0%	44.3%	44.1%	48.9%	42.8%
Owner Comp, % of Sales	42.8%	64.6%	2.6%	9.0%	8.6%	1.3%	1.2%	2.8%	9.8%	7.0%	15.0%
EBITDA Margin, % of Sales	3.3%	-2.9%	63.7%	65.0%	51.5%	48.9%	49.8%	52.9%	46.1%	44.0%	42.2%
<b>Adj. EBITDA Margin, % of Sales</b>	<b>23.2%</b>	<b>46.8%</b>	<b>55.6%</b>	<b>65.3%</b>	<b>49.1%</b>	<b>38.6%</b>	<b>38.7%</b>	<b>46.5%</b>	<b>46.6%</b>	<b>40.6%</b>	45.1%

## Company Forecast Assumptions and Outcome

**Revenue Growth:** Long term (2007-2016) CARG of 8.79%

**Operating performance:** at 2016 levels using common-size income statement

**Balance sheet:** at 2016 levels using common-sized balance sheet as percent of revenues

**Capitalization:** Assumes debt at closing = \$2.0x TTM EBITDA adj.)

**Interest Rate on Debt:** 9.0%

**Discount Rate:** 14.0 %

**Cost of Equity:** 21.2%

**IRR to Investor:** 25%

**Return of Capital Employed:** 3.3X

**DCF:** \$5,619,935

**Exit Multiple:** 5x EBITDA

Please direct all indications of further interest to:



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