Advanced Corporate Finance
Prof. Mathias Kronlund
Case: American Greetings
Due Date: February 25, 2018 (midnight)

1. Describe American Greetings main lines of business:
    a. What is its business outlook like?
    b. Using the "dividend discount model" in reverse, what is the implied future dividend growth rate?
2. Multiples valuation:
    a. Value American Greetings using 1) the EV/EBITDA multiple, and 2) one other multiple of your choice. Which of the comparable firms do you think are the most appropriate to use?
    [Note: in the Exhibit 6, EV=Equity+Debt (*i.e.*, cash is not subtracted, as if none of the cash is excess) and the multiples follow this convention, so in this case you should not add back cash to the estimated EV for AG to get its equity value]
    b. Is American Greetings' share price higher or lower than that suggested by this valuation method? Why do you think that is the case?
3. DCF:
    a. Please model cash flows for American Greetings for years 2012 through 2015 based on the two sets of scenarios (Bullish and Bearish) in case Exhibit 8. You can assume a tax rate of 39%, and that the turnover ratios stay constant after 2015.
    [Hint: change in PP&E = capex-depreciation. Also, do not automatically assume that whenever revenues grow at 3% then FCFs will also grow at 3%—one way to check this is to actually forecast a couple of the future "long-run" years to verify.]
    b. Calculate an estimated discount rate (WACC) for American Greetings' cash flows based on the info in the case. (You can assume that debt betas can be estimated based on each firm's credit rating as described in the lecture notes.)
    c. For the Bullish scenario, and based on assumptions on long-term growth and margins discussed in the case, what is the implied enterprise value of American Greetings and the corresponding share price?
    d. For the Bearish scenario, and based on assumptions on long-term growth and margins discussed in the case, what is the implied enterprise value of American Greetings and the corresponding share price?
    e. What are the key drivers of value in your model? (*i.e.*, which assumptions in the DCF model are the most critical)
    f. Does the current market price of the shares suggest that the market expects cash flows to develop a) better than in the bullish scenario, b) between bullish and bearish, c) worse than bearish?
4. What do you believe to be the value of American Greetings shares? Do sensitivity analysis with one assumption that you think is most critical.
    Do you recommend repurchasing shares? Note: Repurchasing shares is generally a positive-NPV decision if the current share price is lower than the "fundamental" value of a share!
5. What has happened to American Greetings after this case was written? (You will need to do some google/news searches for this!)