

McIntire Investment Institute



Short Pitch: American Greetings Corp. (NYSE: AM)



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Presentation Outline

- Company Overview and Stock Summary
- Thesis Points
- Misperceptions
- Catalysts
- Risks
- Recommendation
- Questions



Company Overview

- #2 card seller – 70%
American Greetings
- AM & Hallmark – 83%
Papyrus
Recycled Paper
- Sale through Mass Retail
Carlton Cards
- No brick & mortar since Schurman (2009)
- Seasonality (7)
Gibson
- Dollar store entry
Tender Thoughts
Just For You



Stock Summary



- Share Price: \$15.43
- Market Cap: \$591.22M
- 52-Week range: \$12.47-24.84
- Earnings per Share: \$2.06
- P/E Ratio: 7.74
- EV/EBITDA: 3.66



Thesis Points

- Dying Industry
- Unfocused business plan
- Poor Management
- Changing Margin Structure
- Misperceptions



Dying Industry

- 1995 2.7B vs. 2006 1.5B
- Avg consumer age 46
- Low Barriers to Entry – Papyrus, Recycled Paper
 - 3000 domestic publishers
 - Intense competition
- Email, social media, Shutterfly, apps, printables



Unfocused Business Plan

- International segment
 - UK, Australia, New Zealand
 - 29% Rev growth, but no profits (1/6 of total Rev)
- Digital services – unused
- Acquisitions = upscale
 - Papyrus (2009)
 - Recycled Paper (2009) – Chapter 11 purchase
- Innovation – retailer exclusivity
- Entry into dollar store market – margins

Do You Recognize These Brands?

DesignWare

American Greetings.com

Plus Mark

BlueMountain.com

AGI In-Store

American Greetings

Egreetings.com

Bigson

Recycled Paper

Kiwee.com

Tender Thoughts

Papyrus

Webshots.com

Just for You



Poor Management

- “Efficiency”
 - Poor year 2009 – 20% net loss
 - Schurman(2009)
 - Dollar stores
- The New Headquarters
 - \$200M+
 - \$30M net – after 15 years of Ohio tax incentives

“..they’re building a monument to themselves..”

-Carla Carsella, JP Morgan Chase

Meet the Family

- Family management = not merit-based
 - Chairman of the Board Morry Weiss
 - CEO Zev Weiss
 - CFO Jeffrey Weiss
 - Senior VP Erwin Weiss
- Family – 90% class B shares, 43% voting power

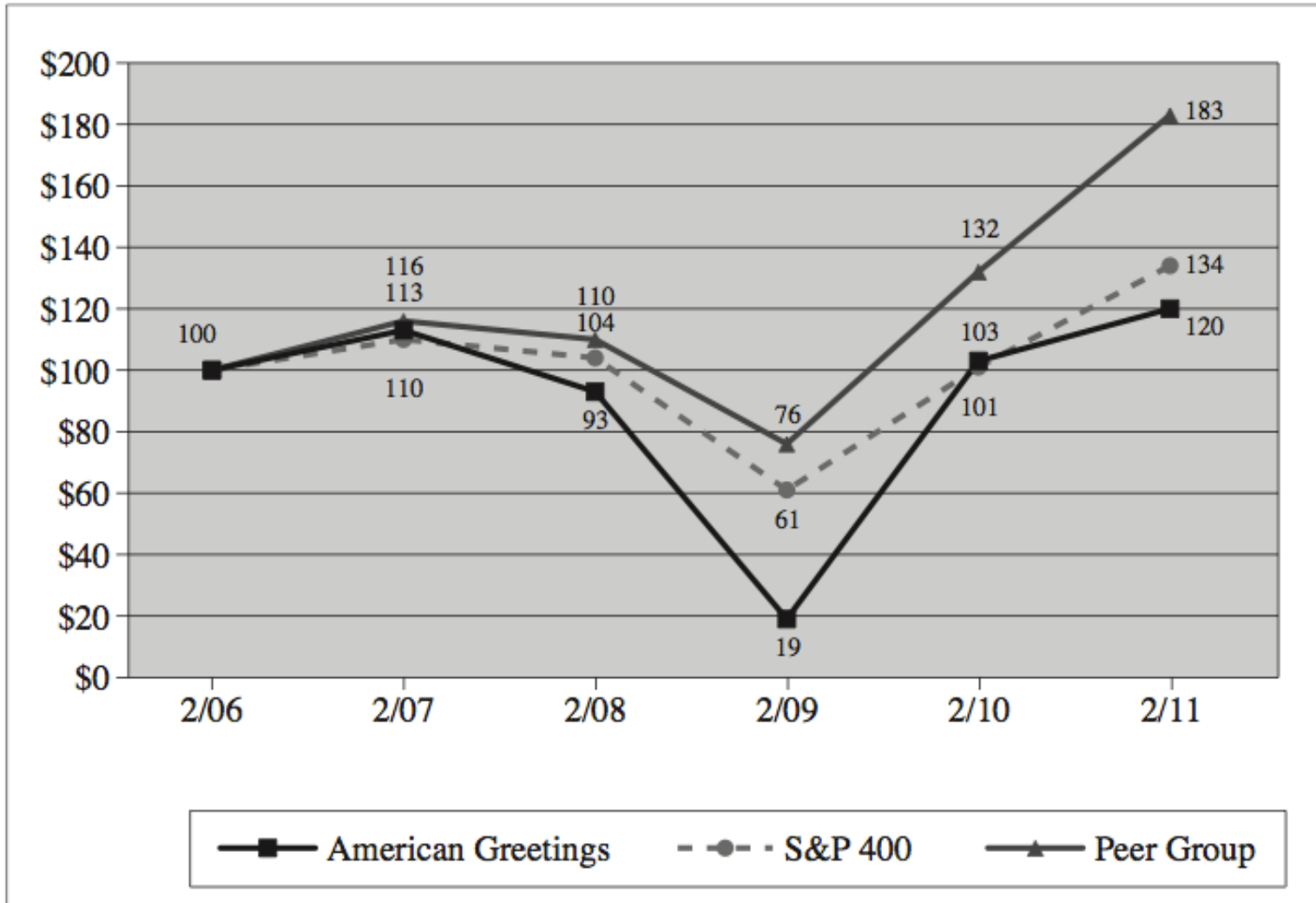


	Salary	Stock Holdings
Morry Weiss (Chairman)	\$2,886,223	\$0
Zev Weiss (CEO)	\$1,463,808	\$9,264,326
Jeff Weiss (CFO)	\$2,552,346	\$0
Erwin Weiss (Senior VP)	\$1,064,376	\$801,559

Accountability?



Relative Performance



Changing Margin Structure

- Top line growth – unit sales↑, prices↓
 - Unsustainable – economy, international segment
- COGS% increase – gross margin
 - Dollar stores (2011)

Fiscal Year End	2012	2011	2010	2009
Net Sales	1,636,000	1,592,570	1,636,860	1,690,740
% of Growth	2.65%	-2.78%	-3.29%	-5.07%
COGS	746,247	682,370	713,080	809,960
% of Sales	45.61%	42.85%	43.56%	47.91%
Gross Income	889,753	910,200	923,780	880,780
Selling, Gen. & Administrative Expense	808,354	735,500	783,096	1,135,250
% of sales	49.41%	46.18%	47.84%	67.15%
Operating Expenses- Total	-808,354	-735,500	-783,096	-1,135,250
Operating Income	81,399	174,700	140,684	-254,470



Misperceptions

- Deceiving Financials
 - Rev growth \neq income growth
 - Deflated PE \rightarrow lower margins
- Improving efficiency
- Profitizing the international division
- “Innovation”
- Synthesizing Acquisitions
 - Only benefits creative artists
 - Property square footage back at 2006 levels

Catalysts

- Share buy-back program ends/slow
- Management announces it is going through with the headquarters building
- Future quarterly COGS remains high
 - Long-term Lower margins
- Increasing Short Interest: 27.97% (24.22% March 1)

Risk Factors

- AM's stock has already fallen significantly
- International Division begins to turn a profit
- Card giving still engrained in culture
- AM stops Dollar Store Strategy - COGS
- Most optimistic DCF - \$19
 - Assumes COGS stays at old levels, 3.5% Rev growth

How We Win

- 1.5% short stake
- 1 year timespan
- Little upside risk
- DCF – \$12.04



Trends to Monitor

- COGS
- Dollar store strategy - % of sales coming from it
- Stock buy-back program
- Increases in short interest
- Headquarters building
- Overall US card consumption
- Tech startups that subvert the business model
 - Shutterfly, apps

VAR

- Kroger, CVS, Harris Teeter, Walmart
- Carla Casella – JP Morgan Chase

Questions?



American Greetings Corporation

(NYSE: AM)