



CD&R's Acquisition of American Greetings

Deal Discussion

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Target Overview

Target Overview

American Greetings



Company Overview

- Founded in 1906, American Greetings designs, manufactures and distributes social expression products
- The company is the largest producer of greeting cards in the US and internationally.
- Products including gift packaging and party goods are manufactured and sold primarily in the US and Canada, and internationally
- The company also distribute electronic greetings and a range of digital content, services and products
- American Greetings creates and licenses popular character brands such as the Care Bears

Portfolio of Recognized Brands

Greeting Cards	e-Cards and Party Goods
 carlton cards	 Jacquie Lawson
 RECYCLED Paper Greetings	 AMERICAN GREETINGS
 PAPYRUS	 Clintons
 Gibson	 cardstore
 GREET STREET HIP HOP GREETING CARDS	 FORGET-ME-NOT Greeting Cards

Distinguished brands communicate quality in otherwise fragmented market

Management Team



John Beeder

Former Chairman and CEO (Retired 2019)

Beeder joined American Greetings in 2008. Prior to becoming Chairman and CEO, Beeder served as COO and VP of Sales. Before American Greetings, Beeder worked for rival Hallmark

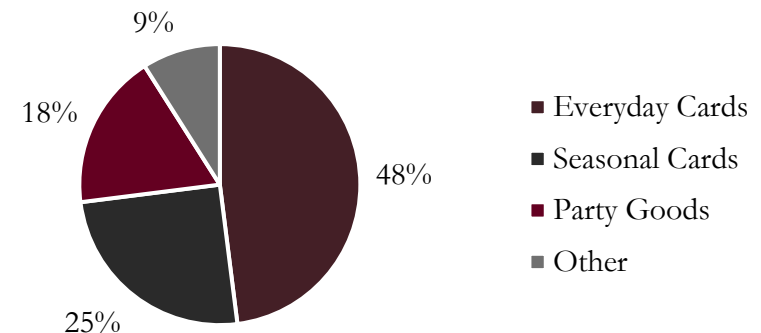


Greg Steinberg

CFO, Senior Vice President

Steinburg joined American Greetings in 2003. Prior to his role as CFO, Steinburg served as treasurer and head of investor relations.

Segment Performance



Despite digitalization, paper greeting cards remain major revenue driver (73% total sales)

Target Overview

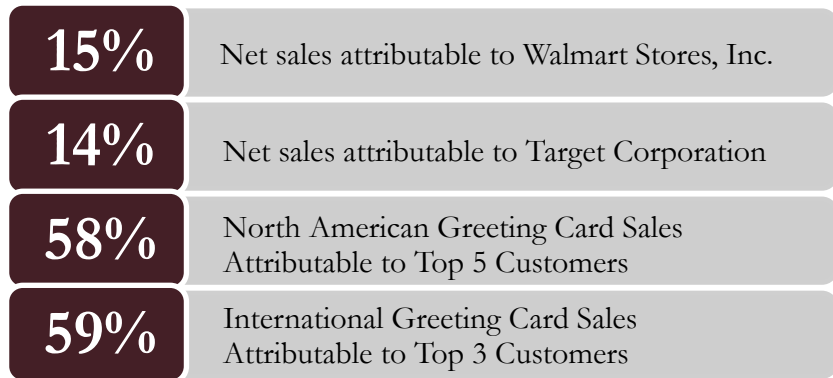
American Greetings



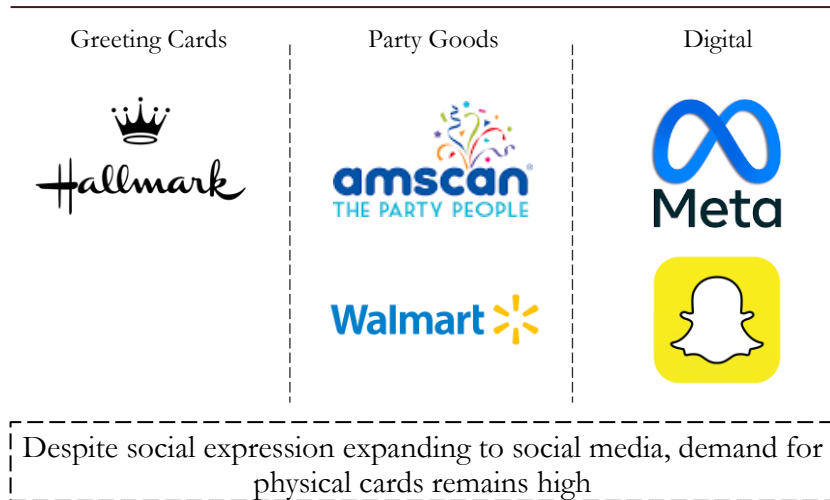
Business Model Overview

- Greeting cards are products purchased to express a sentiment towards someone else. To emphasize the desired sentiment, consumers look for quality, brand, design. They are less price sensitive
- American Greetings have a portfolio of strong brands known for high quality and creative design. As a result, the company are able to price higher than competitors
- Cards are distributed through mass merchandisers; chain drug stores; and supermarkets. Digital cards distributed online
- Net sales to five largest customers,, accounted for approximately 42% of total revenue. Walmart (15%) and Target (14%) are the companies largest distribution partners

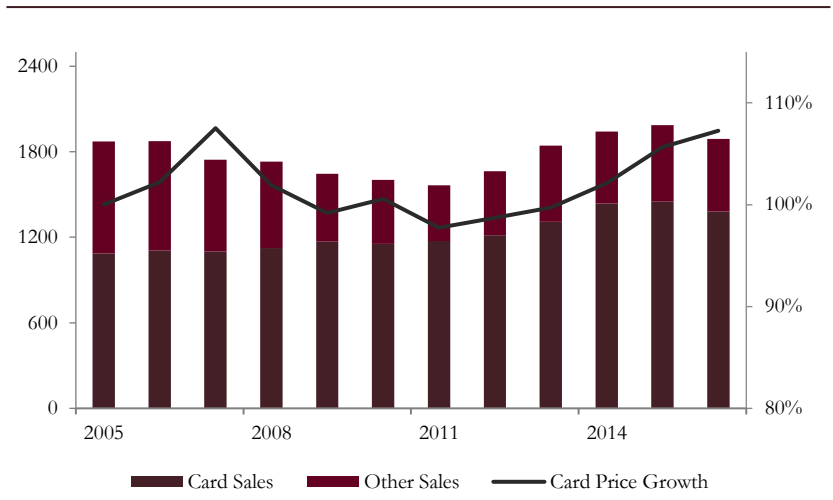
Concentrated Distribution Partners



Evolving Competitive Landscape for Social Expression



Core Business Remains Intact



Source(s): S&P Capital IQ, Company Filings

Industry Overview

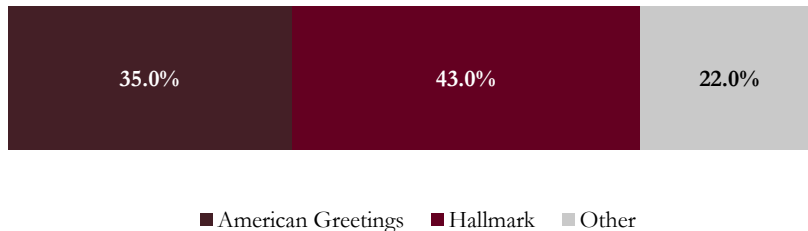
Competitive Landscape and Dynamics



Direct and Indirect Competitors

- Overall, the industry is highly consolidated with the Top 2 players comprising >75% of the market and the Top 50 players comprising nearly 100% of industry sales
- **Hallmark** is AG's largest competitor and the #1 greeting card manufacturer globally – American Greetings has a stronger position in Canada, New Zealand, Australia, and South Africa, while Hallmark has a larger presence in the U.S. and other geographies
- **Other traditional greeting card businesses** offer paper greeting cards through a variety of distribution channels, including retail outlets, mobile and other electronic devices – select competitors include Shutterfly, Avanti, and hundreds of other small paper greeting card publishers
- **Electronic greeting card providers** such as Hallmark and Shutterfly that provide lower-cost and more environmentally sustainable alternatives to physical greeting cards
- **Small or specialized companies** that sell their products using online marketplaces such as Amazon, Etsy, and Pinterest
- **Social media companies** that enable users to send greetings and images free of cost, such as Facebook, Instagram, Twitter

U.S. Greeting Card Market Share



Distribution Chain

- Despite the proliferation of digital channels and e-cards, channels of distribution continue to be primarily through mass retail, which is comprised of three distinct channels:
 - Mass merchandisers; chain drug stores; and supermarkets
- Other common physical distribution channels include:
 - Card and gift shops, department stores, military post exchanges, variety stores and combo stores
- Larger card makers can also go direct-to-market through their own branded card and gift retail stores

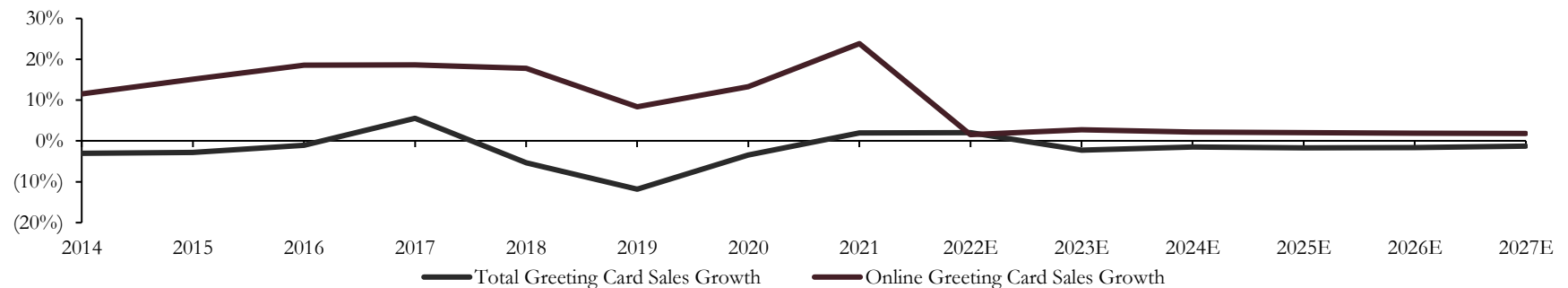
Competitive Differentiation

- Due to Hallmark and American Greetings having a dominating share over the global greeting card market, they are well-insulated from competition on the basis of brand recognition and trust, rather than tangible barriers to entry such as licenses or high start-up costs
- Furthermore, their scale enables them to have an extremely broad product suite, as well as the ability to have more power over how they choose to position their products and set pricing
 - The two companies have created increasingly higher quality and more expensive cards to position themselves as a premium gift and differentiate more from lower-to no-cost alternatives
 - Consumers are willing to pay a higher cost for these premium designs because greeting cards are seen as a method of expressing sentiment and goodwill to someone else, and there is a positive correlation between the price and the perceived level of sentiment

Emerging Challenges

- The global greeting cards market estimated at \$23B in 2020, expected to reach \$20B by 2026, representing a (1.7%) CAGR
- Digitalization, popularization of social media platforms and messaging apps such as WhatsApp and Facebook allow users to send stickers, written messages to commemorate birthdays and other events free-of-charge, which has stolen share from greeting card companies
- The rising cost of paper (which is currently at an all time high) is driving pressure on gross margins. Growing competition from e-cards will make it more difficult to justify raising prices in response to higher paper costs, as the digital subsegment is unaffected by these inputs

Projected Industry Growth Rates



The eCards industry is growing and expected to continue growing, but it does not represent a large enough absolute share of the market to counteract the secular decline in use and increased competition from other mediums

Other Industry Trends

- 1 **Technological Advancements / E-Cards**
 - Industry operators seeking new methods to expand both the actionable customer base and use of digital platforms – this is an expanding market niche and is the fastest growing greeting cards subsegment
 - More greeting card publishers will move towards customization by providing ways for users to write greetings or design cards online
 - Ex. AGC's video e-cards enable users to send personalized videos and pick lyrics for the card's birthday song
- 2 **E-Cards to Change Greeting Card Demographics**
 - The proliferation of online e-cards has also driven younger and more technologically savvy millennials to become interested in greeting cards
 - Online greeting card services strive to enable consumers to print cards in various languages, reaching a wider cultural demographic as well

Acquiror Overview

Acquiror Overview

Clayton, Dubilier, and Rice



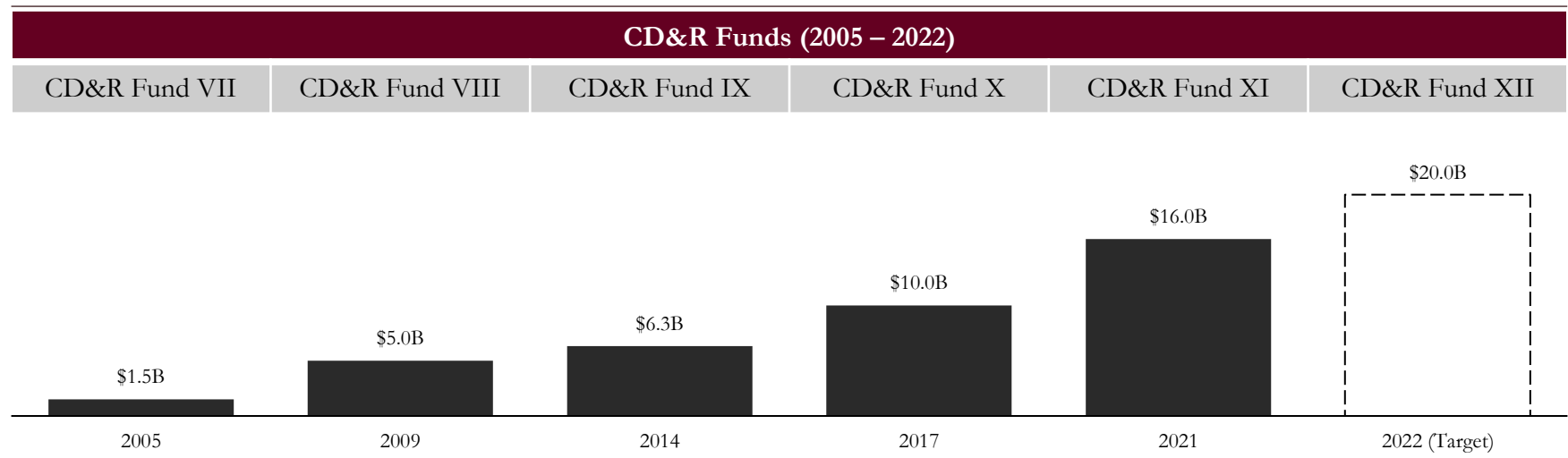
Overview

- Clayton, Dubilier, and Rice (“CD&R”) is a global private equity firm headquartered in New York City, founded in 1978
- The firm began through the partnership of four founders, focusing “rehabilitation” and “operating” buyouts instead of the popular financial engineering strategy prevalent at the time
- CD&R generally acquires non-core corporate divisions and family enterprises transitioning to new ownership, as well as builds partnerships with sellers who retain large ownership
- Have invested in over 100 companies since inception

Investment Approach

- Sustainable market positions in growing industries
- Advantages in products, technology, or processes
- Multiple locations and diverse customer and supplier bases
- Attractive return on capital characteristics
- Attractive return on capital characteristics
- Minority and Majority Positions

Recent Funds Raised to Date



Source(s): Crunchbase, WSJ

Strategic Rationale

Transaction Overview

The Deal and Strategic Rationale

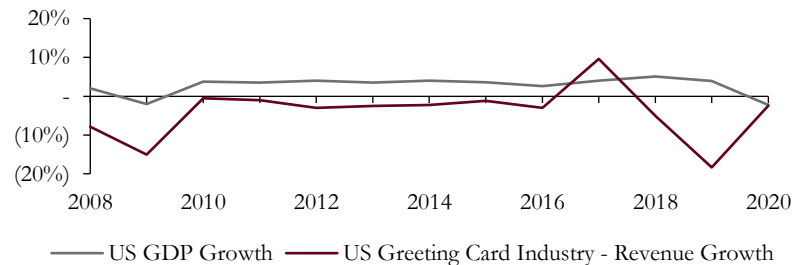


Transaction Overview

- The deal was announced on February 13th, 2018, and closed on April 6th, 2018
- CD&R acquired 60% of American Greetings through an estimated US\$660mm LBO, financed by a US\$470mm term loan and a US\$250mm revolving credit line
- The total transaction valuation is US\$1.1bn, and the Weiss Family—descendants of the founder—will retain a 40% stake in the business
- CD&R values the North American card industry at US\$6bn, and they see American Greetings as the market leader by account of volume of greeting cards sold

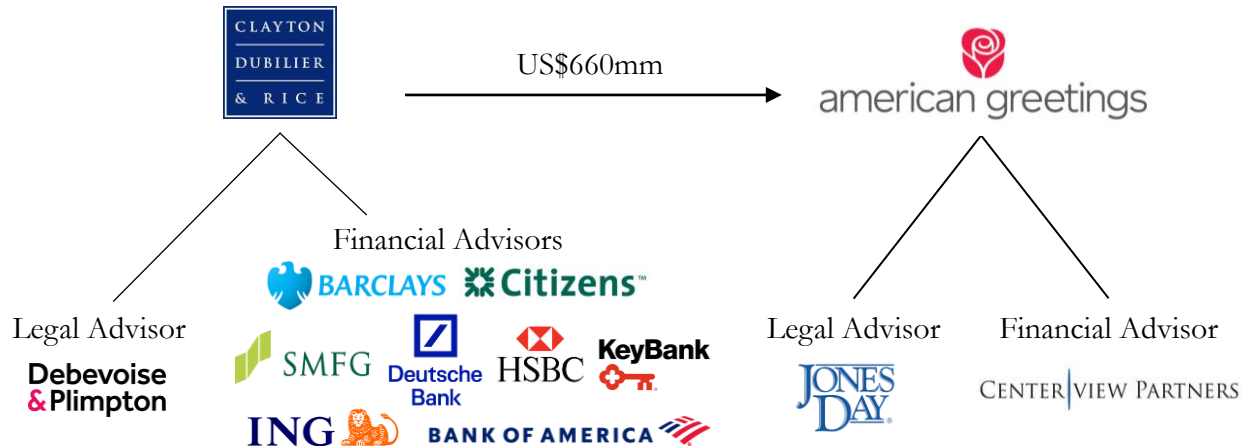
Greeting Card Industry Performance

John Beeder (former CEO at American Greetings) claims that the industry is “somewhat recession-proof”, reasoning that people spend more on cards when they can’t spend much on gifts



Transaction Map

CD&R’s financial advisors have all committed capital



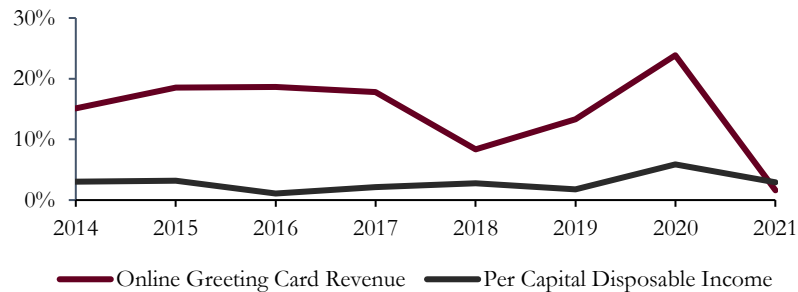
Transaction Overview

American Greetings is Primed for Sustainable Growth



Diversified Product Offerings

- American Greetings is the clear market leader in the space with a strong portfolio of valuable brands
- American Greetings also has a large online footprint, with one of the largest online greeting card offerings



Core Business Remains Strong

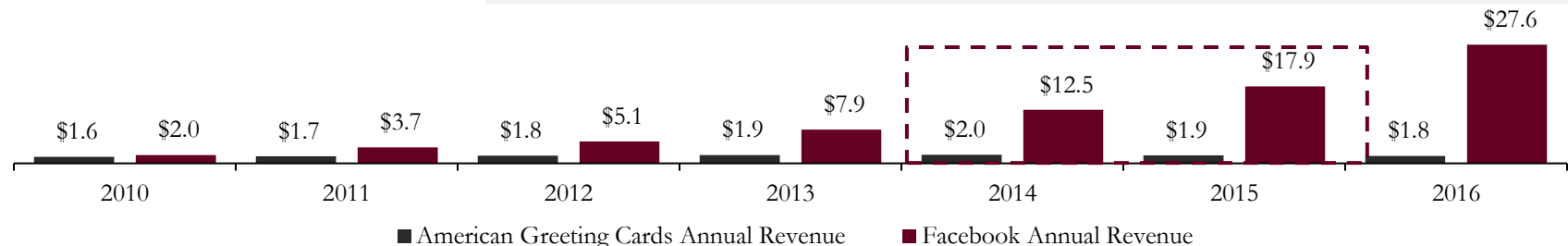
- For the big moments in life, consumers will always buy physical greeting cards, digital cannot replace that
 - Example: Weddings, Valentine's day, Birthdays
- Perceived sentimentality is materially higher with physical cards compared to eCards
 - 80% of consumers say that social media cannot replace greeting cards

Thanks to social media, birthdays and special occasions are recognized now more than ever. Companies with diversified product offerings and large geographic reach and primed to capitalize on this trend

Opportunities for Growth

- CD&R believes that American Greetings is not just a player in a declining industry, rather, it is a high growth trajectory business, with a lot of room for improvement, operationally and cost wise
- American Greetings has a track record of sustainable bolt on acquisitions which improves both core and non core operations
- American Greetings needs to continue to leverage non-organic growth tactics to boost card prices, raise revenues, and pay for investment in digital products

Digitization of social interaction has caused a temporary decline in revenues, however, posing the opportunity for increased digitization and growth in core businesses and operational efficiency



Transaction Overview

The Deal and Strategic Rationale



Successful Track-Record of Value Addition






- Roberto Quarta, a CD&R partner, cites that the private equity ownership model is particularly well suited for transition periods when dramatic adaptation is required
- CD&R is known for its “operating LBOs” rather than “traditional pure-finance LBOs”
- The firm believes that the foundation for value addition in PE boils down to improving operating performance by (1) creating efficiencies, (2) improving margins, and (3) employing innovative growth strategies
- As such, the firm focuses more on operational risks and earnings potential than DCF or EBITDA-based multiples when valuing potential acquisitions

CD&R Consumer Portfolio



Case Studies

The American Greetings transaction is most reminiscent on the B&M Retail deal due to a similar partnership between CD&R and the Arora family (B&M), and CD&R and the Weiss family (American Greetings)

				 american greetings
<p>1991: IBM</p>	<p>1996: Kinko's</p>	<p>2005: Hertz</p>	<p>2013: B&M Retail</p>	<p>2018: AG</p>
<ul style="list-style-type: none"> • Transitioned IBM's troubled typewriter and printer division into the laser-printer business; exited after six years 	<ul style="list-style-type: none"> • Streamlined the copy-shop (Kinko's); exited via sale to FedEx for US\$2.2bn in 2003 	<ul style="list-style-type: none"> • Orchestrated the 2012 US\$2.6bn merger between Hertz and Dollar Thrifty Automotive Group 	<ul style="list-style-type: none"> • A family-owned, discount retailer with distribution challenges; CD&R added stores and opened warehouses across Europe 	<ul style="list-style-type: none"> • Outcome is uncertain, but may reflect B&M's exit (2014 IPO, the Arora family has since partially exited; CD&R fully exited in 2018)

Sources: CD&R Company Website, Cleveland.com, Harvard Business Review, Pitchbook

Transaction Overview

Perfect Alignment with CD&R's Thesis



Transaction Aligns With CD&R's Continuously Developing Portfolio

Leading Sustainable Market Position



Target in 'Transitional Period'



Competitive Advantage Through Differentiated Products



Opportunities for Operational and Productivity Enhancement



Transaction Overview

Perfect Alignment with CD&R's Thesis



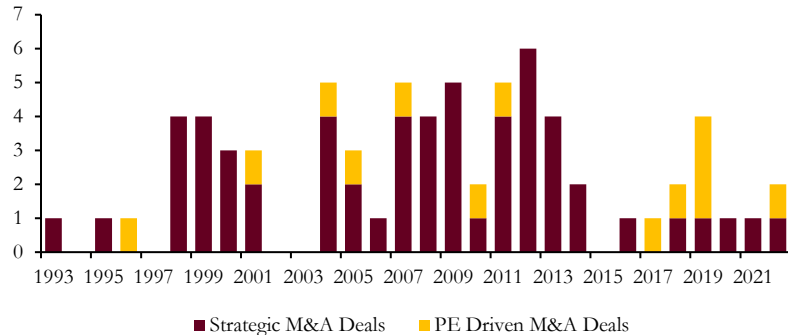
Transaction Aligns With CD&R's Continuously Developing Portfolio

<p>[x]</p>	
<p>[x]</p> <p>CD&R's Acquisition of American Greetings strongly aligns with CD&R's acquisition strategy; acquiring a market leader in a transitional period, with strong growth potential and a defensible market position</p>	
<p>[x]</p>	
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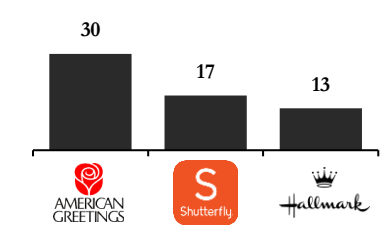
Valuation

30-Year Look at Transaction Activity in Personalized Print Services Shows Concentrated Interest

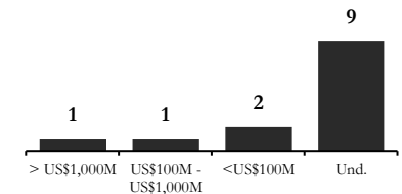
Historical Annual Transaction Activity



Strategics – Total Deals Completed



PE Deal Activity by Purch. Price

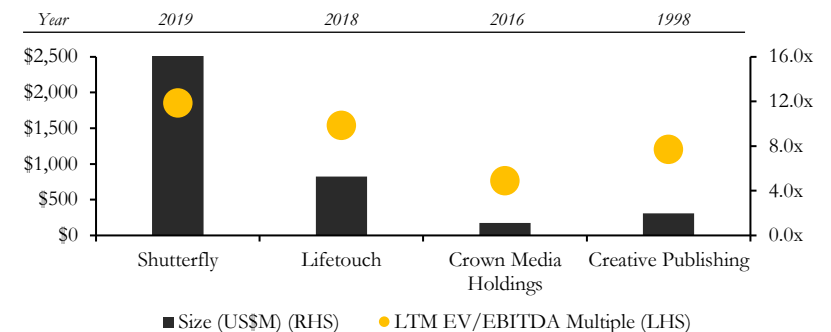


The two largest greeting card players comprise a significant portion of deal activity, while most sponsor interest comes from middle-market funds with the exception of a few buyouts

Common Strategic Rationale for Deals

- Product Expansion** – AG and close competitors will buy smaller companies that have new and growing digital or paper products and intellectual property
- Channel Development** – digital capabilities, online sales, and direct-to-consumer channels are all a priority for incumbents
- Portfolio Synergies** – sponsors will generally hold assets for longer than 5 years and try to realize synergies with other consumer printing/media holdings

Key Public Deals

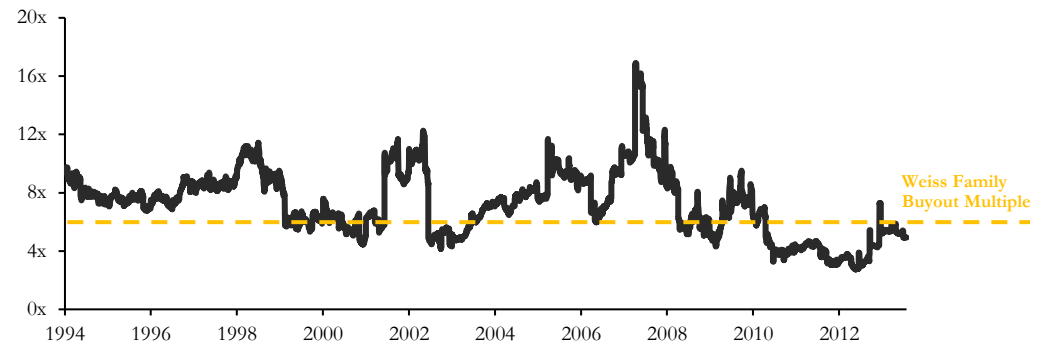


There are few companies large enough to be publicly traded in the space, but EV/EBITDA multiples have ranged from 4.4x to 11.9x

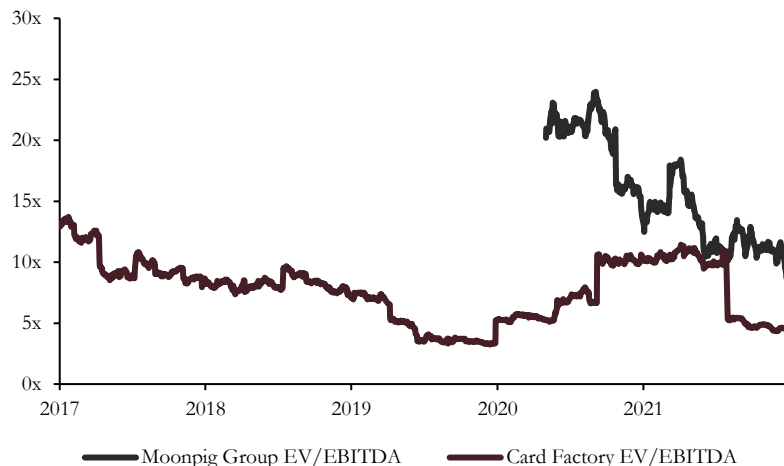
American Greetings – Previous Ownership History

- In 2013, American Greetings was subject to a buyout from the Weiss family for US\$19/share, amounting to \$878M in total transaction value and a 13% premium
- The buyout represented a **~5.8x multiple on LTM EV/EBITDA**
- Historically, the business has traded as high as ~9.0x consistently but the multiple fell as business strength declined leading up to the Weiss family recapitalization

Historical EV/EBITDA Multiple During Period as a Public Company



Multiples for Other Public Companies



Case: Gibson Cards Buyout

- In 1982, Raymond G. Chambers and former U.S. Treasury Secretary William E. Simon purchase Gibson Greeting Cards for US\$80M
- **The transaction was funded by \$1M in equity and \$79M in debt from Barclays and General Electric Finance**
- The businesses underwent an initial public offering 18 months later at \$27.50/share, representing a total valuation of \$290M
- **Each partner earned ~200x return on their initial investment, each turning \$330,000 into \$65M in under two years**
- Gibson Greeting Cards was later purchased by American Greetings in 1999 for \$162M

Appendix

Historical Global M&A Activity in Personalized Print Services

Date	Target	Target Domicile	Buyer	Seller	Type	Total Value	EV/EBITDA
2022	Artifact Uprising	US	Summit Park Partners	Pine Street Capital	PE		
2022	Smartbox Group	France	Moonpig Group	Smart & Co	M&A	£124M	
2021	Spoonflower	US	Shutterfly	Guidepost Growth Management	M&A	US\$255M	
2020	Blurb	US	Reischling Press	Anthem Venture Partners	M&A		
2019	Budget Greeting Cards	UK	Ardenton Capital		PE		
2019	Sendmoments	Germany	Arcus Capital		PE		
2019	Shutterfly	US	Apollo Asset Management	-	PE	US\$2,700M	11.9x
2019	Hallmark Business Connections	US	Incomm Holdings	Hallmark Cards	M&A		
2018	American Greetings	US	CD&R	Weiss Family	PE		
2018	Lifetouch	US	Shutterfly	-	M&A	US\$825M	9.9x
2017	Artifact Uprising	US	Digital Fuel Capital		PE		
2016	Crown Media Holdings	US	Hallmark Cards		M&A	US\$175M	4.9x
2014	GrooveBook	US	Shutterfly	Dot Copy	M&A	US\$15M	
2014	AG Industries	US	RockTenn	American Greetings	M&A		
2013	BorrowLenses	US	Shutterfly		M&A		
2013	R&R Images	US	Shutterfly		M&A		
2013	MyPublisher	US	Shutterfly		M&A		
2013	ThisLife	US	Shutterfly		M&A		
2012	William Arthur	US	Crane & Co.	Hallmark Cards	M&A		
2012	Penguin Digital	US	Shutterfly		M&A		
2012	Clinton Cards	US	American Greetings		M&A		
2012	Photocchino	US	Shutterfly		M&A		
2012	SpiritClips	US	Hallmark Cards		M&A		
2012	Kodak Gallery	US	Shutterfly	Eastman Kodak	M&A	US\$24M	
2011	Cardstore	US	American Greetings		M&A		
2011	Smilebox	US	Perion Network	Frazier Management	M&A	US\$25M	
2011	Tiny Prints	US	Shutterfly		M&A	US\$333M	
2011	Watermark Publishing	UK	American Greetings		M&A		
2011	The Picture People	US	Blackstreet Capital	Hallmark Cards	PE	US\$150M	
2010	WMSG	US	Shutterfly		M&A	US\$6M	
2010	Paperchase Products	UK	Primary Capital	Borders Group	PE	US\$31M	
2009	Certain Inventory Assets	US	Amscan	American Greetings	M&A	US\$25M	
2009	Tiny Pictures	US	Shutterfly		M&A	US\$1M	

Source(s): Bloomberg, Capital IQ

Historical Global M&A Activity in Personalized Print Services

Date	Target	Target Domicile	Buyer	Seller	Type	Total Value	EV/EBITDA
2009	Preclick	US	Smilebox		M&A		
2009	Wholesale Operations	US	American Greetings	Western Presidio Service	M&A	US\$18M	
2009	Retail Operations	US	Schurman Fine Paper	American Greetings	M&A	US\$6M	
2008	Recycled Paper Greetings	US	American Greetings		M&A		
2008	Strawberry Shortcake	US	Cookie Jar Entertainment	American Greetings	M&A	US\$195M	
2008	Card Connection	US	American Greetings		M&A		
2008	Nexo Systems	US	Shutterfly		M&A	US\$15M	
2007	Photoworks	US	American Greetings		M&A	US\$23M	
2007	Webshots	US	American Greetings	CNET Networks	M&A	US\$45M	
2007	Make it About Me!	US	Shutterfly		M&A		
2007	Learnings Horizons	US	Evolution Capital Partners	American Greetings	PE		
2007	Certain Product Lines	US	Light House Candles	American Greetings	M&A		
2006	Paramount Cards	US	Hallmark Cards		M&A	US\$8M	
2005	RHI Entertainment Dist.	US	Kelso & Co.	Hallmark Cards	PE		
2005	Memory Matrix	US	Shutterfly		M&A		
2005	Collage Designs	US	American Greetings		M&A		
2004	The Hatchery	US	American Greetings		M&A		
2004	Certain Assets	US	Lawhon Seed	American Greetings	M&A		
2004	Magnivision	US	AAi.FosterGrant Inc	American Greetings	M&A		
2004	Paperchase Products	UK	Borders Group	Graphite Capital Management	PE	US\$35M	
2004	K-Mobile	France	American Greetings	3i Group	M&A		
2001	BlueMountain	US	American Greetings	At Home Corp.	M&A	US\$35M	
2001	M&D Industries	US	Goldman Sachs	American Greetings	PE		
2001	Egreetings Network	US	American Greetings		M&A	US\$25M	
2000	eAgents	US	American Greetings		M&A		
2000	CPS Corp.	US	American Greetings		M&A		
2000	Gift Certificate Center	US	Hallmark Cards		M&A		
1999	Gibson Greetings	US	American Greetings		M&A	US\$162M	
1999	Contempo Colours	CAN	American Greetings		M&A		
1999	Dayspring Cards	US	Hallmark Cards		M&A		
1999	The Picture People	US	Hallmark Cards		M&A		
1998	Tapper Candies	US	Hallmark Cards		M&A		
1998	Interart	US	Hallmark Cards		M&A		

Source(s): Bloomberg, Capital IQ

Historical Global M&A Activity in Personalized Print Services

Date	Target	Target Domicile	Buyer	Seller	Type	Total Value	EV/EBITDA
1998	Creative Publishing	US	Hallmark Cards		M&A	US\$307M	7.7x
1998	Hanson White	US	American Greetings		M&A		
1996	Paperchase Products	UK	Graphite Capital Management	WH Smith	PE		
1995	John Sands	AUS	American Greetings	Amcor	M&A		
1993	Magnivision	US	American Greetings		M&A		