

Party City Holdings Investment Summary

Transaction Summary

Cohesive Capital Partners, L.P. (“Cohesive”) is investing \$10 million in the common equity of Party City Holdings Inc. (“Party City” or the “Company”) alongside Thomas H. Lee Partners (“THL”), the Boston-based private equity firm. The total enterprise value of the transaction is \$2.63 billion¹, which is 8.7x 2012E Adjusted EBITDA of \$301 million and 10.0x 2012E Adjusted EBITDA less Capex of \$262 million. Advent International (“Advent”), which acquired 38% of the Company in 2008, is increasing its investment in this transaction to \$200 million of capital from ~\$120 million of value at the deal price. Management is rolling ~\$22 million of equity capital into the Company.

Company Description

Party City Holdings, aka Amscan, is the largest vertically-integrated manufacturer, distributor and retailer of party goods and supplies. Founded in 1947 and headquartered in Elmsford, NY, Party City not only designs, manufactures and distributes decorative party goods through its Amscan wholesale division, but also operates the largest retail network of party superstores in North America with ~825 permanent party superstore locations (~600 company owned and ~225 franchised stores) and ~400 temporary Halloween City stores. The Company offers over 37,000 SKUs (more than 20x mass merchants) consisting of paper and plastic tableware, decorations, metallic and latex balloons, costumes, party kits, stationery and gifts for every day, themed and seasonal events. Amscan possesses a broad wholesale manufacturing and distribution network servicing more than 40,000 retail outlets in 100+ countries worldwide including its own retail network (which is 15x the size of its next largest competitor), independent party supply stores, dollar stores, mass merchants, grocery retailers and gift shops. The Company also operates PartyCity.com, an online E-Commerce platform that provides access to markets where Party City does not yet have a retail presence.

Investment Highlights

- *Unique, differentiated vertically-integrated business model:* Party City’s vertically-integrated business model allows the Company to realize the “Manufacturing-to-Retail” margin on a significant portion (~64% in 2011) of its retail sales, capture immediate synergies when making wholesale or retail acquisitions by increasing the “Share of Shelf” % of the newly acquired company, and retain control over all aspects of the supply chain
- *Leading wholesale and retail market positions:* On the wholesale side, Amscan has ~25% market share of the independent party stores segment in the U.S. while on the retail side, Party City operates the largest network of party goods superstores in North America, with an ~23% market share of the \$4.55 billion party supplies market and ~24% market share of the ~\$2.3 billion costume market
- *Strong license portfolio supported by leading market position:* The Company holds the rights to more licenses (e.g. Disney, Justin Bieber, NY Giants) than any other party goods supplier (13 of top 20 licensed products) because licensors want Amscan to put their characters/logos/etc. on its products since the Company can sell more volume than any other party goods supplier
- *Large and growing organic market opportunity:* Party City operates within the ~\$7 billion aggregate party supplies and costumes market which is projected to grow between 3% – 5% per annum over the investment period. The party supplies and costumes market draws a significant portion of total sales from Halloween, which has a high participation rate and growing spend
- *Attractive financial characteristics:* The repeat purchase and consumable nature of Party City’s products result in high levels of recurring revenue (people will continue to celebrate birthdays, graduations, Valentine’s Day every year); modest capex requirements result in high free cash flow conversion (~85% – 90% throughout the investment period)
- *Numerous growth initiatives:* Planned growth initiatives include (i) opening new Party City retail stores, (ii) continue increasing wholesale “Share of Shelf” %, (iii) continue building E-Commerce platform (PartyCity.com), and (iv) making accretive acquisitions (existing retail franchisees, retail acquisitions or wholesale acquisitions)
- *Additional “upside” opportunities:* The Company is attempting to enter into the following new markets: (i) B2B (hotel chains, casual dining chains), (ii) institutional (hospitality, catering, healthcare), and (iii) party rentals
- *Excellent management team:* Party City’s management team averages ~20 years of industry experience and has successfully partnered with three different private equity ownership groups beginning in 1997. CEO Gerald Rittenberg has been with the Company for 22 years while President / COO James Harrison has been with the Company for 16 years
- *Strong “Jockey” / “Horse” match:* Both THL and Advent have tremendous experience and an excellent track record investing in the consumer and retail industries

¹ Excluding transaction fees/expenses and taking into account a \$58 million tax refund which the Company is expected to receive from the IRS in early 2013.