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

1.
Transaction Summary
2.
Strategic Rationale
3.
Process
4.
Valuation
Topics
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1.
Transaction Summary
2.
Strategic Rationale
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Process
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Valuation
2
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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Transaction Summary
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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
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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
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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
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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
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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)

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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