Gibson Greetings

The Perfect Buyout

"One of the greatest Wall Street coups": Gibson Greetings, Inc.

In January 1982, Bill Simon bought 33% of Gibson for $330K. The value of that $330K investment when Gibson went public in May 1983: $66.7M

That's a 202X return in 17 months.

Here's how he did it…

Fortune postponed

When he left the marbled hallways of the Treasury building in 1977, Simon found that he could not return home again. John Gutfreund was consolidating his power at Salomon, and the firm did not offer its former bond chief a satisfactory senior management position. Rather than being constrained at Solly, Simon chose to go it alone as an entrepreneur. "I gave up an extraordinary partnership, a guaranteed fortune," says the financier between gulps of seltzer. "And over the next five years, I often questioned my decision."

The period between 1977 and 1982 was an unsettled and difficult one for Simon. He considered running for governor of New Jersey and also mulled over the prospect of moving to Los Angeles, but his family vetoed both possibilities. With his net worth down to $2.5 million, and most of that tied up in two homes, Simon needed to generate big-dollar income. He returned to what he knew best — trading. Working alone in a small office in Morristown, New Jersey, he began to buy and sell value stocks furiously. "I was borrowing money and paying increasingly escalating interest rates of 16, 18 percent," says Simon, dabbing at seltzer that has dribbled onto his desk. "That's a tough way to make money, because the shares have to improve 16, 18 percent just to pay your interest costs. And when you're dealing with undervalued companies, it takes time for the market to catch on and recognize the values."

The long and short of a loss

Simon has had failures as well, and he is sufficiently secure to talk about them. In line with his expectation of continued inflation, he decided in 1979 that commodities would be a good area for speculation: prices had to go up. But he knew nothing about commodity trading, so he diligently researched the field and found an expert to handle his money. Simon gave him $100,000 to play with. Everything went wrong. "I was long when I should have been short and short when I should have been long," says Simon. In six months the kitty was exhausted.

A bigger wallop came in 1980. He had been trading in the stock market for some time. Convinced that the market was going to decline, he went short in a big way—whereupon the market rose and he dropped $900,000.

Brothers, a prestige operation. In 1973, he became Deputy Treasury Secretary under Richard Nixon, later gaining national recognition as the "Energy Czar" during the Arab oil embargo. He graduated to Secretary of the Treasury under Ford and when he left the government and a $66,000 a year salary, he im-

In 1976, Simon could count on a nest egg that amounted to $2.5 million. By 1983, he had increased that sum to more than $100 million and by 1985 he was adding to it by more than $100 million a year.

Bill Simon, a trader-turned-statesman, left his job as Treasury Secretary in 1977.

His financial position:
- Salary: $66 thousand
- Net Worth: $2.5 million

He spent the next five years:
- Consulting
- Value investing
- Commodity trading

Then he found his niche: LBOs

market speculations. The new game that fascinates him is the pursuit of undervalued assets, lying about in profusion and waiting to be pried loose by anyone clever enough to contrive the necessary leverage. Simon's vehicle is Wesray Corp. The company's name is an amalgam of Simon's initials and the first name of Raymond Chambers, 39, an accountant who for several years has been engaged in leveraged buyouts of small companies. He is shrewd, discreet, unflappable—a perfect partner for the high-strung Simon.

They joined forces last year and bought three companies, in each case investing a relatively small amount of their own capital and using borrowed funds to raise most of the purchase price. Early this year, they pulled off their biggest deal so far—the acquisition of Gibson Greeting Cards Inc.

Ray and I formalized our relationship in September 1981 with the establishment of the "Wesray" partnership (a name derived from my initials and Ray's first name) as an acquisition vehicle.

FRANK E. WALSH, JR., JULY 8, 1999

Bill brought to the partnership his credibility, his visibility, his contacts, his business judgment, and the guts to make a fast decision when necessary and take a risk. Ray brought to the party his technical ability, his interpersonal skills—which are considerable—and the experience he had in analyzing and buying companies. . . .

Chambers, mid-40s, fifteen years the junior, had already proven himself to be a financial operator of the first water. He turned a nursing home company into a major business and sold out for a million dollars. Using that money, he borrowed heavily and started buying little companies, selling off the assets he acquired in those companies to pay off his debts. In financial parlance, he was employing the leveraged buyout. This scheme was his strategic contribution to Wesray.

Simon, who used to wince at the term leveraged buyout — it became so popular that it was coded to simply an LBO —

RAYMOND G. CHAMBERS. Since September 1981, Mr. Chambers has been President and a director of Wesray Corporation, a private investment banking firm, and, since its inception in November 1975, President and a director of Hampshire Capital Investors Corp., a private investment banking firm. Wesray is the successor to the business of Hampshire Capital Investors Corp.

In 1981, Bill Simon and Ray Chambers, an accountant-turned-investor, formed Wesray. The plan: Use Simon's contacts and Chambers's analytical skills to buy good companies with borrowed money.

Wesray's first buyout? Gibson Greetings

Ideology aside, the immediate rewards of the Simon-Chambers leveraged buyout strategy are clear. They said they have a rate of return that totally eclipses the returns common in venture capital, with few if any of the risks associated with the latter, since they are buying established companies generating sales and earnings with real assets.

"I'm not interested in venture deals at all," said Mr. Simon in a recent interview. "Why take those risks? You have to do so much research; it takes such a long time to gain a basic understanding of these high-tech fields, while there is the opportunity to buy real assets — good solid companies — in the market."

market. Simon waxes enthusiastic, saying: "It's a Tiffany company. It's a marvelous growth situation. The earnings are going straight up."

We flew out to Cincinnati, took a look, and were impressed with what we saw. Gibson had some $200 million in sales and was the third-largest manufacturer of greeting cards in the United States (after Hallmark at $1 billion and American Greetings at $624 million). It held the marketing rights to Garfield the Cat, valuable assets, and excellent prospects—if properly managed. We decided to make a bid.

GIBSON GREETINGS

(dollars in millions except per-share amounts)

	CAGR (1981-1979)	1981	1980	1979
		(Wesray acquired Gibson on January 26, 1982)		
Revenues	12%	173	150	139
year-over-year		15%	8%	5%
Gross profit	16%	86	71	64
gross margin		50%	47%	46%
Operating profit	39%	28	19	14
operating margin		16%	13%	10%
Net profit	64%	12	7	4
Shares outstanding	0%	10	10	10
Net profit per share	64%	1.21	0.72	0.45
Return on invested capital — pre-tax		30%	22%	18%

Why buy Gibson?

Gibson, the third-largest maker of gift cards and wrapping paper, had qualities Wesray liked:
- Low-tech business
- Low-price, high-value product
- Non-cyclical demand

These qualities produced:
- HSD sales growth (w/o a decline)
- Low-thirties ROICs

On January 26, 1982, a wholly owned subsidiary of the Company purchased from RCA all of the capital stock of Gibson and its affiliated companies (collectively, the "Predecessor Companies"). Shortly thereafter, Gibson became a direct wholly owned subsidiary of the Company. As part of these transactions, Messrs. Simon and Chambers became owners of approximately 70% of the Company's then outstanding common stock while management and certain employees of Gibson became owners of approximately 20% of such common stock. See "Principal and Selling Stockholders." Wesray Corporation, with which Messrs. Simon and Chambers and certain other directors of the Company are affiliated, was paid an investment banking fee of $580,000 in connection with the acquisition. This amount represented 1% of that part of the total purchase price paid directly to RCA for the Predecessor Companies. The Company believes tha' the payment of such an investment banking fee is customary for such transactions.

The Company paid $58,000,000 to RCA for the capital stock of the Predecessor Companies and approximately $22,566,000 to C.I.T. for the repayment of certain indebtedness owing from Gibson to C.I.T. The Company obtained these funds, and approximately $4,019,000 (of which $2,295,000 was used for the payment of related acquisition expenses), through the following means:

GIBSON GREETINGS

(in thousands)

Seller equity	$	58,000
Seller debt		22,566
Total seller payments		80,566
Acquisition-related expenses		2,295
Other		1,724
Acquisition-related expenses & other		4,019
Purchase price		84,585
EV / EBIT — $28M LTM		3.0
EV / EBIT — $39M NTM		2.2

Another reason to buy Gibson: Valuation

Wesray paid $84.6M for:

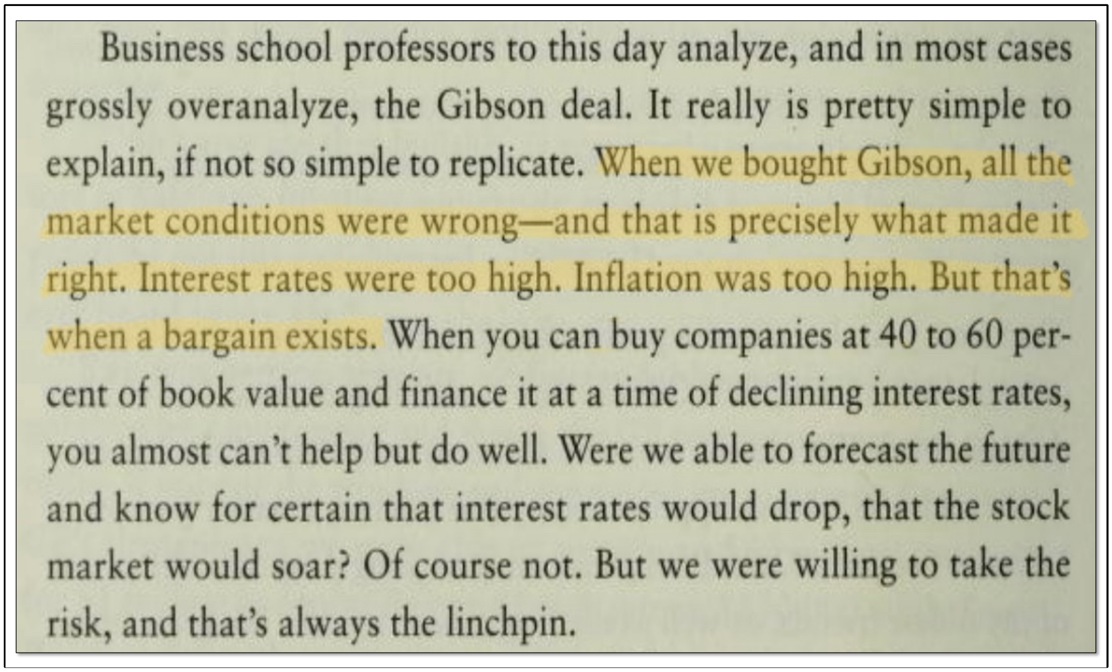
- $28.0M LTM EBIT
- $39.2M NTM EBIT

EV/EBIT Multiples:

- Trailing: 3.0x
- Forward: 2.2x

Why the low price? Two reasons:

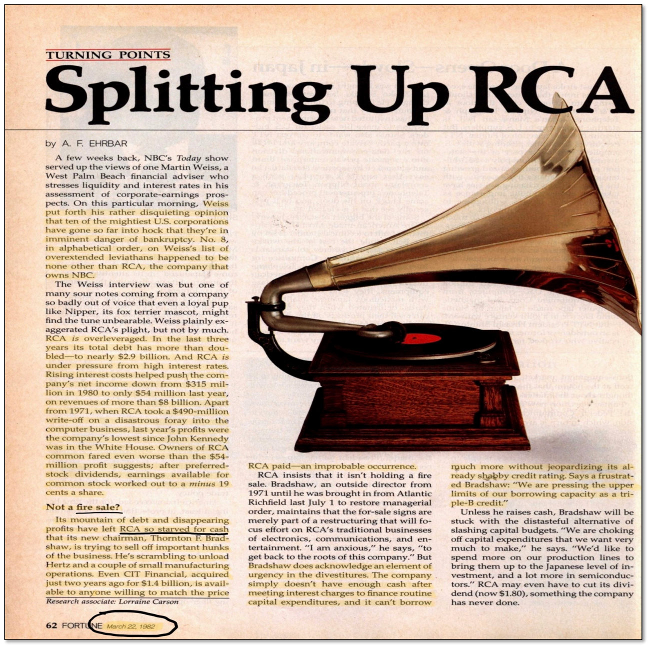
- Macro
- Forced seller


Business school professors to this day analyze, and in most cases grossly overanalyze, the Gibson deal. It really is pretty simple to explain, if not so simple to replicate. When we bought Gibson, all the market conditions were wrong—and that is precisely what made it right. Interest rates were too high. Inflation was too high. But that's when a bargain exists. When you can buy companies at 40 to 60 percent of book value and finance it at a time of declining interest rates, you almost can't help but do well. Were we able to forecast the future and know for certain that interest rates would drop, that the stock market would soar? Of course not. But we were willing to take the risk, and that's always the linchpin.

REASON #1: MACRO

Wesray bought Gibson when:
- The US was in a recession
- Interest rates hit 15%
- Inflation exceeded 10%

Simon: "When we bought Gibson, all the market conditions were wrong. Interest rates were too high. Inflation was too high. But that's when bargains exist."



TURNING POINTS

Splitting Up RCA

by A. F. EHRBAR

A few weeks back, NBC's *Today* show served up the views of one Martin Weiss, a West Palm Beach financial adviser who stresses liquidity and interest rates in his assessment of corporate-earnings prospects. On this particular morning, Weiss put forth his rather disquieting opinion that ten of the mightiest U.S. corporations have gone so far into hock that they're in imminent danger of bankruptcy. No. 8, in alphabetical order, on Weiss's list of overextended leviathans happened to be none other than RCA, the company that owns NBC.

The Weiss interview was but one of many sour notes coming from a company so badly out of voice that even a loyal pup like Nipper, its fox terrier mascot, might find the tune unbearable. Weiss plainly exaggerated RCA's plight, but not by much. RCA *is* overleveraged. In the last three years its total debt has more than doubled—to nearly $2.9 billion. And RCA *is* under pressure from high interest rates. Rising interest costs helped push the company's net income down from $315 million in 1980 to only $54 million last year, on revenues of more than $8 billion. Apart from 1971, when RCA took a $490-million write-off on a disastrous foray into the computer business, last year's profits were the company's lowest since John Kennedy was in the White House. Owners of RCA common fared even worse than the $54-million profit suggests; after preferred-stock dividends, earnings available for common stock worked out to a *minus* 19 cents a share.

Not a fire sale?

Its mountain of debt and disappearing profits have left RCA so starved for cash that its new chairman, Thornton F. Bradshaw, is trying to sell off important hunks of the business. He's scrambling to unload Hertz and a couple of small manufacturing operations. Even CIT Financial, acquired just two years ago for $1.4 billion, is available to anyone willing to match the price RCA paid—an improbable occurrence.

RCA insists that it isn't holding a fire sale. Bradshaw, an outside director from 1971 until he was brought in from Atlantic Richfield last July 1 to restore managerial order, maintains that the for-sale signs are merely part of a restructuring that will focus effort on RCA's traditional businesses of electronics, communications, and entertainment. "I am anxious," he says, "to get back to the roots of this company." But Bradshaw does acknowledge an element of urgency in the divestitures. The company simply doesn't have enough cash after meeting interest charges to finance routine capital expenditures, and it can't borrow much more without jeopardizing its already shabby credit rating. Says a frustrated Bradshaw: "We are pressing the upper limits of our borrowing capacity as a triple-B credit."

Unless he raises cash, Bradshaw will be stuck with the distasteful alternative of slashing capital budgets. "We are choking off capital expenditures that we want very much to make," he says. "We'd like to spend more on our production lines to bring them up to the Japanese level of investment, and a lot more in semiconductors." RCA may even have to cut its dividend (now $1.80), something the company has never done.

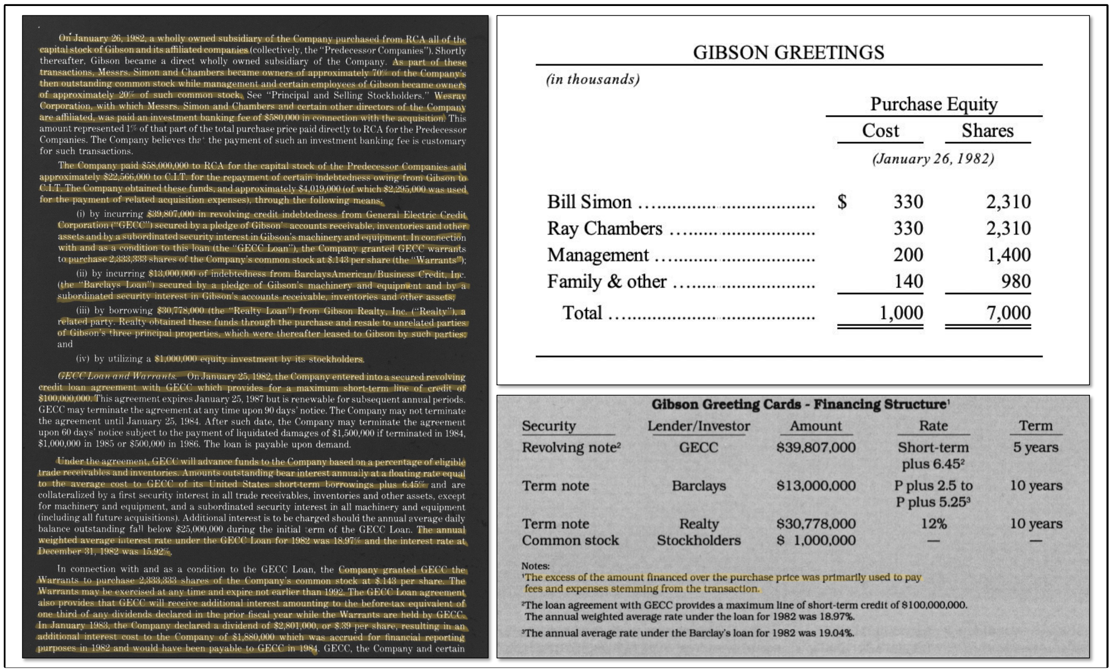
Research associate: Lorraine Carson

62 FORTUNE March 22, 1982

REASON #2: FORCED SELLER

Wesray bought Gibson in a carveout from RCA. At time of sale, RCA's "mountain of debt and disappearing profits left it so starved for cash that its new chairman was trying to sell off important hunks of its business."

The result: Gibson's fire sale for $84.6M



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The Company paid $58,000,000 to RCA for the capital stock of the Predecessor Companies and approximately $22,566,000 to C.I.T. for the repayment of certain indebtedness owing from Gibson to C.I.T. The Company obtained these funds, and approximately $4,019,000 (of which $2,295,000 was used for the payment of related acquisition expenses), through the following means:

(i) by incurring $39,807,000 in revolving credit indebtedness from General Electric Credit Corporation ("GECC") secured by a pledge of Gibson's accounts receivable, inventories and other assets and by a subordinated security interest in Gibson's machinery and equipment. In connection with and as a condition to this loan (the "GECC Loan"), the Company granted GECC warrants to purchase 2,333,333 shares of the Company's common stock at $.143 per share (the "Warrants");

(ii) by incurring $13,000,000 of indebtedness from BarclaysAmerican/Business Credit, Inc. (the "Barclays Loan") secured by a pledge of Gibson's machinery and equipment and by a subordinated security interest in Gibson's accounts receivable, inventories and other assets;

(iii) by borrowing $30,778,000 (the "Realty Loan") from Gibson Realty, Inc. ("Realty"), a related party. Realty obtained these funds through the purchase and resale to unrelated parties of Gibson's three principal properties, which were thereafter leased to Gibson by such parties; and

(iv) by utilizing a $1,000,000 equity investment by its stockholders.

GECC Loan and Warrants. On January 25, 1982, the Company entered into a secured revolving credit loan agreement with GECC which provides for a maximum short-term line of credit of $100,000,000. This agreement expires January 25, 1987 but is renewable for subsequent annual periods. GECC may terminate the agreement at any time upon 90 days' notice. The Company may not terminate the agreement until January 25, 1984. After such date, the Company may terminate the agreement upon 60 days' notice subject to the payment of liquidated damages of $1,500,000 if terminated in 1984, $1,000,000 in 1985 or $500,000 in 1986. The loan is payable upon demand.

Under the agreement, GECC will advance funds to the Company based on a percentage of eligible trade receivables and inventories. Amounts outstanding bear interest annually at a floating rate equal to the average cost to GECC of its United States short-term borrowings plus 6.45% and are collateralized by a first security interest in all trade receivables, inventories and other assets, except for machinery and equipment, and a subordinated security interest in all machinery and equipment (including all future acquisitions). Additional interest is to be charged should the annual average daily balance outstanding fall below $25,000,000 during the initial term of the GECC Loan. The annual weighted average interest rate under the GECC Loan for 1982 was 18.97% and the interest rate at December 31, 1982 was 15.92%.

In connection with and as a condition to the GECC Loan, the Company granted GECC the Warrants to purchase 2,333,333 shares of the Company's common stock at $.143 per share. The Warrants may be exercised at any time and expire not earlier than 1992. The GECC Loan agreement also provides that GECC will receive additional interest amounting to the before-tax equivalent of one third of any dividends declared in the prior fiscal year while the Warrants are held by GECC. In January 1983, the Company declared a dividend of $2,801,000, or $.39 per share, resulting in an additional interest cost to the Company of $1,880,000 which was accrued for financial reporting purposes in 1982 and would have been payable to GECC in 1984. GECC, the Company and certain

GIBSON GREETINGS

(in thousands)

		Purchase Equity	
		Cost	Shares
		(January 26, 1982)	
Bill Simon	$	330	2,310
Ray Chambers		330	2,310
Management		200	1,400
Family & other		140	980
Total		1,000	7,000

Gibson Greeting Cards - Financing Structure[1]

Security	Lender/Investor	Amount	Rate	Term
Revolving note[2]	GECC	$39,807,000	Short-term plus 6.45[2]	5 years
Term note	Barclays	$13,000,000	P plus 2.5 to P plus 5.25[3]	10 years
Term note	Realty	$30,778,000	12%	10 years
Common stock	Stockholders	$ 1,000,000	—	—

Notes:
[1]The excess of the amount financed over the purchase price was primarily used to pay fees and expenses stemming from the transaction.
[2]The loan agreement with GECC provides a maximum line of short-term credit of $100,000,000. The annual weighted average rate under the loan for 1982 was 18.97%.
[3]The annual average rate under the Barclay's loan for 1982 was 19.04%.

Where'd Wesray get the $84.6M?

DEBT = $83.6M
- $39.8M revolver
- $13.0M term loan
- $30.8M sale-leaseback

EQUITY = $1.0M
- Simon: $330K
- Chambers: $330K
- Management: $200K
- Other: $140K

Think that's too much debt? It wasn't.

GIBSON GREETINGS

(dollars in millions except per-share amounts)

	CAGR (1983-1981)	1983	1982	1981	1980	1979
		Year ended December 31, (Wesray acquired Gibson on January 26, 1982)				
Revenues	*18%*	242	198	173	150	139
year-over-year		*22%*	*15%*	*15%*	*8%*	*5%*
Gross profit	*23%*	129	102	86	71	64
gross margin		*54%*	*52%*	*50%*	*47%*	*46%*
Operating profit	*41%*	55	39	28	19	14
operating margin		*23%*	*20%*	*16%*	*13%*	*10%*
Net profit	*39%*	22	14	12	7	4
Shares outstanding	*4%*	10	10	10	10	10
Net profit per share	*34%*	2.16	1.46	1.21	0.72	0.45
Return on invested capital — pre-tax		58%	71%	30%	22%	18%
Gross debt		54	86	-	-	-
gross debt to operating profit		*1.0*	*2.2*	-	-	-
Interest expense		13	20	-	-	-
interest coverage		*4.1*	*2.0*	-	-	-

Due to seasonal working capital needs, Gibson's gross debt peaked in November 1982 at $115 million—2.9x operating profits.

Gibson had equal-to-better credit metrics compared to today's LBOs.

DEBT/EBIT
- Gibson: 2.1x (2.9x at peak)
- LBO: 3x - 6x

EBIT/INTEREST
- Gibson: 2.0x (including rent)
- LBO: 2x - 5x

Gibson also had more upside.

GIBSON GREETINGS

(dollar in millions)

		IPO	LBO
		(100X Assumptions)	
Operating profits	1.30	$ 36	28
Multiple	1.67	5.0	3.0
Enterprise value	2.17	$ 184	85
Net debt	1.00	84	84
Equity value	100X	$ 100	$ 1

Why more upside?

Compare the LTVs:
- Gibson: 98.8%
- LBO: 80% (or less)

High LTVs mean that (a) small changes in profits and multiples produce (b) outsized changes in equity value.

This is all it'd take for Gibson to 100X:
- 30% EBIT growth
- 2 turns multiple expansion

GIBSON GREETINGS

(dollar in millions)

		IPO (5/19/1983)	LBO (1/26/1982)
Operating profits	1.40	39	28
Multiple	2.55	7.7	3.0
Enterprise value	3.56	301	85
Net debt	0.65	54	84
Equity value	247	247	1
Shares	1.28	9.0	7.0
Equity value per share	193X	27.50	0.14

How'd Gibson actually do?

Results over Wesray's 17-month hold:

- 40% EBIT growth
- 4.7 turns multiple expansion

After adjusting for changes in debt and share issuances Gibson produced a 193x return.

Wesray's dollar gain: $192.5M on $1M

"It's kind of frightening to make this kind of money," said the man who began his financial career in 1953 as a $75-a-week trainee at Union Securities. But he said it with a smile that reveals more pleasant, self-assured emotions. "I'm the happiest man who ever lived. And that was true even before the Gibson deal. I've never had so much fun in my life."

office, if not out the window, and convinced me to give in. Even with GE's shenanigans we were able to acquire an $80 million company for $1 million in equity. Ray and I each put up $330,000 while Frank Walsh and the other partners contributed the remainder of the $1 million. Our management fees more than covered the initial investment, so essentially we charged the company we bought for the sum we paid for the purchase, and then some.

On February 1, 1982, Gibson entered into an agreement for management consulting services with Wesray Corporation (Wesray), an investment banking firm owned by the two major stockholders of Gibson Greetings, Inc. This agreement was assigned to Harding Resources, Inc. (Harding) in March 1983. The two major stockholders of Gibson Greetings, Inc. each own 50% of the capital stock of Harding. The noncancellable agreement extends for a period of ten years and provides for monthly payment for consulting service fees which in 1982 totaled $440. Under the loan agreement discussed in Note 6, such payments may not exceed $480 for each twelve month period and, accordingly, Gibson is paying only that amount permitted under the loan agreement. Minimum annual commitments under this agreement at December 31, 1982, are as follows: (See Note 17 for subsequent event.)

1983	$ 535
1984	595
1985	655
1986	715
1987	775
1988-1992	3,785

In connection with the acquisition described in Note 2, Gibson Greetings, Inc. paid investment banking fees amounting to $580 to Wesray. This amount was included as part of the purchase price allocated to assets acquired.

Gibson has purchased insurance coverage through two insurance brokers, both of which are 50% owned by certain stockholders of Gibson Greetings, Inc. During 1982, brokerage commissions paid to these brokers amounted to approximately $80 relating to premiums paid of approximately $2,242.

GIBSON GREETINGS

Bill Simon's Cash Inflows (Outflows)

Simon equity investment — January 26, 1982	$	(330)
Closing fees — January 26, 1982		290
Financing fees — January 26, 1982		125
Monitoring fees — Pre-IPO		321
Distributions — Pre-IPO		901
Equity value — May 19, 1983		65,052
Simon net cash inflow (outflow) at closing — January 26, 1982	$	85
Simon multiple of invested capital at IPO — May 19, 1983		202X

Simon did even better.

On closing day, Simon paid himself:

- Deal fees: $290K
- Financing fees: $125k

His net investment: - $85K

He also received…

- $321K consulting fees
- $901K distributions

…In the first 17 months.

Simon's dollar gain: $66.7M on $330K

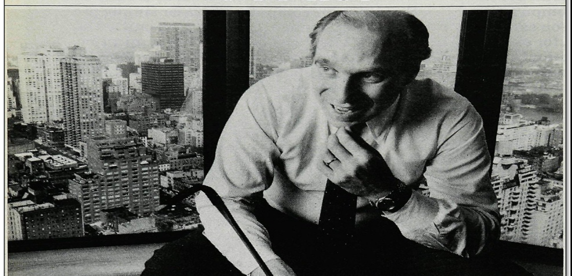
While Glucksman stewed, Peterson launched another pet speech, this one about how he was pushing merchant banking at Lehman. He remembers Peterson proclaiming, "Leveraged buyouts"—which require huge infusions of borrowed capital and thus often divert precious savings from other perhaps more productive investments—"are the way to go." Peterson invoked the name of former Treasury Secretary William E. Simon. In 1982, Simon's Wesray Corporation put up a few million dollars to purchase Gibson Greeting Cards from RCA in a leveraged buyout. The bulk of the purchase price—$80 million—was paid when Gibson borrowed money against its own assets to pay RCA. A year later, in May 1983, Gibson made a public stock offering in which Simon pocketed over $80 million in profit on the Gibson stock he sold and retained stock valued at about $50 million. In all, over a four-year period Simon and six partners had bought nineteen companies with total revenues of $8 billion.

"Pete at this particular time was obsessed with the amount of money William Simon made selling Gibson," says Glucksman. "And he couldn't stop talking about it." Since Peterson was a member of the RCA board that approved the sale to Simon, since Lehman Brothers represented RCA, and since Simon then went on to embarrass RCA by making such colossal profits, Glucksman was humiliated that Peterson would even mention Simon to Equitable. Nor did Glucksman understand why Peterson droned on rather than sitting back and listening to those more expert in merchant banking. "We had never done a leveraged deal," says Glucksman, "and the problem was that we looked like amateurs."

Finance

MARKETS & INVESTMENTS

WHY LEVERAGED BUYOUTS ARE GETTING SO HOT



BUYOUT EXPERT SHAYKIN: A CHANCE FOR MANAGERS TO OWN THE COMPANIES THEY RUN

The growing allure of the leveraged buyout can be explained in three words: Gibson Greeting Cards. In

equity stake in the business he runs and become what I call a mature entrepreneur. I see it as the revitalization of the

The Gibson deal was the archetypical leveraged buyout; indeed, some Wall Street insiders said the transaction's legendary success was the spark for the current stampede of leveraged buyouts. The deal was al-

selling it too cheaply. Wesray had made more money on a single deal than Lehman made in a year.

Gibson was widely publicized for being one of the first successful, highly profitable leveraged buyouts. It was also the perfect case study of the type of deal Pete and I hoped to do at our new firm.

Simon made more on the deal than Lehman Brothers, Gibson's investment bankers, made in a year. It was so good that Steve Schwarzman, the Lehman banker overseeing Gibson's sale, and Pete Peterson, Lehman's CEO, quit and started their own LBO firm.

That firm: Blackstone

The seasonality of portions of Gibson's business precipitates its need for huge sums of short-term working capital. This was a major concern of lenders involved in the financing of the deal. As explained by Acquisition Funding's Emmett Bonner, Gibson's product lines are sold in two distinct markets — greeting cards and promotional gift wrap. The greeting card component has relatively steady asset levels throughout the year. The gift wrap produced by Gibson's Cleo Wrap division, on the other hand, is acutely seasonal. The product is manufactured and inventoried during the first nine months of the year and ultimately shipped for sale during the Christmas season. Hence, an integral factor in the transaction was the willingness of GECC to extend up to $100 million in short-term credit during peak inventory seasons.

As soon as Ray and I expressed an interest, Kohlberg Kravis Roberts & Co. (KKR), an investment firm that would later become synonymous with hostile takeovers, floated its own offer, which raised the price. After a fair amount of back-and-forth bidding and counterbidding, KKR concluded that the company was not leverageable and dropped out. History would prove Henry Kravis and his investment firm wrong in a big, big way.[1]

It is characteristic of the Company's business and of the industry that accounts receivable for seasonal merchandise are carried for relatively long periods, generally as long as six months, and in a few instances for as long as eleven months. Consistent with general industry practice, the Company allows customers to return for credit certain brands of seasonal greeting cards.

1982 Summary of Quarterly Results

(in thousands)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
Revenues:					
Net sales	$22,146	$27,559	$69,881	$77,489	$197,075
Royalty income	219	172	165	71	627
Total revenues	22,365	27,731	70,046	77,560	197,702
Cost of products sold	8,959	11,234	35,016	40,053	95,262
Selling, distribution and administrative expenses	13,187	14,753	18,926	21,870	68,736
Income (loss) before interest and provision for income taxes	219	1,744	16,104	15,637	33,704
Interest expense, net	2,071	3,074	3,731	5,544	14,420
Income (loss) before provision for income taxes	(1,852)	(1,330)	12,373	10,093	19,284
Provision for income taxes	(506)	(363)	3,378	2,759	5,268
Net income (loss)	$(1,346)	$ (967)	$ 8,995	$ 7,334	$ 14,016
Net income (loss) per share	$ (.14)	$ (.10)	$ .94	$ .76	$ 1.46

Simon's biggest deal risk? Closing

Gift card and wrapping paper seasonality required large working capital investment:
- Receivables: 6 to 11 months
- Inventories: 3 to 9 months

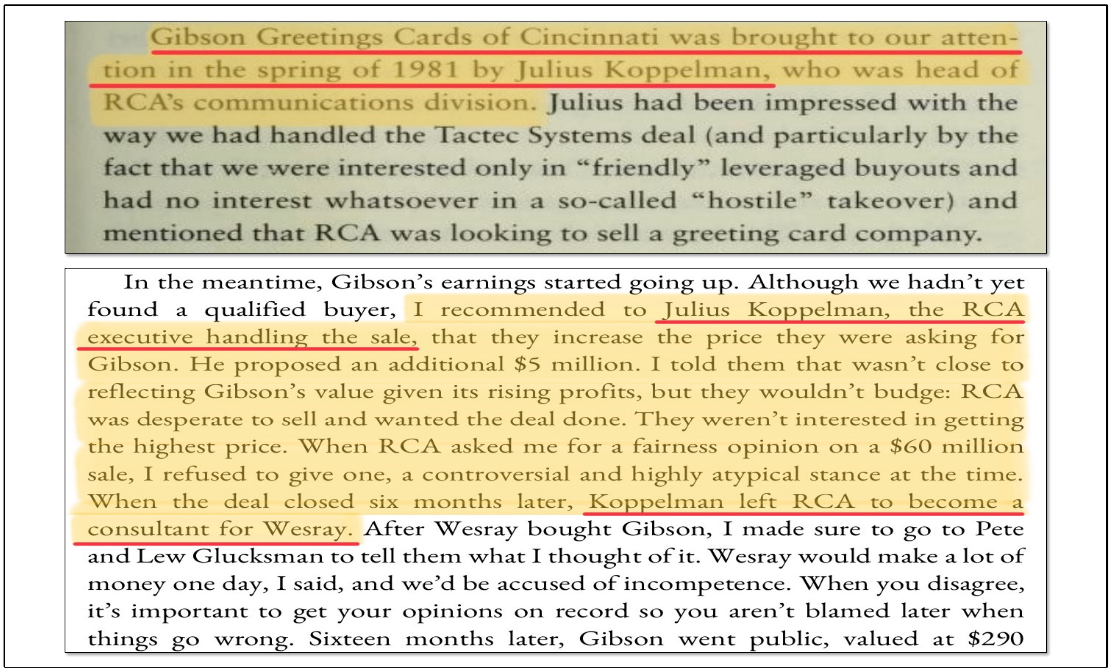
To fund the WC swings, Gibson needed a $100M credit line, which exceeded the $84.6M purchase price.

deal. Wesray's investors were putting in just $1 million of their own capital but assured us they would have the rest of the money by the closing date. When they didn't, we gave them a one-month extension. Still, no money. There were no other suitors. They pleaded for one more shot. I found out later that they were trying to finance the deal by arranging to sell and then lease back Gibson's manufacturing and warehouse buildings. That would have given them the cash

The solution? A sale-leaseback.

Wesray arranged a $30.6M sale-leaseback of Gibson's real estate. This enabled Wesray to fund the $84.6M LBO and still have $60.2M of drawdown left for seasonal working capital needs.

+ $84.6M cash for LBO
+ $60.2M undrawn
= $144.8M total funding



Gibson Greetings Cards of Cincinnati was brought to our attention in the spring of 1981 by Julius Koppelman, who was head of RCA's communications division. Julius had been impressed with the way we had handled the Tactec Systems deal (and particularly by the fact that we were interested only in "friendly" leveraged buyouts and had no interest whatsoever in a so-called "hostile" takeover) and mentioned that RCA was looking to sell a greeting card company.

In the meantime, Gibson's earnings started going up. Although we hadn't yet found a qualified buyer, I recommended to Julius Koppelman, the RCA executive handling the sale, that they increase the price they were asking for Gibson. He proposed an additional $5 million. I told them that wasn't close to reflecting Gibson's value given its rising profits, but they wouldn't budge: RCA was desperate to sell and wanted the deal done. They weren't interested in getting the highest price. When RCA asked me for a fairness opinion on a $60 million sale, I refused to give one, a controversial and highly atypical stance at the time. When the deal closed six months later, Koppelman left RCA to become a consultant for Wesray. After Wesray bought Gibson, I made sure to go to Pete and Lew Glucksman to tell them what I thought of it. Wesray would make a lot of money one day, I said, and we'd be accused of incompetence. When you disagree, it's important to get your opinions on record so you aren't blamed later when things go wrong. Sixteen months later, Gibson went public, valued at $290

FOOTNOTE #1

More reasons Gibson was cheap: RCA Insider

Julius Koppelman, "the RCA exec handling the sale," brought Gibson to Wesray. He also "wasn't interested in getting the highest price." And "when the deal closed, Koppelman left RCA to become a consultant for Wesray."

The self-styled "frustrated jock" — he swam in the "1947 Pacific Olympics" in his precollege days — was a C-student in prelaw and economics at Lafayette College, where he met and married his wife, Carol, then a junior model with Eileen Ford. Within a

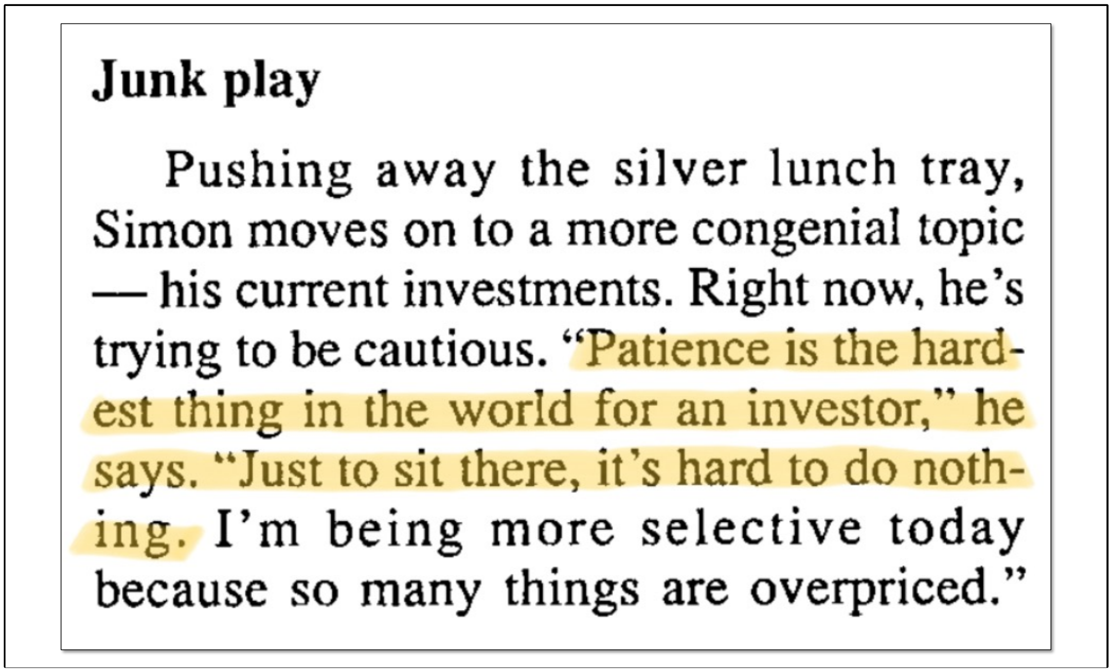
mentions the brash value investor in the same breath as Warren Buffett or Laurence Tisch. Never shy about his accomplishments, Simon feels he belongs in this select company. "Warren Buffett is among the greatest. He thinks long and hard and is very disciplined," says Simon. "But I tend once in a while to take chances. That's my background. Larry Tisch is superb. We're much alike."

In 1976, Simon could count on a nest egg that amounted to $2.5 million. By 1983, he had increased that sum to more than $100 million and by 1985 he was adding to it by more than $100 million a year.

* * *

FOOTNOTE #2

Bill Simon giving hope to us slackers.



Junk play

Pushing away the silver lunch tray, Simon moves on to a more congenial topic — his current investments. Right now, he's trying to be cautious. "Patience is the hardest thing in the world for an investor," he says. "Just to sit there, it's hard to do nothing. I'm being more selective today because so many things are overpriced."

FOOTNOTE #3

Bill Simon on patience: "Patience is the hardest thing in the world for an investor. Just to sit there, it's hard to do nothing."

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Contact

Website: turtlebay.io

Twitter: @turtlebay_io