

## Harte-Hanks (HHS)

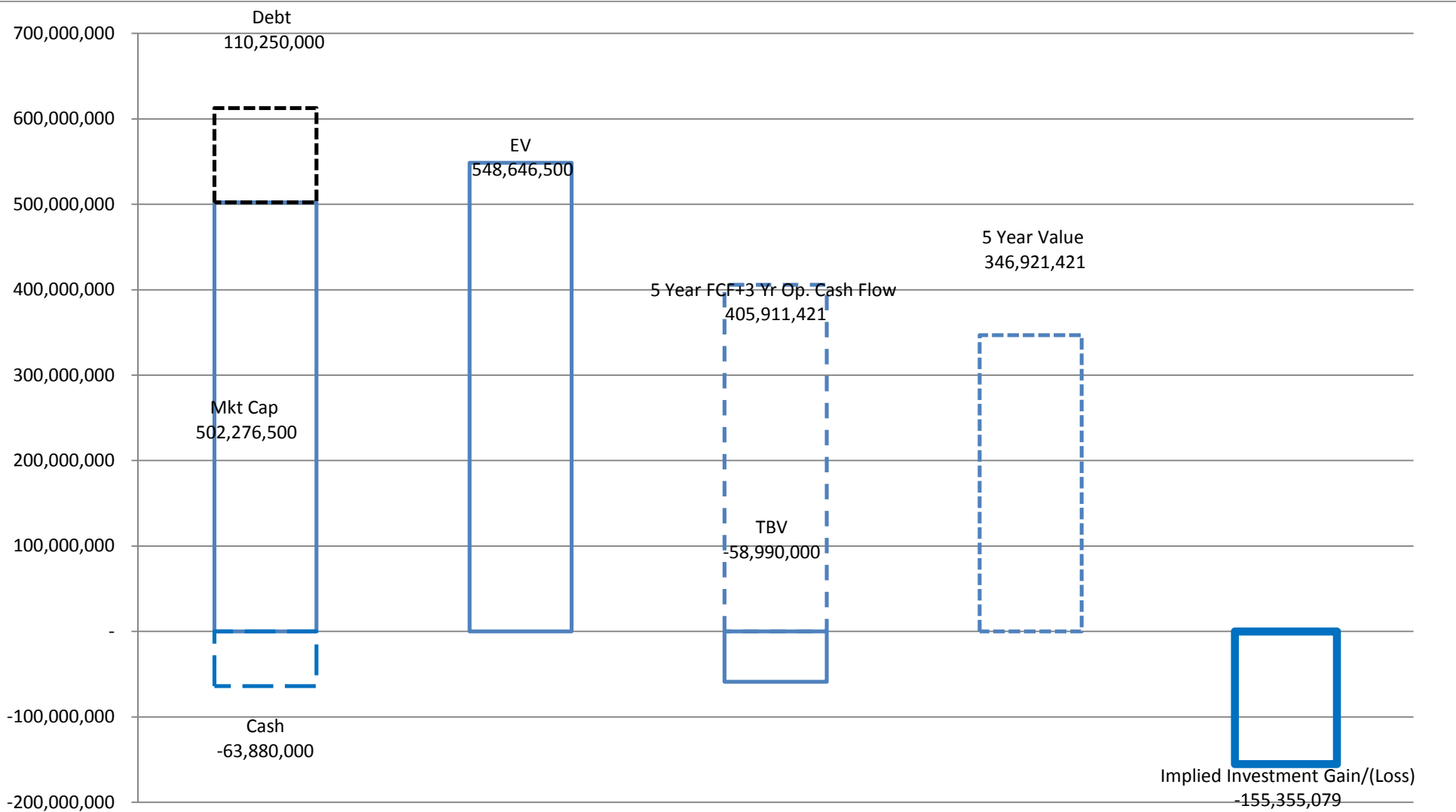
Price:	\$8.03	Net Tang. Bk Value Incl. Cash, Excl.	-\$58,990,000.00	Net Tang. Book Yr. 5 (Inc. Cash):	\$91,298,125.00
Market Cap:	\$502,276,500	Goodwill (NTBVIC):		Avg. Year Op. Cash:	\$50,634,821.53
Cash:	\$63,880,000	NTBVIC/Market Downside Recovery:	-11.74%	Year 5 Disposition FCF Multiple:	3.0
Debt:	\$110,250,000	Op. Cash Flow:	\$50,801,391	Year 5 Disposition Price:	\$243,202,589.58
Net Cash:	-\$46,370,000	Implied Years to Fill Gap:	11.05		
Enterprise Value:	\$548,646,500	Today's Equity if 5x Op. CF:	\$93,414,174		
		Net Tang. Book+ Gain Disposition:			\$243,202,589.58
Shares Outstanding:	62,550,000	IRR:			-13.50%
				Price:	\$3.89
				Target Market Cap:	\$243,202,590
				Target Enterprise Value:	\$289,572,590

\* Our future intrinsic value measures the total return, which includes both capital appreciation and dividend income.

The bottom feeder pricing approach we utilize seems to discount the value of the stock by the \$400MM goodwill on its books, although the Co. is generating healthy cash flow from operations. Co. can safely generate \$50MM in annual operating cash flow, of which \$15MM is capex, \$20MM goes to dividend yielding a 4% return, \$10MM to debt repayment of which is \$100MM outstanding vs. \$60 MM in cash, and the \$5MM balance goes to either cash or stock repurchases.

We are concerned about 1) continued revenue shrinkage (single digit rate) , 2) gross goodwill balance \$500MM relative to the total asset/debt level, 3) 8% R&D margin for a non-tech firm setting off red flags, 4) paper business/obsolescence issues. We like to think of it like a book publisher, which has a lot of physical equipment with minimal capex maintenance costs, but sagging top line. Cash flows may be steady for the time being, but for how long? It seems like a 5 year bond that will continue to pay out 4% yields, with few, if any, catalysts for principal gain.

However, we are still very attracted by the valuation. Normally, we would exclude goodwill in our valuation, and rightfully so in this situation, since the Co. wrote off \$100MM+ in the previous year. But if we didn't exclude goodwill, the Co. would have a conservative 6% appreciation power. Nonetheless, the risk does not merit an investment in a cigar butt, so we will pass on this appealing stock.



Harte-Hanks, Inc., was incorporated in Delaware. It is a marketing company that provides marketing services and shopper advertising opportunities local, regional, national and international consumer and business-to-business marketers. The Company manages its operations through two operating segments namely Direct Marketing, which operates both nationally and internationally, and Shoppers, which operates in local and regional markets in California and Florida. Its Direct Marketing services offer integrated, multichannel, data-driven solutions for top brands around the globe. It offers a full complement of capabilities and resources to provide a range of marketing services and data management software, in media from direct mail to email. Direct marketing services are marketed to specific industries or markets with services and software products tailored to each industry or market. It currently provide direct marketing services to the retail, high-tech/telecom, financial services and pharmaceutical/healthcare vertical markets, in addition to a range of selected markets. Shoppers are weekly advertising publications distributed free by mail to households and businesses in a particular geographic area. Shoppers offer advertisers a targeted, cost-effective local advertising system, with virtually 100% penetration in their areas of distribution. Shoppers are particularly effective in large markets with high media fragmentation in which major metropolitan newspapers generally have low penetration. Its Shoppers segment also provides online advertising and other services through its websites, PennySaverUSA.com&#174; and TheFlyer.com&#174; as well as business websites and search-engine marketing. Its websites serve as advertising portals, bringing buyers and sellers together through its online offerings, including local classifieds, business listings, coupons, special offers and PowerSites&#174;. Shoppers serves both business and individual advertisers in a wide range of industries, including real estate, employment, automotive, retail, grocery, education, telecommunications, financial services, and a number of other industries. Its Direct Marketing business faces competition in all of its offerings and within each of its vertical markets. Its Shoppers business competes for advertising, as well as for readers, with other print and electronic media. Competition comes from local and regional newspapers, magazines, radio, broadcast, satellite and cable television, other shoppers, the internet, other communications media and other advertising printers that operate in its markets. The Company is subject to domestic and international legal and regulatory requirements that impact its business, including, for example, regulations governing consumer protection and unfair business practices, contracts, ecommerce, intellectual property, labor and employment, securities, tax, and other laws that are generally applicable to commercial activities.

<b>Company Name:</b>	<b>Harte-Hanks</b>
Ticker Symbol:	HHS
<b>Last Price:</b>	<b>\$8.03</b>
Net Cash/Share:	-\$0.74
Net Cash to Last Price:	-9.23%
Shares Outstanding:	62,550,000
Industry:	Marketing Services
Sector:	Consumer Cyclical
Institutional Ownership:	58.90%
Mutual Fund Ownership:	32.67%
Insider Ownership:	13.72%
Float:	70.00%

Market Capitalization:	\$502,276,500.00
Total Debt:	\$110,250,000.00
RCH Total Cash:	\$63,880,000.00
Net Cash/(Debt):	-\$46,370,000.00
Enterprise Value:	\$548,646,500.00
Current EV/Share:	\$8.77
EBITDA:	-\$49,110,000.00
EV/EBITDA Multiple:	-11.17
EV/EBITDA Multiple Average Year 1-5:	7.13
EV/FCF Multiple (excluding acquisition):	8.78
EV/FCF Multiple Average Year 1-5 (excluding acquisition):	15.40

<b>Income Statement</b>		
Revenue:	\$751,900,000.00	100.0%
Cost of Goods Sold:	\$599,720,000.00	79.8%
Gross Profit:	\$152,180,000.00	20.2%
EBITDA:	\$79,900,000.00	10.6%
Net Income:	-\$78,700,000.00	-10.5%

<b>Balance Sheet</b>	
Cash:	\$63,880,000.00
Short Term Investment:	\$0.00
A/R:	\$142,000,000.00
PP&E:	\$59,000,000.00
Assets:	\$713,190,000.00

A/P:	\$43,000,000.00
Deferred Tax:	\$58,590,000.00
Other Liabilities:	\$154,390,000.00
Short term Debt:	\$12,250,000.00
Long Term Debt:	\$98,000,000.00
Liabilities:	\$366,230,000.00
Retained Earnings:	\$1,065,000,000.00
Paid-In Capital:	\$460,740,000.00
Treasury Stock:	-\$1,125,000,000.00
Stockholder's Equity:	\$351,010,000.00

<b>Technicals</b>	
52 week low:	\$5.14
Today from 52 week low:	56.23%
52 week high:	\$10.12
Today from 52 week high:	26.03%
<b>Analyst/Consensus</b>	
Analyst Sales Growth FY1:	-1.90%
Analyst Sales Growth FY2:	1.00%
SN Valuation Estimate FY1:	0.00%
SN Valuation Estimate FY2:	0.00%

<b>Upper Range</b>	
<b>DCF: EV/EBITDA Terminal Value</b>	
Implied TV from 3 X EV/EBITDA Multiple	\$230,313,000.00
Enterprise Value	\$230,313,000.00
Cash at Year 5:	\$242,054,107.64
Debt at Year 5:	\$110,250,000.00
Equity Value Year 5:	\$362,117,107.64
<b>Equity/Share at Year 5:</b>	<b>\$5.79</b>
Annualized Return:	-6.33%

<b>Lower Range</b>	
<b>DCF: Net Tangible Asset excluding Cash/Debt Terminal Value</b>	
Year 5 Net Tangible Assets excluding cash and debt	-\$29,300,000.00
Enterprise Value	-\$29,300,000.00
Cash at Year 5:	\$242,054,107.64
Debt at Year 5:	\$110,250,000.00
Equity Value Year 5:	\$102,504,107.64
<b>Equity/Share at Year 5:</b>	<b>\$1.64</b>
Annualized Return:	-27.23%

<b>Cash Flow</b>	
Net Income:	-83,350,000.00
Depreciation/Amortization:	20,420,000.00
Change in Working capital:	430,000.00
Cash from Operating Activities:	76,320,000.00
Capital Expenditures:	-13,860,000.00
Cash from Investing Activities:	-13,840,000.00
Total Cash Dividends Paid:	-26,960,000.00
Issuance (Retirement) of Stock:	-3,740,000.00
Issuance (Retirement) of Debt:	-69,190,000.00
Cash from Financing Activities:	-99,830,000.00

Analyst Earnings Estimate FY1:	\$0.61
Analyst Earnings Estimate FY2:	\$0.65
SN Valuation Earnings Est. FY1:	\$0.48
SN Valuation Earnings Est. FY2:	\$0.48

<b>Multiples</b>	
<b>Market Value to Book:</b>	<b>1.43</b>
EV to Book:	1.56
Market Value to Tangible Net Assets:	-3.60
P/E Ratio:	-6.38
Trailing P/E Ratio:	28.82
Forward P/E Ratio:	15.23
Beta:	1.26
Dividend:	0.34
<b>Dividend Yield:</b>	<b>4.21%</b>
Dividend Date:	Dec 16, 2013
Ex-Dividend Date:	Nov 26, 2013

<b>EVA</b>	
EVA today:	\$253,132,234.14
EVA in 5 Years:	\$422,519,189.08
EVA/Share:	\$6.75
Cash at Year 5:	\$242,054,107.64
Debt at Year 5:	\$110,250,000.00
Equity Value Year 5:	\$554,323,296.72
<b>Equity/Share at Year 5:</b>	<b>\$8.86</b>
Annualized return	<b>10.79%</b>

<b>Profitability Margins</b>	
Debt to Equity:	31.41%
Return on Assets:	-10.25%
Return on Capital:	-15.85%
Return on Equity:	-20.83%

<b>Competitors</b>	
Average EV to EBITDA:	N/A
Company EV to EBITDA:	-11.17
Average EV to EBIT:	N/A
Company EV to EBITA:	-6.10

<b>Current Net Tangible Asset</b>	
<b>Net Tangible Asset/Share:</b>	<b>-\$1.01</b>
<b>Net Tangible Asset/Share in Year 5:</b>	<b>\$1.43</b>
Annualized return	-207.20%

Current Equity Price:	\$8.03
Selling at Discount?	Premium
Appreciation Potential:	-112.55%

SN VALUATION

LBO Pro Forma Income Statement

Name:

Harte-Hanks

Ticker:

HHS

	Historical				Forecasted				
	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2013	2014	2015	2016	2017
Revenue	860.14	820.72	811.64	767.71	767.71	767.71	767.71	767.71	767.71
COGS	678.31	641.66	649.34	615.53	621.85	621.85	621.85	621.85	621.85
Gross margin	181.83	179.06	162.30	152.18	145.86	145.86	145.86	145.86	145.86
SG&A	62.08	64.08	64.95	64.77	69.09	69.09	69.09	69.09	69.09
R&D	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Unusual expense	6.95	0.00	0.00	156.94	0.00	0.00	0.00	0.00	0.00
Other operating expense	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation is: Excluded from COGS					20.00	20.00	20.00	20.00	20.00
Operating Income (EBITA)	112.40	114.98	97.95	-69.53	56.77	56.77	56.77	56.77	56.77
Interest income/(expense)	-7.97	-2.62	-2.93	-3.49	-10.53	-10.53	-10.53	-10.53	-10.53
Gain (loss) on sale of asset	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other	-2.52	-2.14	1.50	-2.86	0.00	0.00	0.00	0.00	0.00
Income before tax	71.94	86.49	76.57	-96.29	46.24	46.24	46.24	46.24	46.24
Tax	24.22	33.30	30.79	-23.19	16.18	16.18	16.18	16.18	16.18
Income after tax	47.72	55.19	45.88	-73.10	30.06	30.06	30.06	30.06	30.06
Minority Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Equity in affiliates	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net income	47.72	55.19	45.88	-73.10	30.06	30.06	30.06	30.06	30.06
* Figures are in millions (\$)									
EPS (based off today's share count)	\$0.76	\$0.88	\$0.73	-\$1.17	\$0.48	\$0.48	\$0.48	\$0.48	\$0.48
P/E (historical today's price; forecasted intrinsic price)	10.53	9.10	10.95	-6.87	14.45	12.50	10.81	9.35	8.09
Revenue Growth	N/A	-4.58%	-1.11%	-5.41%	0.00%	0.00%	0.00%	0.00%	0.00%
Tax Rate	33.67%	37.63%	40.16%	24.08%	35.00%	35.00%	35.00%	35.00%	35.00%
Implied Debt Interest Rate	-3.33%	-1.36%	-1.63%	-3.17%	-10.74%	-10.74%	-10.74%	-10.74%	-10.74%
Margins									
COGS	78.86%	78.18%	80.00%	80.18%	81.00%	81.00%	81.00%	81.00%	81.00%
Gross margin	21.14%	21.82%	20.00%	19.82%	19.00%	19.00%	19.00%	19.00%	19.00%
SG&A	7.26%	7.81%	7.93%	8.44%	9.00%	9.00%	9.00%	9.00%	9.00%
R&D	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Unusual expense	0.81%	0.00%	0.00%	20.44%	0.00%	0.00%	0.00%	0.00%	0.00%
Other operating expense	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Depreciation is: Excluded from COGS	0.00%	0.00%	0.00%	0.00%	2.61%	2.61%	2.61%	2.61%	2.61%
Operating Income (EBITA)	13.07%	14.01%	12.07%	-9.06%	7.39%	7.39%	7.39%	7.39%	7.39%
Interest income/(expense)	-0.93%	-0.32%	-0.36%	-0.45%	-1.37%	-1.37%	-1.37%	-1.37%	-1.37%
Gain (loss) on sale of asset	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Other	-0.29%	-0.26%	0.18%	-0.37%	0.00%	0.00%	0.00%	0.00%	0.00%
Income before tax	8.36%	10.78%	9.45%	-12.54%	6.02%	6.02%	6.02%	6.02%	6.02%
Tax	2.82%	4.06%	3.79%	-3.02%	2.11%	2.11%	2.11%	2.11%	2.11%
Income after tax	5.55%	6.72%	5.65%	-9.52%	3.92%	3.92%	3.92%	3.92%	3.92%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Equity in affiliates	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Net income	5.55%	6.72%	5.65%	-9.52%	3.92%	3.92%	3.92%	3.92%	3.92%

	As of 2009-12-31	As of 2010-12-31	As of 2011-12-31	As of 2012-12-31	As of 2013-06-30	Adjustment		Adjusted Proforma	2011	2012	2013	2014	2015
						+	-						
Cash	86.60	86.00	86.78	49.65	63.88			63.88	99.68139124	135.24	170.82	206.42	242.05
Short term investment	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
<b>Cash and Short term</b>	<b>86.60</b>	<b>86.00</b>	<b>86.78</b>	<b>49.65</b>	<b>63.88</b>			<b>63.88</b>	<b>99.68</b>	<b>135.24</b>	<b>170.82</b>	<b>206.42</b>	<b>242.05</b>
Accounts Receivable	140.06	151.01	154.33	141.35	142.00			142.00	142.00	142.00	142.00	142.00	142.00
Other receivables	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Receivables</b>	<b>140.06</b>	<b>151.01</b>	<b>154.33</b>	<b>141.35</b>	<b>142.00</b>			<b>142.00</b>	<b>142.00</b>	<b>142.00</b>	<b>142.00</b>	<b>142.00</b>	<b>142.00</b>
Total Inventory	4.85	7.32	5.68	5.07	4.35			4.35	4.35	4.35	4.35	4.35	4.35
Prepaid Expenses	12.79	8.94	8.78	13.67	11.02			11.02	11.02	11.02	11.02	11.02	11.02
Other Current Assets	12.30	15.19	16.07	15.77	17.25			17.25	17.25	17.25	17.25	17.25	17.25
<b>Current Assets</b>	<b>256.60</b>	<b>268.46</b>	<b>271.64</b>	<b>225.51</b>	<b>238.50</b>	<b>0.00</b>	<b>0.00</b>	<b>238.50</b>	<b>274.3013912</b>	<b>309.86</b>	<b>345.44</b>	<b>381.04</b>	<b>416.67</b>
PP&E, Gross	322.27	326.39	291.84	291.48	292.00			292.00	307.00	322.00	337.00	352.00	367.00
Change in Depreciation	28.27	21.44	19.62	20.18	20.18			20.18	20.18	20.18	20.18	20.18	20.18
Accumulated Depreciation	243.87	253.73	222.95	233.60	233.00			233.00	253.18	273.36	293.54	313.72	333.90
<b>PP&amp;E, Net</b>	<b>78.40</b>	<b>72.66</b>	<b>68.89</b>	<b>57.88</b>	<b>59.00</b>			<b>59.00</b>	<b>53.82</b>	<b>48.64</b>	<b>43.46</b>	<b>38.28</b>	<b>33.10</b>
Goodwill	552.89	565.65	565.65	408.71	410.00	0.00		410.00	410.00	410.00	410.00	410.00	410.00
Intangibles	16.28	15.79	5.50	5.26	0.00			0.00	-0.56	-0.89	-1.22	-1.59	-1.99
Long term investments	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other long term assets	3.99	4.32	20.83	4.77	5.69			5.69	5.69	5.69	5.69	5.69	5.69
<b>Long Term Assets</b>	<b>651.56</b>	<b>658.42</b>	<b>660.87</b>	<b>476.62</b>	<b>474.69</b>			<b>474.69</b>	<b>468.95</b>	<b>463.44</b>	<b>457.93</b>	<b>452.38</b>	<b>446.80</b>
<b>Total Assets</b>	<b>908.16</b>	<b>926.88</b>	<b>932.51</b>	<b>702.13</b>	<b>713.19</b>	<b>0.00</b>	<b>0.00</b>	<b>713.19</b>	<b>743.25</b>	<b>773.31</b>	<b>803.36</b>	<b>833.42</b>	<b>863.48</b>
Accounts Payable	42.39	56.09	45.59	42.19	43.00			43.00	43.00	43.00	43.00	43.00	43.00
Accrued Expense	15.29	24.78	21.94	16.78	17.00			17.00	17.00	17.00	17.00	17.00	17.00
Other current Liabilities	68.84	67.10	66.93	68.98	64.37			64.37	64.37	64.37	64.37	64.37	64.37
<b>Total Current Liabilities</b>	<b>126.52</b>	<b>147.97</b>	<b>134.46</b>	<b>127.95</b>	<b>124.37</b>	<b>0.00</b>	<b>0.00</b>	<b>124.37</b>	<b>124.37</b>	<b>124.37</b>	<b>124.37</b>	<b>124.37</b>	<b>124.37</b>
Notes Payables/Short Term Debt	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Current port. Of LT Debt/Capital Leases	46.69	133.00	69.19	12.25	12.25			12.25	12.25	12.25	12.25	12.25	12.25
Long term Debt	193.00	60.00	110.25	98.00	98.00	0.00	0.00	98.00	98.00	98.00	98.00	98.00	98.00
Capital Lease Obligations	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
<b>Total Interest Earning Debt</b>	<b>239.69</b>	<b>193.00</b>	<b>179.44</b>	<b>110.25</b>	<b>110.25</b>	<b>0.00</b>	<b>0.00</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>
Deferred Income tax	77.98	85.66	92.45	53.94	58.59			58.59	58.59	58.59	58.59	58.59	58.59
Minority Interest	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Other liabilities	62.33	62.44	79.81	85.92	73.02			73.02	73.02	73.02	73.02	73.02	73.02
<b>Total Liabilities</b>	<b>506.52</b>	<b>489.07</b>	<b>486.16</b>	<b>378.06</b>	<b>366.23</b>	<b>0.00</b>	<b>0.00</b>	<b>366.23</b>	<b>366.23</b>	<b>366.23</b>	<b>366.23</b>	<b>366.23</b>	<b>366.23</b>
Redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Non-redeemable Preferred Stock	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Common Stock	118.24	118.30	118.49	118.74	118.74		0.00	118.74	118.74	118.74	118.74	118.74	118.74
Additional Paid-in capital	333.61	336.80	341.15	341.59	342.00	0.00	0.00	342.00	342.00	342.00	342.00	342.00	342.00
Dividends Paid	0.00	0.00	0.00	0.00	0.00			0.00	0.00	0.00	0.00	0.00	0.00
Retained Earnings	1,217.97	1,252.44	1,276.27	1,165.95	1,065.00			1,065.00	1,095.06	1,125.12	1,155.17	1,185.23	1,215.29
Treasury Stock	-1,236.22	-1,236.02	-1,244.22	-1,248.38	-1,125.00		0.00	-1,125.00	-1,125.00	-1,125.00	-1,125.00	-1,125.00	-1,125.00
Other Equity	-31.97	-33.68	-45.32	-49.73	-49.73			-49.73	-49.73	-49.73	-49.73	-49.73	-49.73
<b>Total Equity</b>	<b>401.63</b>	<b>437.84</b>	<b>446.37</b>	<b>328.17</b>	<b>351.01</b>	<b>0.00</b>	<b>0.00</b>	<b>351.01</b>	<b>381.07</b>	<b>411.13</b>	<b>441.18</b>	<b>471.24</b>	<b>501.30</b>
<b>Liability + Equity</b>	<b>908.15</b>	<b>926.91</b>	<b>932.53</b>	<b>706.23</b>	<b>717.24</b>	<b>0.00</b>	<b>0.00</b>	<b>717.24</b>	<b>747.30</b>	<b>777.36</b>	<b>807.41</b>	<b>837.47</b>	<b>867.53</b>
<b>Variance</b>	0.01	-0.03	-0.02	-4.10	-4.05			-4.05	-4.05	-4.05	-4.05	-4.05	-4.05
<b>Debt/Equity</b>	0.60	0.44	0.40	0.34	0.31			0.31	0.29	0.27	0.25	0.23	0.22
Inventory Turnover	177.35	112.12	142.89	151.42	176.49			176.49	176.49	176.49	176.49	176.49	176.49
Inventory Turnover Days	2.06	3.26	2.55	2.41	2.07			2.07	2.07	2.07	2.07	2.07	2.07
Days Inventory Outstanding	2.61	4.16	3.19	3.01	2.55			2.58	2.55	2.55	2.55	2.55	2.55
Accounts Receivable Turnover	6.14	5.43	5.26	5.43	5.41			5.41	5.41	5.41	5.41	5.41	5.41
Accounts Receivable Turnover Days	59.43	67.16	69.40	67.20	67.51			67.51	67.51	67.51	67.51	67.51	67.51
Days Payable Outstanding	22.81	31.91	25.63	25.02	25.24			25.50	25.24	25.24	25.24	25.24	25.24
Days Sales Outstanding	59.43	67.16	69.40	67.20	67.51			67.20	67.51	67.51	67.51	67.51	67.51
Cash Conversion Cycle	39.23	39.42	46.97	45.19	44.83			44.28	44.83	44.83	44.83	44.83	44.83
Net tangible assets/share	(\$2.68)	(\$2.30)	(\$1.99)	(\$1.37)	(\$0.94)			(\$0.45)	\$0.03	\$0.52	\$1.00	\$1.49	\$1.49

	12 months ending 2009-12-31	12 months ending 2010-12-31	12 months ending 2011-12-31	12 months ending 2012-12-31	2011	2012	2013	2014	2015
Net Income	47.72	53.60	44.20	-83.35	30.06	30.06	30.06	30.06	30.06
Depreciation	28.27	21.44	19.62	20.18	20.18	20.18	20.18	20.18	20.18
<b>Net Income + Depreciation</b>	<b>75.99</b>	<b>75.04</b>	<b>63.82</b>	<b>-63.17</b>	<b>50.24</b>	<b>50.24</b>	<b>50.24</b>	<b>50.24</b>	<b>50.24</b>
Amortization	1.71	0.29	0.23	0.24	0.56	0.32	0.34	0.37	0.40
Deferred Taxes	6.09	7.37	10.39	-43.52	0.00	0.00	0.00	0.00	0.00
Non Cash Items	12.95	5.88	4.09	182.34	0.00	0.00	0.00	0.00	0.00
Change in Working capital	17.29	7.48	-17.86	0.43	0.00	0.00	0.00	0.00	0.00
Accounts Receivable	0.00	-10.95	-3.32	12.98	0.00	0.00	0.00	0.00	0.00
Other Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventory	0.00	-2.47	1.64	0.61	0.00	0.00	0.00	0.00	0.00
Prepaid Expenses	0.00	3.85	0.16	-4.89	0.00	0.00	0.00	0.00	0.00
Accounts Payable	0.00	13.70	-10.50	-3.40	0.00	0.00	0.00	0.00	0.00
<b>Cash from Operating Activities</b>	<b>114.03</b>	<b>95.86</b>	<b>60.67</b>	<b>76.32</b>	<b>50.80</b>	<b>50.56</b>	<b>50.57</b>	<b>50.60</b>	<b>50.63</b>
Capital Expenditures Expenditures	-9.01	-17.20	-20.97	-13.86	-15.00	-15.00	-15.00	-15.00	-15.00
Long term investment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Investing Activities	0.14	-12.95	3.42	0.01	0.00	0.00	0.00	0.00	0.00
<b>Cash from Investing Activities</b>	<b>-8.87</b>	<b>-30.15</b>	<b>-17.55</b>	<b>-13.85</b>	<b>-15.00</b>	<b>-15.00</b>	<b>-15.00</b>	<b>-15.00</b>	<b>-15.00</b>
Financing Cash flow items	0.01	-0.49	-0.60	0.06	0.00	0.00	0.00	0.00	0.00
Total Cash Dividends Paid	-19.12	-19.14	-20.37	-26.96	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Stock	0.56	0.07	-7.65	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Current Portion Debt	-	-	-	-	0.00	0.00	0.00	0.00	0.00
Issuance (Retirement) of Long Term Debt	-30.94	-46.69	-13.56	-69.19	0.00	0.00	0.00	0.00	0.00
<b>Cash from Financing Activities</b>	<b>-49.49</b>	<b>-66.25</b>	<b>-42.18</b>	<b>-99.83</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Foreign Exchange effect	0.77	-0.08	-0.15	0.23	0.00	0.00	0.00	0.00	0.00
Beginning Cash Balance	30.16	86.60	86.00	86.78	63.88	99.68	135.24	170.82	206.42
<b>Net Change in Cash</b>	<b>56.44</b>	<b>-6.60</b>	<b>0.78</b>	<b>-37.13</b>	<b>35.80</b>	<b>35.56</b>	<b>35.57</b>	<b>35.60</b>	<b>35.63</b>
Ending Cash Balance	86.60	86.00	86.78	49.65	99.68	135.24	170.82	206.42	242.05
Capex to Revenue	1.05%	2.10%	2.58%	1.81%	1.95%	1.95%	1.95%	1.95%	1.95%
Depreciation to Sales	3.29%	2.61%	2.42%	2.63%	2.63%	2.63%	2.63%	2.63%	2.63%
Amortization to Sales	0.20%	0.04%	0.03%	0.03%	0.07%	0.04%	0.04%	0.05%	0.05%
A/R to Sales	16.28%	18.40%	19.01%	18.41%	18.41%	18.41%	18.41%	18.41%	18.41%
Distributable FCF/EV Yield	19.17%	11.98%	7.86%	11.39%	6.53%	6.48%	6.48%	6.49%	6.50%
Dividend Yield	-3.81%	0.00%	-4.06%	-5.37%	0.00%	0.00%	0.00%	0.00%	0.00%
<b>FCF (Ops-Investing)</b>	<b>124.14</b>	<b>97.80</b>	<b>60.07</b>	<b>89.42</b>	<b>35.80</b>	<b>35.56</b>	<b>35.57</b>	<b>35.60</b>	<b>35.63</b>

# SN VALUATION

# LBO Debt Schedule

Ticker:

HHS

	Proforma	2013	2014	2015	2016	2017
<b>Net Change in Cash</b>	<b>-37.13</b>	<b>35.80</b>	<b>35.56</b>	<b>35.57</b>	<b>35.60</b>	<b>35.63</b>
Current Portion Debt Repayment						
Long Term Debt Repayment						
<b>Outstanding Debt</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>	<b>110.25</b>
Current Portion Debt Balance	12.25	12.25	12.25	12.25	12.25	12.25
Long Term Debt Balance	98.00	98.00	98.00	98.00	98.00	98.00
Forward Libor Curve		3.00%	3.00%	3.00%	3.00%	3.00%
Spread		7.00%	7.00%	7.00%	7.00%	7.00%
<b>Interest Rate</b>		<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>	<b>10.00%</b>
<b>Interest Expense</b>		<b>11.03</b>	<b>11.03</b>	<b>11.03</b>	<b>11.03</b>	<b>11.03</b>
Cash Balance		49.65				
Interest @ 1.0%		0.50	0.50	0.50	0.50	0.50
<b>Net Interest Expense/(Income)</b>		<b>10.53</b>	<b>10.53</b>	<b>10.53</b>	<b>10.53</b>	<b>10.53</b>
<b>Net Interest Rate</b>		<b>10.74%</b>	<b>10.74%</b>	<b>10.74%</b>	<b>10.74%</b>	<b>10.74%</b>
EBITDA		56.77	56.77	56.77	56.77	56.77
<b>EBITDA/Interest Expense Coverage</b>		<b>5.15</b>	<b>5.15</b>	<b>5.15</b>	<b>5.15</b>	<b>5.15</b>

Interest Rate Coverage Table

Debt Rating					
AAA					
AA					
A+					
A					
A-	A-	A-	A-	A-	A-
BBB					
BB+					
BB					
B+					
B					
B-					
CCC					
CC					
C					
D					

\*Source: NYU; Professor Damodaran

## Altman Z Score

Company Name:

Harte-Hanks

Ticker:

HHS

Period	2009	2010	2011	2012	2013	2014	2015	2016	2017
Working Capital	130.08	120.49	137.18	114.13	149.93	185.49	221.07	256.67	292.30
Total Assets	908.16	926.88	932.51	713.19	743.25	773.31	803.36	833.42	863.48
<b>X1</b>	<b>0.14</b>	<b>0.13</b>	<b>0.15</b>	<b>0.16</b>	<b>0.20</b>	<b>0.24</b>	<b>0.28</b>	<b>0.31</b>	<b>0.34</b>
Retained Earnings	1,217.97	1,252.44	1,276.27	1,065.00	1,095.06	1,125.12	1,155.17	1,185.23	1,215.29
Total Assets	908.16	926.88	932.51	713.19	743.25	773.31	803.36	833.42	863.48
<b>X2</b>	<b>1.34</b>	<b>1.35</b>	<b>1.37</b>	<b>1.49</b>	<b>1.47</b>	<b>1.45</b>	<b>1.44</b>	<b>1.42</b>	<b>1.41</b>
EBITDA	112.40	114.98	97.95	-69.53	76.77	76.77	76.77	76.77	76.77
Total Assets	908.16	926.88	932.51	713.19	743.25	773.31	803.36	833.42	863.48
<b>X3</b>	<b>0.12</b>	<b>0.12</b>	<b>0.11</b>	<b>-0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.10</b>	<b>0.09</b>	<b>0.09</b>
Market Value of Equity	502.28	502.28	502.28	502.28	434.46	375.80	325.06	281.17	243.20
Total Liabilities	506.52	489.07	486.16	366.23	366.23	366.23	366.23	366.23	366.23
<b>X4</b>	<b>0.99</b>	<b>1.03</b>	<b>1.03</b>	<b>1.37</b>	<b>1.19</b>	<b>1.03</b>	<b>0.89</b>	<b>0.77</b>	<b>0.66</b>
Net Sales	860.14	820.72	811.64	767.71	767.71	767.71	767.71	767.71	767.71
Total Assets	908.16	926.88	932.51	713.19	743.25	773.31	803.36	833.42	863.48
<b>X5</b>	<b>0.95</b>	<b>0.89</b>	<b>0.87</b>	<b>1.08</b>	<b>1.03</b>	<b>0.99</b>	<b>0.96</b>	<b>0.92</b>	<b>0.89</b>
<b>Altman Z Score</b>	<b>4.00</b>	<b>3.96</b>	<b>3.93</b>	<b>3.86</b>	<b>4.39</b>	<b>4.26</b>	<b>4.15</b>	<b>4.05</b>	<b>3.96</b>

$$Z = 1.2 \times X1 + 1.4 \times X2 + 3.3 \times X3 + 0.6 \times X4 + 1.0 \times X5$$

Z-SCORE ABOVE 3.0 –The company is considered 'Safe' based on the financial figures only.

Blue

Z-SCORE BETWEEN 2.7 and 2.99 – 'On Alert'. This zone is an area where one should 'Exercise Caution'.

Green

Z-SCORE BETWEEN 1.8 and 2.7 – Good chance of the company going bankrupt within 2 years.

Yellow

Z-SCORE BELOW 1.80- Probability of Financial Catastrophe is Very High.

Red



Year	Present Value	Holding Period					Terminal Value			Sale Price
	0	1	2	3	4	5	6	7	8	TBV at Year 5 + 3 Years FCF
<b>Tangible Book Value</b>	(58.99)	(28.93)	1.13	31.18	61.24	91.30				91.30
Annual Change		30.06	30.06	30.06	30.06	30.06				
<b>Annual FCF</b>	62.46	35.80	35.56	35.57	35.60	35.63	35.63	35.63	35.63	106.90
Annual Op. Cash Flow	76.32	50.80	50.56	50.57	50.60	50.63	50.63	50.63	50.63	
Annual PP&E Investment	(13.86)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	
<b>Today's Tangible Book Value</b>	(58.99)	64.37	-70.25	76.66	-83.66	91.30				198.20
Intrinsic Value IRR	-209.13%									
<b>Market Price</b>	502.28	417.04	346.27	287.50	238.71	198.20				198.20
Market Price IRR	-16.97%									

Debt	50.00%	251.14
Equity	50.00%	251.14
<b>Total</b>	<b>100.00%</b>	<b>502.28</b>

	Present Value	Holding Period					Terminal Value			Sale Price	
	Historic	ProForma	1	2	3	4	5	6	7	8	
Book Equity	351.01	251.14	265.35	279.55	293.76	307.97	322.17				
Goodwill	410	561.27	561.27	561.27	561.27	561.27	561.27				
Debt	98	349.14	349.14	349.14	349.14	349.14	349.14				
Debt Interest Rate		10.00%	10.00%	10.00%	10.00%	10.00%	10.00%				
Additional Interest Expense		24.39	24.39	24.39	24.39	24.39	24.39				
<b>Tangible Book Value</b>	-58.99	-310.13	-295.92	-281.71	-267.51	-253.30	-239.09				-239.09
Annual Change			14.21	14.21	14.21	14.21	14.21				
<b>Annual FCF</b>	62.46	19.95	19.71	19.72	19.75	19.78	19.78	19.78	19.78	19.78	59.35
Annual Net Income	(73.10)		14.21	14.21	14.21	14.21	14.21	14.21	14.21	14.21	
<b>Annual Op. Cash Flow</b>	76.32	34.95	34.71	34.72	34.75	34.78	34.78	34.78	34.78	34.78	
Dividend Payments											
<b>Annual PP&amp;E Investment</b>	(13.86)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	(15.00)	
<b>Debt Paydown</b>	0.00						0.00	0.00	0.00	0.00	

Sale Price in Year 5 (179.74)

Capital Left for Equity Investor (179.74)  
 Dividend Payments 0.00  
 Total Cash In Flow (179.74)

We assume the debt taken on by the investor is now on the Co's books, so the investor has no more liability from the deal.

Invested Equity 251.14  
 IRR -193.53%

Value Creation  
 TBV Growth (equals sum of NI Year 1-5) 71.04  
 Cash Flow (Year 6-8) 59.35  
**130.39**

Value Dilution  
 Debt 251.14  
 Goodwill 151.27  
 Additional Interest 121.93  
**524.33**