AMERICAN GREETINGS CORP
Form DEFA14A
July 18, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

x Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

American Greetings Corporation

(Exact name of Registrant as specified in its charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

The following presentation was delivered to Institutional Shareholder Services today.

American Greetings
Investor Presentation
July 18, 2013

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Valuation
Topics
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X
X
X
X
X
X

Transaction Summary
Merger Price:
3
Offer Premium:
Shareholder Meeting:
Required Vote:
On April 1, 2013, American Greetings Corporation announced that it had signed a definitive agreement under which the Weiss Family would acquire the Company for $18.20 in cash. On July 3, 2013, AG announced that it had signed an amendment to the merger agreement providing for an increased per share price of $19.00 in cash
Funding:

$19.00 per share in cash for all shares not owned by the Family and related entities

In addition, a regular quarterly dividend of $0.15 paid in July 2013

32.5%
to
the
9/25/12
stock
price
(unaffected
closing
price
prior
to
the
Family s
initial offer); **33.1%** to the average stock price for 45-days prior to initial offer

18.0%
to
the
3/28/13
stock
price
(last
trading
day
prior
to
the
public
announcement
of a definitive merger agreement)

26.5%
to
the
LTM
EBITDA
multiple
over
average
LTM
EBITDA
at
9/25/12

4.4%
to the $18.20 price per share under the original merger agreement

Transaction financed through:

Contributions of American Greetings shares owned by the Family

~$240 million non-voting preferred stock investment from Koch AG Investment

$600 million in committed debt financing ($350 million funded term loan and $250 million partially funded revolving credit facility)

August 7, 2013

Affirmative vote of holders of a majority of the common stock not held by the Family and related entities or any director or executive officer (Majority of the Minority)

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Strategic Rationale
Executive Summary

American Greetings is at an inflection point

Paper greeting cards and gift packaging constitute ~88% of our business, and the market is shrinking we are experiencing persistent year-over-year declines in sales of the core greeting card business, due to combination of a number of factors, including:

A shrinking base of card and gift shops

Increasing distribution through the value channel

The effects of the explosion of social media

Opportunities in the electronic social expressions channel of distribution exist, but require substantial investment and entail significant execution risk

Substantial
required
deferred
maintenance
spending
on
IT
systems
and
new
or
substantially rehabilitated headquarters

Company requires capital investment at roughly 3x normal levels over next three years

Transaction transfers all business risk to the Family; gives public shareholders certainty of cash at a significant premium
5

Strategic Rationale
Executive Summary (cont d)

The Company s stock has consistently underperformed in trading markets

Strategy of returning cash to shareholders (over $1 billion to Class A public shareholders through dividends and repurchases since FY2005) has not been successful in driving share price performance

The following are likely contributing to weak stock performance: core market shrinking, revenue growth challenges, margin pressures, complex changes in portfolio of businesses, lack of comparable companies, virtually no analyst coverage and necessary investments

Many investors are under pressure to produce short-term and intermediate returns, especially in today s low-yield environment, making it difficult to hold shares through business transformations,

and
creating
further
downward
pressure
on
share
price

During this period, share prices will likely be put under pressure

Transformational expenses will detract from AG s results of operations

The
Family
has
controlled
AG
for
over
100
years,
and
wants
to
do
what
is
best
for
AG
while being fair to public shareholders the Family does not think the required transformation can realistically be achieved as a public company
6

If the transaction is voted down, the capital that must be redeployed into the business for the foreseeable future will not be available to shareholders

American Greetings engages in the design, manufacture and sale of greeting cards and other social expression products in the United States and internationally

Segments include:

North American Social Expression Products (includes Cardstore.com)

International Social Expression Products

Interactive or internet brands (e.g., AmericanGreetings.com, BlueMountain.com, egreetings.com)

UK Retail (Clintons)

Other, including in-store display fixture business and licensing of intellectual properties (e.g., Care Bears and Strawberry Shortcake)

The Company distributes its greeting card products through mass merchandisers, dollar stores, chain drug stores, supermarkets, card and gift shops

Business Overview

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FY2013 Revenue Breakout by Segment / Product Category

74% of FY2013
Revenue came from
Core Paper Greeting
Card sales

2.6
2.5
2.5
2.4
2.3
2.3
2.0
2.2
2.4
2.6
2.8
3.0
CY07
CY08
CY09
CY10
CY11
CY12
6.2
6.1
6.0
6.0
5.9
5.9
5.7
5.8
5.9
6.0
6.1
6.2

6.3
CY07
CY08
CY09
CY10
CY11
CY12
Greeting Cards Industry Faces Persistent,
Accelerating Decline

Mature greeting cards industry experiencing long-term and accelerating unit decline (2%-4% decline / year since CY 2007)

Pace of decline meaningfully accelerated in 2011 and 2012, despite improved economy

Most lucrative heavy user
customer base saw declining volume in 2012 (-1.5%)

Social media, including Facebook and other e-greeting technologies, have exerted competitive pressure on American Greetings and the industry overall

While price increases have softened the revenue impact, sustainability is uncertain given absolute prices, emergence of mass retailers/dollar stores and increasing electronic pressures
8
Source:
IRI
scan
data,
AG
proprietary
consumer
surveys,
management
estimates.
Units
Dollars
U.S. Greeting Card Industry Units and Dollar Sales Trends
Billions
CY07-CY12 CAGR: (2.6%)
Billions
CY07-CY12 CAGR: (0.8%)

Declining Industry Trends

Consumer
purchases
driven
more
by
selection
and
convenience
than
by
brand

Adult participation in social networking and media has grown to ~52% in 2012 from ~11% in 2006

Retailer consolidation increases retailer purchasing power

Channel shift
Mass retailers and dollar stores growing share as card and gift shops
(specialty retail) decline

More volume sold at lower price points and lower margins

Electronic channels of social expression have emerged as potentially major disruptors to our core industry
9
Source: IRI scan data, AG proprietary consumer surveys, management estimates.
(a) Does not include e-cards
Card Category History and Projections by Channel
Units
Dollars

Stock Price Performance
10
Source: Capital IQ as of 7/2/13.
(a) Represents closing price as of 9/25/12, unaffected for announcement of Initial Offer, which was made after the market clos

In the two years prior to the initial Family offer, AG s stock price was **down 30%** despite having returned over $180 million of capital to shareholders in that period

In
the
same
period,
the
S&P
400
Consumer
Discretionary
Index
was

up
40%

Correlation
between
AG s
stock
price
and
the
broader
market
has
been
very
low
over
both
short-
and long-term periods

Trading Ranges Nearly Always Below Final Offer
11
30-Days
Between 9/25 Initial Proposal and 7/2 (191 Days)
180-Days
1-Year
Source: Capital IQ as of 7/2/13.

99% of shares traded over the one-year period prior to the Family s initial proposal traded below $19.00

100% of shares traded below $16.50 in the six months prior to the initial proposal
(Period ending September 25, 2012, except where noted)

American Greetings 15-Year Stock Price Chart
Marked Decline in Equity Value
American Greetings 15-Year Total Shareholders' Equity Value History
Source: Capital IQ.
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Lackluster Stock Price Performance Despite
Major Return of Capital to Shareholders

Since FY2005, AG has returned over $1 billion of capital to Class A public shareholders
through share repurchases and dividends

Despite major share repurchases and dividends, AG s unaffected stock price has declined
38% since 2005 and 82% since 1997; the Company s strategy of returning significant
capital to shareholders has not been successful
Deployment of Capital to Class A Shareholders ($ in millions)
13
Source: Company s public filings. Class A dividends calculated by applying ratio of average Class A shares outstanding to av

Limited Benefit to Being Public
Source: Bloomberg, Capital IQ, ThomsonOne
(a) ADTV calculated as averaged trading volume over 30 consecutive trading days

Lack
of
comparable
public
companies
discourages investment in equity research and
investor education

Largest competitor (Hallmark Cards) is privately
owned

Social expressions is an adjacent market to
consumer goods, limiting interest from institutions
focused on the consumer goods markets

Many of the standard benefits enjoyed by public
companies do not exist for American Greetings

Limited institutional support
only one equity coverage
analyst

Industry fundamentals do not support future equity
research coverage or institutional investment

Average daily trading volume and declining public share
float further hinder liquidity and appetite for public
investment

On average over the six months prior to the Family s
initial offer, short interest accounted for 40% of AG s
share float
investors have recognized that our core
market is shrinking
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Shares Outstanding and Average Daily Trading Volume ("ADTV")
(a)
Industry Fundamentals
Limited
Institutional
Support

AG
Equity
Coverage
Analysts

American Greetings is at a Significant Competitive Disadvantage as Long as it is Publicly Traded

American Greetings largest competitor is privately held and able to invest and re-invest in its business without the pressure to produce period-over-period revenue, earnings and cash flow growth

Expanding business with retail customers can require significant upfront expenses before revenue and profit are generated, thereby putting substantial pressure on short-term results and causing earnings volatility

American Greetings recently developed a significant new customer relationship with a national retailer; however, assuming a contract is signed, the relationship would require substantial investment in the early years and has a negative NPV over the first five years

After American Greetings publicly reports strong operating results, commercial negotiations become more difficult as retail customers push contract terms

As a private company, American Greetings will be subject to less commercial negotiating stress, and be better able to optimize its retail partner negotiations much like its largest competitor

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Industry Challenges and Necessary Redirection of
Capital Increase Downside Risks for Public Holders

Persistent decline in the core paper greeting cards industry of 2%-4% unit volume annually (including 3.7% decline in most recent year)

Intensifying risks to the core paper greeting cards industry posed by transition to the use of social media, decrease in number of specialty retailers and growing proportion of value channel sales

Material costs associated with investments in online/digital social expression products with uncertain return

Increasing concentration of retailers exacerbates pressure on commercial terms

The Company will continue to support investment in the value channel as a source of potential unit growth, despite negative implications on margins

Alternatives evaluated, such as a substantial special dividend or leveraged recapitalization transaction, would reduce the Company s flexibility and jeopardize the equity value of the Company

Substantial investments required over the next several years (restructuring Clinton Cards, modernization of IT systems, new or significant rehabilitation of headquarters) will adversely affect earnings and cash flow

These factors, taken collectively, evidence significant challenges facing the Company were it to remain public, and support the recommendation to deliver certain value to shareholders
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Process
Executive Summary

Fully independent Special Committee advised by nationally recognized independent advisors

Financial advisor s fees not conditioned on rendering a favorable opinion as to the transaction

Special Committee empowered to consider/pursue alternatives and to reject any proposed transaction

The Family did not participate in any board deliberations concerning the proposal

Transaction conditioned on majority of the minority vote

Standstill after public announcement of Family proposal to ensure negotiating leverage and adequate time for a third party to express interest (no such interest was expressed)

Special Committee negotiated a substantial increase in Family s offer price

Special Committee continued to evaluate the Company after the March 28, 2013 agreement was reached, and extracted additional value for shareholders
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Experienced / Independent Special Committee
and Independent Advisors
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The Special Committee:

Dr. Scott S. Cowen: President of Tulane University, former Dean of Case Western Reserve University, former Chairman of Special Committee for Jo-Ann Stores going-private LBO

Jeffrey D. Dunn:
Former President and Chief Executive Officer and director of HIT Entertainment Limited

William E. MacDonald, III: Former Vice Chairman of National City Corporation

Michael
J.
Merriman,
Jr.:
Former
CEO
of
Lamson
&
Sessions
Corporation
Advisors to the Special Committee:

Peter J. Solomon Company, financial advisor

Sullivan & Cromwell, legal advisor

Key Process and Proposal Highlights

American Greetings was founded by Jacob Sapirstein in 1906, and has remained controlled by descendants of Jacob Sapirstein (now the Weiss Family) throughout the Company s existence

A/B voting structure in existence since 1955; public shareholders invested knowingly into Family-controlled company with an A/B voting structure

During the six-month public process, prospective parties interested in contacting the Special Committee or PJSC were able to do so

On 10/19/12, the Company issued a press release stating that the Special Committee was authorized to review and evaluate other options, signaling openness to third-party approaches

No third party expressed interest in acquiring or entering into any other transaction with the Company during that six-month period (or to date)

A standstill provision prohibited the Family from pursuing a bid (or taking certain other related actions) without the consent of the Special Committee

Record reflects extensive negotiation by the Special Committee

The
Family
did
not
participate
in
any
deliberations
of
American
Greetings
Board
of
Directors regarding the proposal

Special Committee actively controlled Family access to company management
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Robust Special Committee Process

Board of Directors delegated to the Special Committee the exclusive power and authority to recommend what action, if any, should be taken with respect to the Family s proposal

The Committee could have just said no, or approved a financial alternative

Counsel for Special Committee and Family negotiated confidentiality agreement with standstill

Contained 22-week standstill provision that limited the ability of the Family
to make a
proposal directly to the Company s shareholders or to purchase shares

Special Committee also obtained a 12-month standstill from the Family s potential financing sources, effectively limiting the ability of the Family to acquire the Company without Special Committee approval

Special Committee of four independent directors also empowered to consider and recommend that the Board take action with respect to strategic alternatives, including the ability to reject the Family s proposal and remain a public company or pursue a financial alternative

The Special Committee met 27 times between its formation and original announcement of the transaction and evaluated alternatives, including:

Continuing as a stand-alone public company

Undertaking a recapitalization (including share repurchases and/or dividends)

Sale of Company to the Family

The Special Committee met an additional seven times between the original announcement of the transaction and the announcement of the amendment to the merger agreement
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Robust Special Committee Process (cont d)

The Board fully considered and adopted the Special Committee s recommendation in making its decision to unanimously recommend the transaction to the shareholders

The Special Committee demanded and secured Majority of the Minority shareholder approval requirement; shares beneficially owned by directors, officers and the Family not counted in Majority of Minority vote

Negates voting interest of Family and other officers and directors

Remaining Class B shares receive only one vote

Enables public shareholders to determine whether transaction will occur

The Special Committee continued to evaluate the Company after the original merger agreement was signed, and demanded and secured an enhancement in the per share merger consideration

The Family Shareholders believe that the financial developments during the Company s first fiscal quarter of 2014 were neither material nor reflective of any fundamental improvement in the

trajectory
of
American
Greetings
business;
nevertheless, the Special Committee was able to extract an additional 4.4% premium
($0.80 per share) for the public shareholders
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Arm s-Length Legal Negotiations

On behalf of the Family, Jones Day delivered the first draft of the Merger Agreement on January 19, 2013, and the agreement was negotiated by Jones Day and Sullivan & Cromwell until March 29, 2013. As compared to Jones Day s initial draft of the agreement, the final version reflects several key concessions secured by the Special Committee, including:

The Majority of the Minority shareholder vote

A $7.3 million joint and several guaranty from the Family with respect to the obligations of the purchasing entities

The
Special
Committee's
ability
to
change
its
recommendation
due
to
an
intervening
event
affecting AG s prospects as a publicly traded company

The obligation of the Family Shareholders to deliver a fully executed preferred stock purchase agreement for the preferred equity concurrently with the execution of the Merger Agreement, as opposed to simply providing a commitment letter

More favorable language on customarily negotiated items such as representations, warranties, covenants and other provisions affecting closing certainty

The cancellation, without consideration, of the various equity awards held by the Family Shareholders with an aggregate value of over $9.3 million
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Valuation
Valuation Overview

Special Committee believes that the $19.00 per share consideration (reached after prolonged negotiations) represents the highest per share consideration it could obtain from the Family

$19.00 proposal represents a 32.5% premium to the 9/25/12 unaffected closing price prior to the Family s initial proposal

Company s financial results in recent years have been significantly affected by non-recurring, one-time and other special items

~40% of FY2013E Adjusted EBIT was related to one-time adjustments

Makes it difficult to identify clear trends in the Company s business and the Company s likely future financial performance

Results in inconsistent cash flows

Company s EBIT has consistently underperformed relative to strategic plans, raising concerns about certainty of future EBIT forecasts
25

$12.50
$15.25
$13.00
$16.00
$16.75
$17.00
$19.50
$25.00
$22.50
$23.25
$25.50
$23.00
$10.00

$12.50
$15.00
$17.50
$20.00
$22.50
$25.00
$27.50
52-Week Trading Range Prior
to 9/25/13 Offer
Comparable Companies
Precedent Transactions
Present Value of Future Share
Price (a)
Sum of the Parts
DCF
26
(a)
Includes
present
value
of
future
quarterly
dividend
payments
of
$0.15
per
share.
Valuation Analysis Summary
1/17/13
Offer
Unaffected Share
9/25/12
$14.34
$17.18
9/25/12
Initial Offer
3/28/13
Offer
$18.20
7/1/13
Offer
$19.00

Compelling Offer to Shareholders

Attractive Premium

32.5% premium to unaffected share price prior to Family s initial proposal (9/25/12)

33.1% premium to 45 trading day average prior to Family s initial proposal

18.0% premium to closing stock price prior to announcement of original definitive merger agreement (3/28/13)

4.4% premium to the price per share contained in the original March 29, 2013 merger agreement

Premium Multiple

4.0x FY13E EBITDA based on Management Treasury Model dated 11/30/12 with certain adjustments based on Management guidance

Represents a 29.3% premium to the average LTM EBITDA multiple over American Greetings prior year average LTM EBITDA multiple

More favorable to the Company s shareholders than the status quo or other strategic and financial alternatives given the operational and/or financial risks associated with the status quo or other alternatives

$19.00 per share compared to valuation methodologies

Discounted cash flow: $17.00 to $23.00

Selected public company analysis: $15.25 to $25.00

Precedent transactions: $13.00 to $22.50

Present value of future share price: $16.00 to $23.25

Sum of the parts: $16.75 to $25.50

Company shares have not historically correlated with broader equity markets and it cannot be assumed that recent positive trends in overall market conditions would similarly affect the Company s shares in absence of an offer
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Note:
American
Greetings
has
no
substantially
similar
publicly
traded
comparable
companies

Premium Valuation Achieved
28
$14.34
$17.18
$17.50
$18.20
$19.00
10.00
12.00
14.00
16.00
18.00
$20.00
$14.34
$17.18

$17.50
$18.20
$19.00
10.00
12.00
14.00
16.00
18.00
$20.00
8.6% premium to
Revised
Proposal on 1/17
(a)
Revised Proposal on 1/17/13 would eliminate regular quarterly dividends of $0.15 per share.
(b)
Revised Proposal on 3/28/13 also includes one regular quarterly dividend of $0.15 per share payable July 2013 (not included a
Unaffected
Share Price
Initial
Proposal
On 9/25/12
Revised
Proposal on
1/17/13 (a)
Revised
Proposal on
3/28/13 (b)
10.6%
premium to
Initial Proposal
32.5%
premium to
unaffected
share price
Premium
to
Unaffected
Trading
Price
and
Earlier
Proposals
by
the
Family
Final Offer
4.4% premium to
Revised Proposal
on 3/28

Premium Valuation Achieved
29
$12.50
$14.25
$14.34
$16.10
$18.20
$19.00
10.00
12.00
14.00
16.00
18.00
$20.00
Unaffected

Share Price
18%
premium to
prior day
closing
stock price
(a) Revised Proposal on 3/28/13 also includes one regular quarterly dividend of $0.15 per share payable July 2013 (not include
52-Week
Low Prior to
Initial
Proposal
Closing
Stock Price
on 3/28/13
32.5%
premium to
unaffected
share price
33.3%
premium to 30
calendar days
prior to Initial
Proposal
30 Calendar
Days Prior
to Initial
Proposal
52.0%
premium to
52-week low
prior to Initial
Proposal
Revised
Proposal on
3/28/13 (a)
Premium to Various Historical Stock Prices
Final Offer
4.4% premium to
Revised Proposal
on 3/28

Offer Represents Significant Premium
Source:
Capital
IQ.
Capital
IQ
calculation
of
enterprise
value
does
not
include

restricted
stock
units
or
performance
shares
and
may
have
different
adjustments
for
EBITDA
than
those
used
in
other
analyses
in this
presentation. Data as of 7/2/13.
(a) CapIQ calculates LTM EV/EBITDA multiple using EBITDA of $150.1mm for period ended 2/28/13 compared to adjusted
(b)Current multiple assumes LTM EBITDA of $212.3mm and net debt of $200.3mm for the period ended 2/28/13 based on Co
guidance. Current multiple calculated using diluted share count including restricted stock units and performance shares and tre
30
EV / LTM EBITDA
2 years prior to Initial Proposal

50%
75%
100%
125%
150%
175%
200%
Sep-09
Mar-10
Sep-10
Mar-11
Sep-11
Mar-12
Sep-12
American Greetings
S&P 400 Consumer Discretionary
0%
25%
50%

75%
100%
125%
150%
Sep-07
Sep-08
Sep-09
Sep-10
Sep-11
Sep-12
American Greetings
S&P 400 Consumer Discretionary
0%
50%
100%
150%
200%
250%
300%
Sep-97
Sep-00
Sep-03
Sep-06
Sep-09
Sep-12
American Greetings
S&P 400 Consumer Discretionary
0%
50%
100%
150%
200%
250%
Sep-02
Sep-04
Sep-06
Sep-08
Sep-10
Sep-12
American Greetings
S&P 400 Consumer Discretionary
10-Year Relative Stock Chart
15-Year Relative Stock Chart
5-Year Relative Stock Chart
Comparative Stock Price Performance
3-Year Relative Stock Chart
Source: Capital IQ.
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While the broader market has provided significant returns on equity investments over time, American

Greetings
has
significantly
underperformed
and,
in
most
periods,
has
not
provided
positive
return

Furthermore, in all observed time periods, American Greetings has demonstrated a lack of correlation with the broader consumer discretionary market
41.9%
253.9%
87.4%
223.6%
55.0%
134.0%
75.6%
168.1%
(Period ending September 25, 2012)
R
: 0.213
R
: 0.292
R
: 0.322
R
: 0.068
2
2
2
2

0.172
0.026
0.029
0.021
0.106
0.016
0.126
0.012
0.022
0.051
0.033
0.084
0.097
0.076
0.288
0.304
0.155
0.178
0.202
0.217

0.144
0.098
0.212
0.088
0.138
0.076
0.176
0.070
--
0.100
0.200
0.300
0.400
0.500
0.600
0.700
0.800
0.900
1.000
BTH
CSS
SCHL
MDP
ICON
CHKE
FLWS
SFLY
RRD
QUAD
HGG
GME
BBY
BKS
Low Trading Price Correlation to Comparables
Source: Bloomberg. R-squared is calculated as the weekly correlation between week over week change of the stock and Ameri
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In addition to the lack of correlation between AG s stock price and the S&P 400 Consumer Discretionary Index, movement in AG s stock price has a very low correlation with the selected comparable public companies

While we believe the selected group of comparable companies is as similar as possible to AG, there simply are not substantially similar comparable companies in the public market
1-Year (9/26/11 - 9/25/12)
5-Year (9/25/07 - 9/25/12)

Short Interest

Prior to the announcement of the Family s initial proposal, approximately 44% of AG s float was short

Similarly high short interest likely to return if transaction not consummated
AG Short Interest as Percent of Float
May 2012 to June 2013
33
Source: Short interest data from NYSE; float number from FactSet

A Leveraged Recap is Not a Viable Alternative

The Special Committee, after careful consideration, concluded that a leveraged recapitalization was not likely to lead to superior value.

Substantially greater debt levels would significantly increase AG s business risks by reducing (1) the Company s flexibility, (2) its ability to respond to adverse business developments, and (3) its ability to fund necessary deferred capital expenditures all of which is likely to jeopardize the equity value of the Company

The common equity of a recapitalized, more indebted Company might trade at lower multiples of EBITDA than it has traded in the recent past

The Company s resulting small equity capitalization could impair the liquidity and trading value of the Company s publicly held Class
A common shares

The potential economic benefits of such a dividend/recapitalization transaction are not likely to provide a value superior to the $19.00 per share merger consideration and the risks to realizing any superior value are considerable

AG s track record of substantial capital return to shareholders has
not been correlated with
creation of value in the stock price (over $1bn returned since FY2005; stock price down 35%); there is no reason to believe that markets would react differently to further capital return

It is likely that the very high level of short interest in AG (44% of share float prior to the Family s offer) would return

A leveraged recapitalization would not address the basic challenges of reshaping our business for the future as a public company
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Future Stock Price Analysis Based on Illustrative
Levered Recap
Source:
Share
count
for
LTM
based
on
diluted
shares
outstanding
as
of
5/31/13
per
Management;
FY14-FY18

based
on
diluted
shares
outstanding
from
Updated
Management
Treasury
Model
dated
6/23/13.
(Amounts in Millions, Except Per Share Data)
Fiscal Year
LTM
2014E
2015E
2016E
2017E
2018E
Adjusted EBITDA (c)
$216.9
$218.8
$230.9
$238.7
$245.5
% Growth
4.4%
(1.2%)
5.5%
3.4%
2.8%
Net Debt
461.6
475.5
423.6
391.1
268.4
116.0
Total Debt / EBITDA
2.4 x
2.1 x
1.9 x
1.7 x
1.1 x
0.5 x
Adj. EBITDA
Stock Price at End of Fiscal Year
Multiple
LTM

2014E
2015E
2016E
2017E
2018E
Projected Stock Price at Illustrative EV/Adjusted EBITDA Multiples:
3.4
x
$8.32
$8.42
$9.58
$11.60
$15.76
$20.56
3.6
9.63
9.77
10.88
12.96
17.15
21.96
3.8
10.94
11.11
12.19
14.32
18.53
23.37
4.0
12.24
12.46
13.50
15.68
19.92
24.77
4.2
13.55
13.80
14.81
17.04
21.30
26.18
4.4
14.86
15.14
16.12
18.40
22.69
27.58
4.6

16.17
16.49
17.42
19.76
24.07
28.98
4.8
17.48
17.83
18.73
21.11
25.46
30.39
Present Value at May 31, 2013
Present Value of Stock Price Assuming 13.5% Cost of Equity:
3.4
x
$8.32
$7.66
$7.67
$8.19
$9.81
$11.27
3.6
9.63
8.88
8.72
9.15
10.67
12.04
3.8
10.94
10.11
9.77
10.11
11.53
12.81
4.0
12.24
11.33
10.82
11.07
12.39
13.58
4.2
13.55
12.55
11.87
12.03
13.25

14.35
4.4
14.86
13.77
12.92
12.99
14.12
15.12
4.6
16.17
15.00
13.96
13.95
14.98
15.89
4.8
17.48
16.22
15.01
14.91
15.84
16.66
Present Value at May 31, 2013
Total Shareholder Value Including Present Value of Stock Price and
3.4
x
$16.32
$15.66
$15.68
$16.19
$17.81
$19.27
$8.00 Dividend, Assuming 13.5% Cost of Equity:
3.6
17.63
16.89
16.72
17.15
18.67
20.04
Assuming 100.0% Cost of Equity:
3.8
18.94
18.11
17.77
18.11
19.53
20.81
4.0
20.25

19.33
18.82
19.07
20.39
21.58
$221.5(d)
4.2
21.55
20.55
19.87
20.03
21.25
22.35
4.4
22.86
21.78
20.92
20.99
22.12
23.12
4.6
24.17
23.00
21.96
21.95
22.98
23.89
4.8
25.48
24.22
23.01
22.91
23.84
24.66

Assumes an $8.00 dividend is paid on 5/31/13, (a) using incremental borrowing of $265 million,

resulting
in
2.4x
Debt / LTM EBITDA

Assumes
no
make-whole
payment
on
existing
7.375%
Senior
Notes
(b)

Assumes suspension of regular $0.15 / quarter dividend
(a) Assumes $265mm of incremental leverage using Term Loan B at L + 450bps with 125bps floor (2.4x Total Debt / LTM EB
(b) Does not factor in potential consent fees or changes to interest rate.
(c) Source: LTM EBITDA as of 5/31/13 per Management on 6/25/13, with certain adjustments, including normalizing for 365-
Model dated 6/26/13, with certain adjustments to FY2014E EBITDA based on Management guidance.
(d) FY2014E Adjusted EBITDA includes $8.0 million of additional adjustments made in connection with the analyses perform

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Pro Forma Effect of Special Dividend
Mkt Cap Post Dividend
Stock Price Post Dividend
Proforma 5/31/13 Stock
Price Plus Dividend
(Amounts in Millions, Except Per Share Data)
Special
Dividend
Total $
Pro Forma
EV / Adj. LTM EBITDA Multiple (a)
Per Share
Distributed
Debt / EBITDA
3.4 x

3.6 x
3.8 x
4.0 x
4.2 x
4.4 x
4.6 x
4.8 x
$16.32
$17.63
$18.94
$20.25
$21.55
$22.86
$24.17
$25.48
$2.00
$66.3
1.5 x
$474.9
$518.2
$561.6
$605.0
$648.4
$691.7
$735.1
$778.5
$14.32
$15.63
$16.94
$18.25
$19.55
$20.86
$22.17
$23.48
$4.00
132.6
1.8 x
$408.5
$451.9
$495.3
$538.7
$582.1
$625.4
$668.8
$712.2
$12.32
$13.63
$14.94
$16.25
$17.55

$18.86
$20.17
$21.48
$6.00
199.0
2.1 x
$342.2
$385.6
$429.0
$472.4
$515.7
$559.1
$602.5
$645.9
$10.32
$11.63
$12.94
$14.25
$15.55
$16.86
$18.17
$19.48
$8.00
265.3
2.4 x
$275.9
$319.3
$362.6
$406.0
$449.4
$492.8
$536.2
$579.5
$8.32
$9.63
$10.94
$12.24
$13.55
$14.86
$16.17
$17.48
$10.00
331.6
2.7 x
$209.6
$253.0
$296.3
$339.7
$383.1
$426.5

$469.9
$513.2
$6.32
$7.63
$8.94
$10.25
$11.55
$12.86
$14.17
$15.48
Source: Share count based on diluted shares outstanding as of 5/31/13 per Management guidance.
Calendar Days
Prior to Initial Offer
Mean
Median
30 Days
3.2 x
3.2 x
60 Days
3.1 x
3.1 x
90 Days
3.1 x
3.1 x
6 Months
3.0 x
3.0 x
12 Months
3.1 x
3.1 x
18 Months
3.4 x
3.3 x
24 Months
3.5 x
3.5 x

In the 24 months preceding the Family s initial offer, the average EV/Adjusted LTM
EBITDA multiple was 3.5x
EV / LTM EBITDA
2 years prior to Initial Proposal
Note: Market capitalization calculated using the enterprise value based on LTM EBITDA of $216.9mm multiplied by the adju
per Management on 6/25/13, less cash used to issue dividends.
(a) Source: LTM EBITDA as of 5/31/13 from Management, with certain adjustments, including normalizing for 365-day per

Conclusion

Growth in the paper greeting card space has been negative and this trend is likely to continue

Growth in electronic channels may increase rapidly

American Greetings is at an inflection point; capital will be dramatically redirected

Capital must be redirected from a focus on returning capital to shareholders to investments in the core business including information technology and the electronic channel of distribution

AG s normal capital expenditures are approximately $50 million per year. In light of the conditions faced by the Company, up to $446 million (over 1.75x historical patterns) is estimated to be required over the next five years for:

Deferred expenditures in information systems technology;