



# Party City

Investor Discussion Materials – June 2016

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## Forward Looking Statements

Certain statements herein are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements contained herein that are not clearly historical in nature are forward-looking. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential", "targets", "intends" or the negative of these terms or other comparable terminology. These forward-looking statements speak only as of the date hereof and are based on the Company's current plans and expectations and are subject to a number of known and unknown uncertainties and risks, many of which are beyond the Company's control. These risks and uncertainties include: our ability to compete effectively in a competitive industry; fluctuations in commodity prices; our ability to appropriately respond to changing merchandise trends and consumer preferences; successful implementation of our store growth strategy; decreases in our Halloween sales; disruption to the transportation system or increases in transportation costs; product recalls or product liability; economic slowdown affecting consumer spending and general economic conditions; loss or actions of third party vendors and loss of the right to use licensed material; disruptions at our manufacturing facilities; and the additional risk and uncertainties set forth in "Risk Factors" in Party City's December 31, 2015 Form 10-K and in subsequent reports filed with or furnished to the SEC. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ significantly from those expressed in any forward-looking statements in the presentation. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented. Except as may be required by any applicable laws, we assume no obligation to update any of these forward-looking statements.

## Non-GAAP Financial Measures

We present non-GAAP measures when our management believes that the additional information provides useful information about our operating performance. This presentation includes the following unaudited non-GAAP financial measures, including Adjusted EBITDA, Adjusted EBITDA margin, Adjusted net income and Adjusted EPS. Non-GAAP financial measures do not have any standardized meaning and are therefore unlikely to be comparable to similar measures presented by other companies. The presentation of non-GAAP financial measures is not intended to be a substitute for, and should not be considered in isolation from, the financial measures reported in accordance with GAAP. See our SEC filings for a reconciliation of the non-GAAP financial measures included in this presentation to the comparable GAAP measures.

## Industry Data

This presentation also contains industry data, forecasts and other information that we obtained from industry publications and surveys, public filings and internal company sources. Statements as to our ranking, market position and market estimates are based on independent industry publications, third-party forecasts and management's estimates and assumptions about our markets and our internal research. While we are not aware of any misstatements regarding our market, industry or similar data presented herein, such data involve risks and uncertainties and are subject to change based on various factors. We have not independently verified third-party information nor have we ascertained the underlying economic assumptions relied upon in those sources, and we cannot assure you of the accuracy or completeness of such information contained in this presentation.

A wide-angle photograph of a modern, multi-story warehouse. The structure is built with a steel frame and features multiple levels of shelving units filled with white boxes. In the foreground, there are several conveyor belt systems, some green and some white, which are used for moving packages. The lighting is bright, and the overall atmosphere is clean and industrial.

# COMPANY OVERVIEW

# COMPANY OVERVIEW

**Largest vertically integrated manufacturer, supplier and retailer of decorated party goods globally**

**\$2.3 billion in worldwide sales<sup>1,2</sup>**

**\$377 million in Adjusted EBITDA<sup>1,3</sup> / 16.5% Adjusted EBITDA margin<sup>1,3</sup>**

## Manufacturing



## Wholesale / Distribution



**>45,000 SKUS**

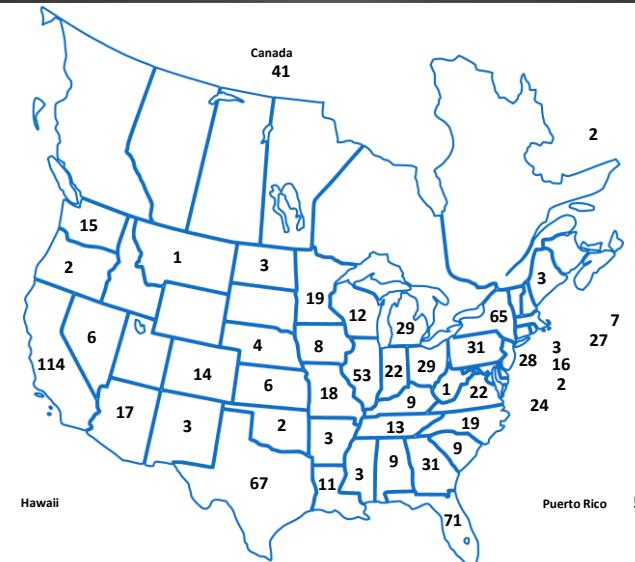
**40,000 Retail Locations**

Largest global designer, manufacturer, and distributor of decorated party supplies and costumes

The largest manufacturer of metallic balloons in the world

Party City Independent Party Stores Grocery Stores Dollar Stores Mass Merchant Stores Merchant

## Retail



**#1 party goods retailer in North America**

**~910 locations across North America<sup>4</sup>**

**~75% of products are sourced through wholesale business**

**One stop shop for all party needs**

1 LTM ending 3/31/16

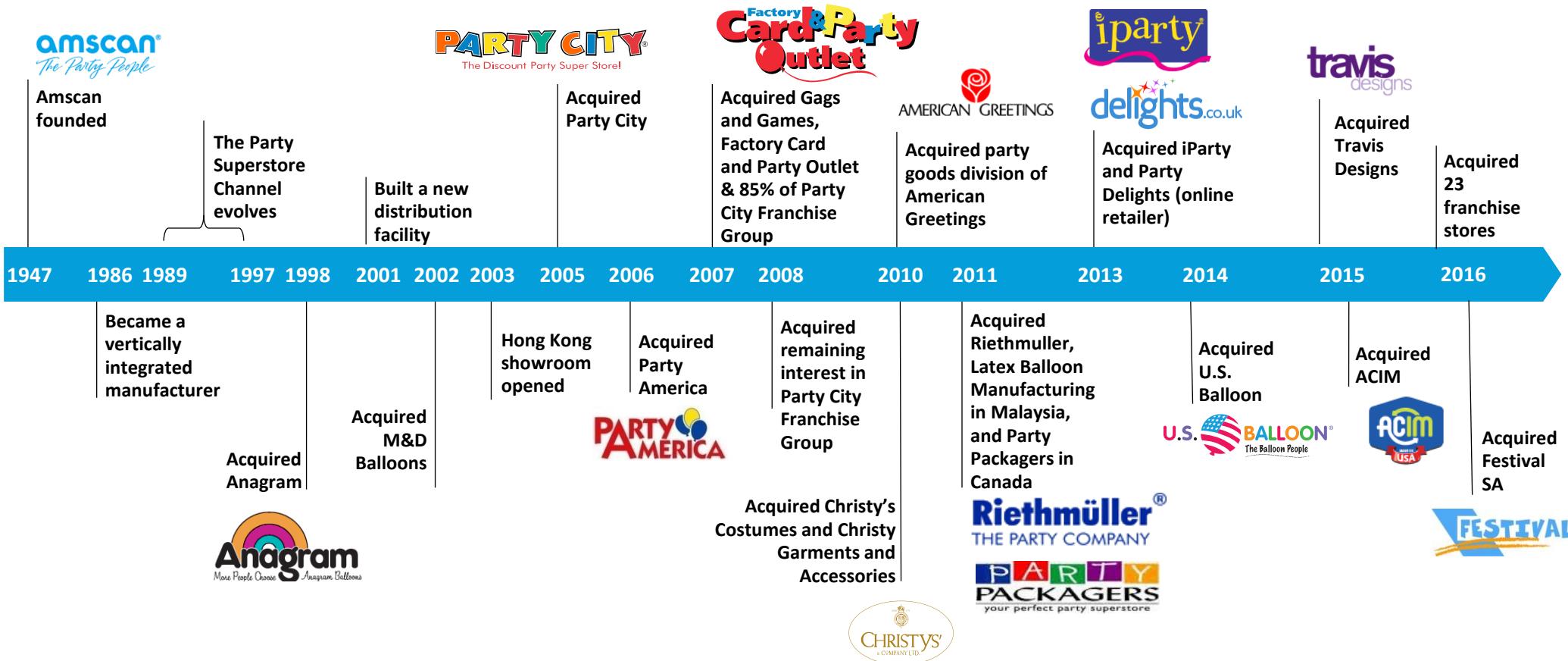
2 Includes franchise royalties.

3 See SEC filings for reconciliation of Adjusted EBITDA to Net Income.

4 Includes franchise locations.

# HISTORY OF VERTICAL INTEGRATION

## Evolution of the Business – Key Events



*Party City has developed into a fully integrated manufacturer and wholesaler with an Omni-Channel Retail Presence*

# ACCOMPLISHMENTS SINCE IPO

Growth Initiative	2015/2016 Accomplishments
Increase Share of Shelf	/ Expanded from ~70% in FY 2014 to ~75% in FY 2015
Grow Third Party Wholesale Business	/ 2015 wholesale sales growth of 5% (ex-currency) / Established white label relationship with Staples and other online retailers
Increase International Presence	/ Expanded presence in Mexico through master franchise agreement with plan to open 80 stores by 2024 / 2015 international third party wholesale sales up 15% (ex-currency)
Grow Our Global Digital Platform	/ 2015 North American online comparable sales up 9%
Pursue Accretive Acquisitions	/ Completed acquisitions of: <ul style="list-style-type: none"><li>• Travis Designs (costume design/sourcing)</li><li>• ACIM (custom injection molded plastics)</li><li>• Two franchise groups comprising 23 stores</li><li>• Festival SA (costume manufacturing)</li></ul>
Expand Retail Store Base	/ Opened/acquired 33 new stores in the US and Canada (19 net of closures) in 2015

# RECENT DEVELOPMENTS

## BROADEN OUR COMPANY OWNED FOOTPRINT

- / Acquired 23 franchise stores from two franchise groups in Arizona, New Mexico and Kansas.

## VERTICALLY INTEGRATE COSTUMES

- / Acquired Festival SA, a costume manufacturer in Madagascar which, over the next few years, will allow us to source as much as 15% of our costume & accessory requirements through this operation, and capture the full manufacturing-to-retail margin.

## EXPAND OUR LICENCE PORTFOLIO

- / Extended our portfolio licensing partnership with Warner Brothers to produce costumes and accessories for the Wizard of Oz, Harry Potter, Scooby-Doo, the Flintstones and more for our own Party City stores and partycity.com; in 2017 this will also include DC Comics Super Heroes including Batman, Superman, Wonder Woman, the Justice League and more.

## EXPAND OUR WHOLESALE REACH

- / Entered into e-commerce agreements with several retail partners including Staples to be their “white label” fulfillment partner for party goods sold online. Will continue to add similar relationships going forward.

# 2016 GUIDANCE

- / Revenues expected to range from \$2.35 billion to \$2.42 billion
- / Adjusted EBITDA expected to range between \$390 to \$405 million
- / Adjusted Net Income expected to range between \$140 to \$150 million
- / Adjusted diluted EPS expected to range between \$1.17 to \$1.25
- / Brand comparable sales expected to be flat to up slightly (reflects Q1 Frozen lapping effect and Halloween shift to Monday)

# KEY INVESTMENT HIGHLIGHTS

## Leading Market Position in a Growing Category

- / Leading party goods supplier in the growing \$10+ billion party goods industry
- / Leading global designer, manufacturer and distributor of decorated party supplies and costumes
- / #1 party goods retailer in North America with over 900 superstore locations

## Unique Vertically Integrated Operating Model with Controlled Distribution Channels

- / Combination of wholesale + retail enhances profitability through greater margin capture for majority of goods
- / Amscan has ~75% share of shelf at Party City and manufactures ~20% of product sold in our stores
- / Global sourcing model assures lowest cost manufacturing
- / Rapid response to changing consumer trends

## Broad and Innovative Product Offering

- / Unmatched product breadth with over 30,000 SKUs in-store and 80,000 SKUs online
- / Best-in-class design capabilities and innovation track record creating new opportunities
- / Brand portfolio of licenses supported by market position at wholesale and retail

## Strong Financial Performance And Free Cash Flow Generation

- / Sales of party goods have been resilient in all economic cycles
- / Repeat-purchase model, consumable nature of products and predictable selling patterns
- / Consistent margin expansion and top-line growth; superior to peers
- / Exceptional free cash flow generation

## Multiple Levers for Revenue + Margin Growth

- / Meaningful whitespace: 400+ new stores<sup>1</sup>
- / Strong e-commerce growth through enhanced omni-channel initiatives
- / Grow wholesale business through increased share of shelf and alternative markets
- / Select geographic and channel expansion opportunities
- / Expertise in tuck-in acquisitions

## World-Class Management Team and Experienced Sponsor Ownership

- / Seasoned management team with experience across wholesale and retail businesses and international and e-commerce platforms
- / Track record of strong performance operating with leverage
- / Majority sponsor has a long history of success in C&R investments

<sup>1</sup> Includes franchise stores in Mexico



# BUSINESS SEGMENTS

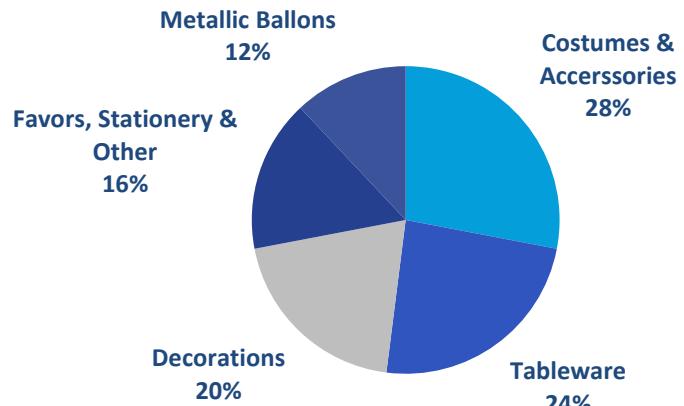
# WHOLESALE

We are one of the largest manufacturers, designers and distributors of decorated party supplies in the world

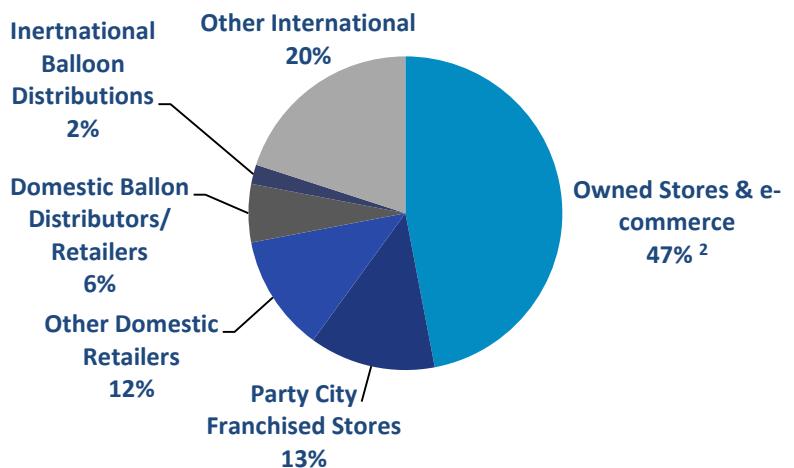


- / Over \$1.2bn in sales, ~47% to owned retail and e-commerce
- / Product sold in over 40,000 retail locations in 100+ countries
- / 59% U.S. / 41% International
- / Deep assortment with over 45,000 SKUs across 5 product categories
- / 400+ party goods ensembles, which contain 5 to 50 design-coordinated items
- / Balanced, multi-channel customer base – no single customer represents more than 10% of third party sales at wholesale

Wholesale Revenue by Product Category<sup>1</sup>



Wholesale Sales by Channel<sup>1</sup>



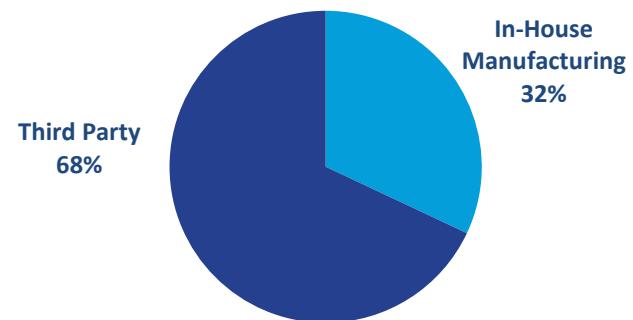
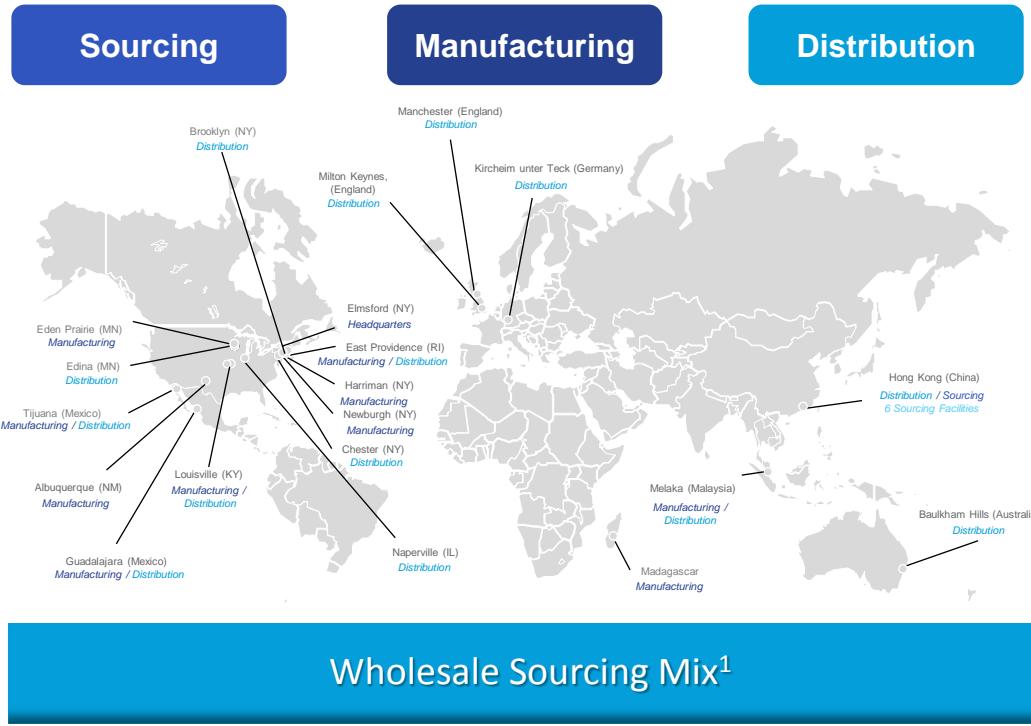
<sup>1</sup> Reflects December 31, 2015 numbers. Based on total wholesale sales including intercompany sales to retail operations. 2015 total wholesale sales were \$1,227 million and intercompany sales were \$573 million.

<sup>2</sup> Includes sales to Party City Canada and Party Delights.

# WHOLESALE

# Global sourcing, manufacturing and distribution

- / In-house manufacturing focused on high-volume party essentials that can be manufactured through highly automated processes
  - Examples: Paper and plastic tableware products and metallic balloons
- / Capabilities are cost-competitive and provide rapid turnaround times on key product categories
- / Labor intensive products, such as banners, favors and centerpieces, are principally sourced from Asia
- / 20+ year relationships with many of our vendors
- / Diversified sourcing, quality control and testing with offices throughout Asia (China, Indonesia, India and Vietnam)



<sup>1</sup> Reflects December 31, 2015 numbers. Based on total wholesale sales including intercompany sales to retail operations. 2015 total wholesale sales were \$1,227 million and intercompany sales were \$573 million.

# RETAIL

## Category Leadership Like No Other Specialty Retailer

	Party Goods	Vitamin & Supplements	Crafts	Pet Supplies	Sporting Goods	Home Improvement
Industry Leader						
Stores	~730 <sup>1</sup>	~3,600 <sup>1</sup>	~1,350	~1,430	~750	~2,270

#2 Player	NM					
Stores	—	~770	~600	~1,400	~200	~1,860

<sup>1</sup> Excludes franchise locations.

# RETAIL

## Category-Defining Omni-Channel Retail Concept

### Retail Stores



Largest retail network of decorated party supplies in North America

- / Over 730 company-owned Party City superstores including ~50 locations in Canada and ~180 franchise locations

~910 Party Superstores



A leading operator of temporary Halloween stores in North America

- / Used to test locations for year round Party City stores

Approx 300 Temporary Stores

### e-Commerce



Largest party e-Commerce platform with ~\$140 million of revenue for 2015 <sup>1</sup>

- / B2B capabilities
- / Average basket 3x retail



- / U.K. acquisition expanded platform into Europe
- / Rolled out additional country specific sites across Europe and beyond (including Germany, France, and the Netherlands)

e-Commerce currently ~10% of Retail Sales

*Nobody Has More Party for Less!*

<sup>1</sup> Includes Party Delights

# RETAIL

## Differentiated and Fun Retail Experience Insulates from Online Competition

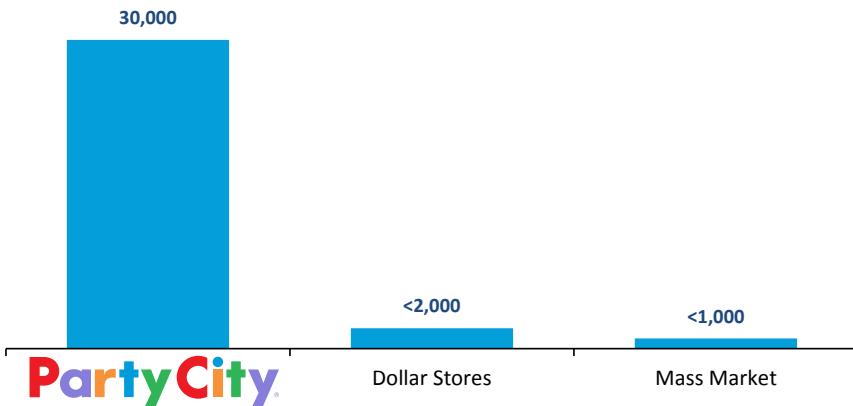
### One stop shop for all party needs

- / Greater assortment of merchandise than our national competitors, including mass merchants
- / Fun destination shopping experience where customers can get inspired
- / Coordinated collections vs. individual items sold by other online retailers

### Compelling Value

- / “Nobody has More Party for Less” pricing strategy
- / Low price point and slow inventory turn makes it difficult for other online retailers to profitably compete

### Party Goods SKU Count Comparison<sup>1</sup>



### Creating an Innovative and Fun Approach to Shopping

#### Color City



#### Candy City



#### Custom Invitations



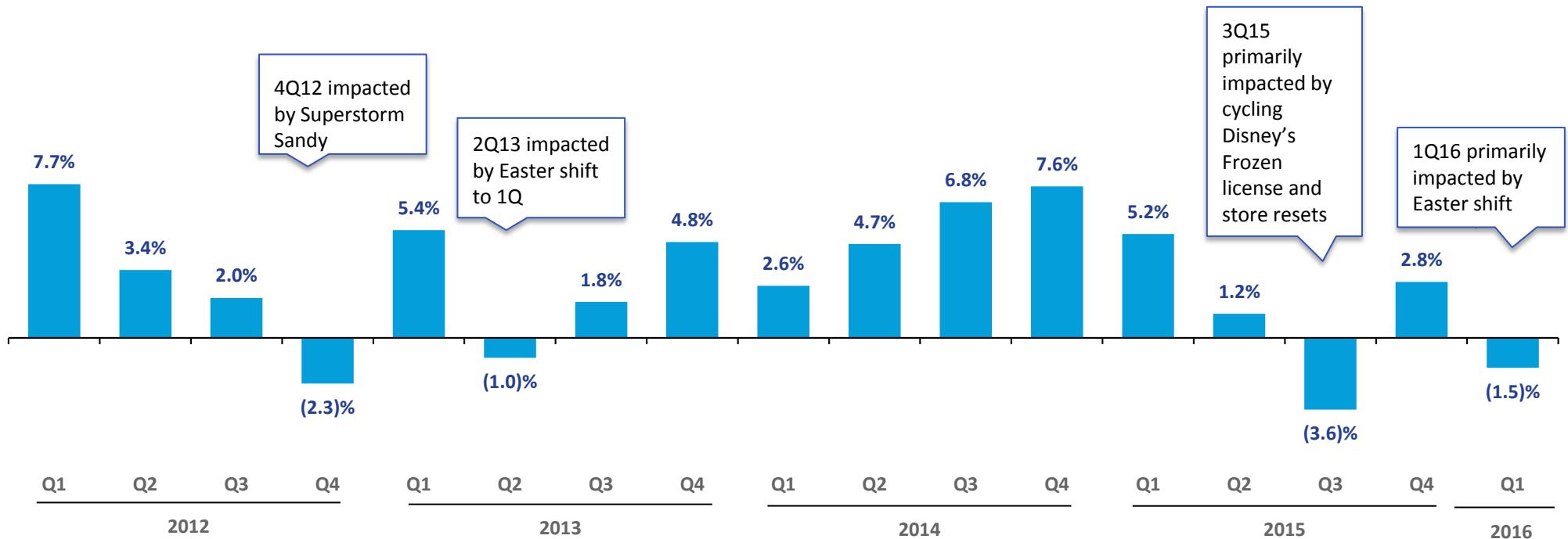
#### Favor City



<sup>1</sup> Party City management estimates.

# RETAIL

## Historical brand comparable sales



Annual:

1.8%

2.9%

5.8%

1.5%

# RETAIL + WHOLESALE

Best in Class Innovation and Broad Product Offering

## Innovation

- / Over 130 person in-house design team
- / Creative staff is constantly in the market identifying trends and new product concepts
- / Vertical integration allows development team to test new products and rapidly respond to changes in consumer preferences
- / Proprietary designs and licenses help differentiate products from those of competitors
- / Introduce approximately 8,000 new products and 50 new party goods ensembles annually

## License Portfolio



## Product Offering

- / Broadest assortment of merchandise
- / Organized by events and themes
- / Deep merchandise selection
- / Wide assortment including invitations, thank you cards, tableware, hats, horns, banners, cascades, balloons, novelty gifts, piñatas, favors and candy

## Selected Merchandise Ensembles



# OUR UNIQUE VERTICAL MODEL

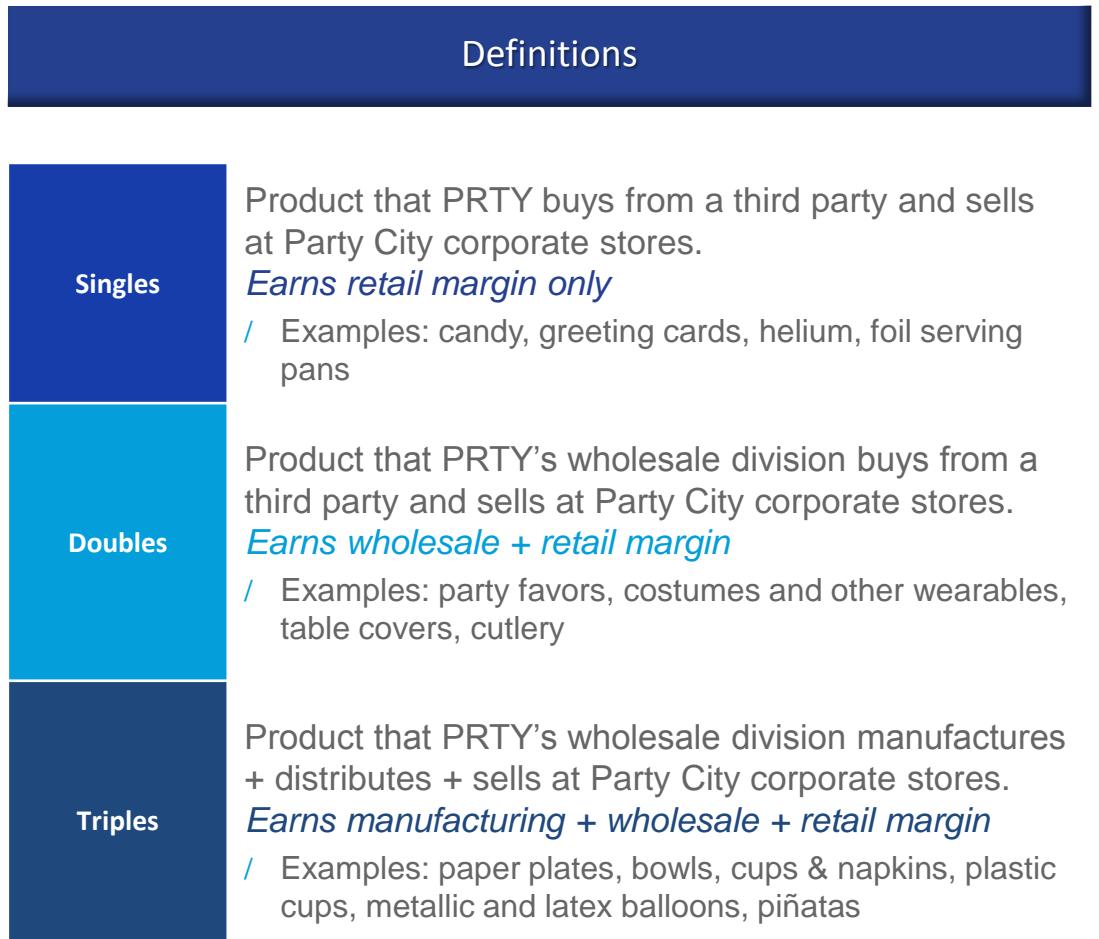
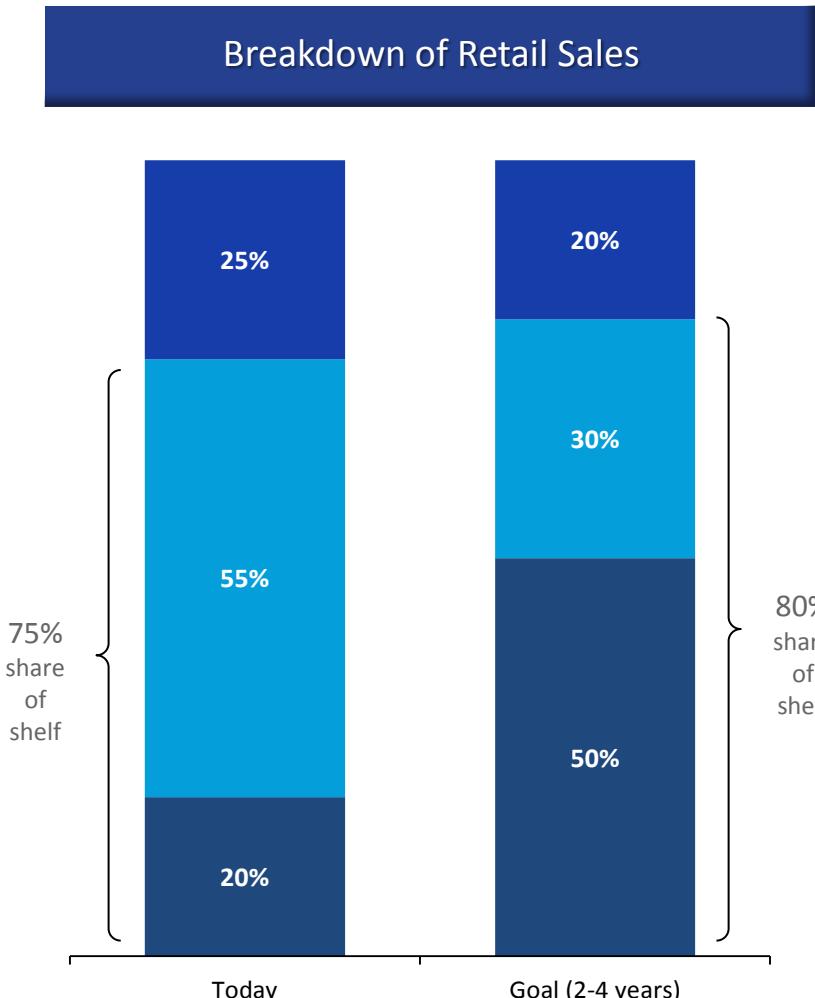
## A “Virtuous Circle of Strength”

Our vertical model and significant, global scale provide unique competitive advantages:

- / Enhanced profitability by capturing the full manufacturing-to-retail margin on a significant portion of the products sold in our retail stores
- / Maintain greater control of every step from design and production through the sale of our products across channels



# OUR VERTICAL GOALS



# POWER OF THE VERTICAL MODEL

## Gross margin impact of achieving our vertical goals

	Hypothetical example	Gross margin		Today		Goal		
		Individual <sup>1</sup>	Cumulative	Vertical %	GM	Vertical %	GM	Benefit
“Single”	\$ 1.00	Retail sales price						
	0.50	product cost						
	0.50	product profit						
	0.20	occupancy						
	<b>\$0.30</b>	net gross margin	30%	30%	*	<b>25%</b>	= 7.5%	<b>20%</b> = 6.0%
“Double”	\$0.50	WS sales price						
	0.25	product cost						
	0.25	product profit						
	0.10	freight/distribution						
	<b>\$0.15</b>	net gross margin	30%	45%	*	<b>55%</b>	= 24.8%	<b>30%</b> = 13.5%
“Triple”	\$0.25	Mfg sales price						
	0.21	cost						
	<b>\$0.04</b>	profit	15%	49%	*	<b>20%</b>	= <u>9.8%</u>	<b>50%</b> = <u>24.5%</u>
						42.1%		44.0% ~200bps <sup>2</sup>

<sup>1</sup> For ease of illustration purposes, a static product mix between vertical and 3rd party volumes as well as a static individual margin used. Actual results depend on range of individual margins by product line and mix of vertical and non-vertical volumes.

<sup>2</sup> Does not reflect GM impact of other factors like FX, international sales and expense leverage.

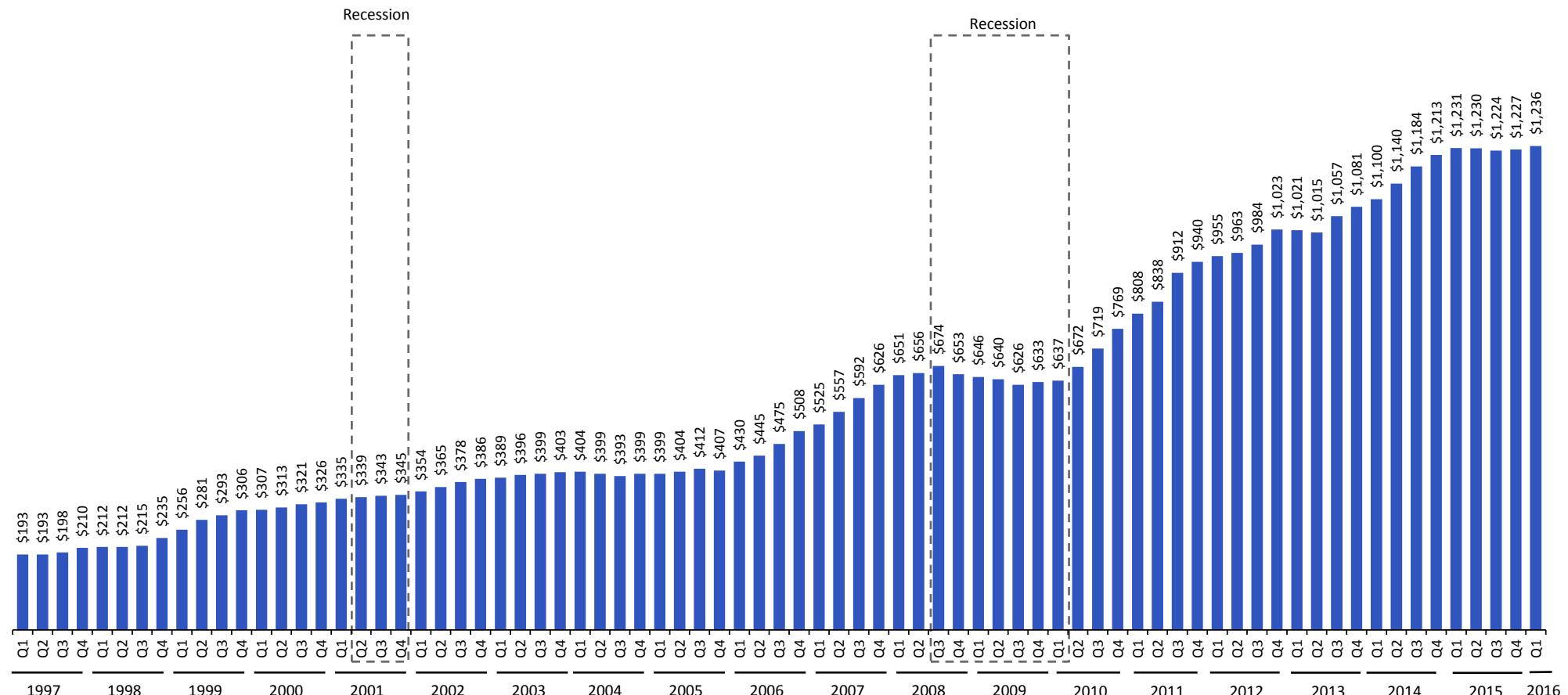


# FINANCIAL OVERVIEW

# STRONG FINANCIAL PERFORMANCE

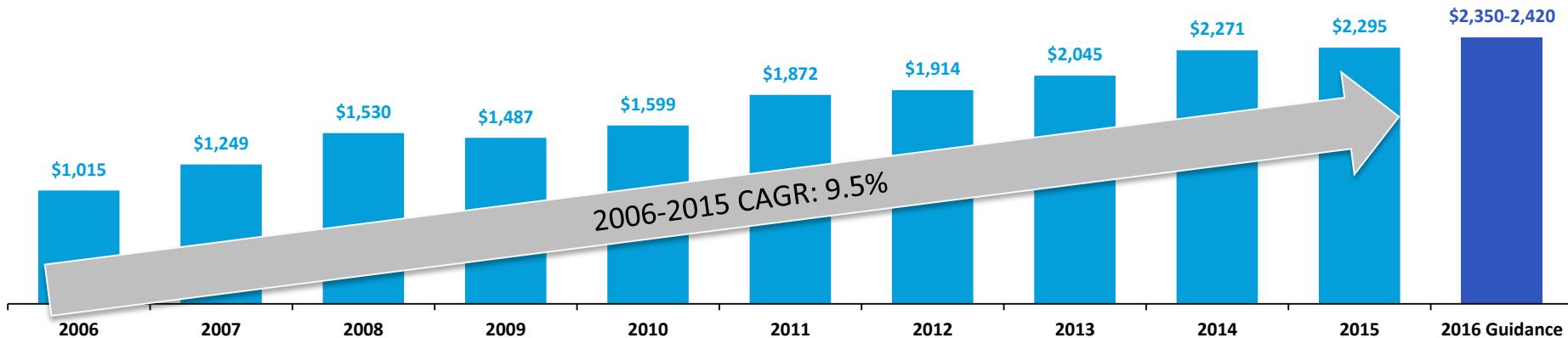
Sales of party goods resilient in all economic cycles

Rolling LTM Gross Wholesale Sales (\$ in millions)



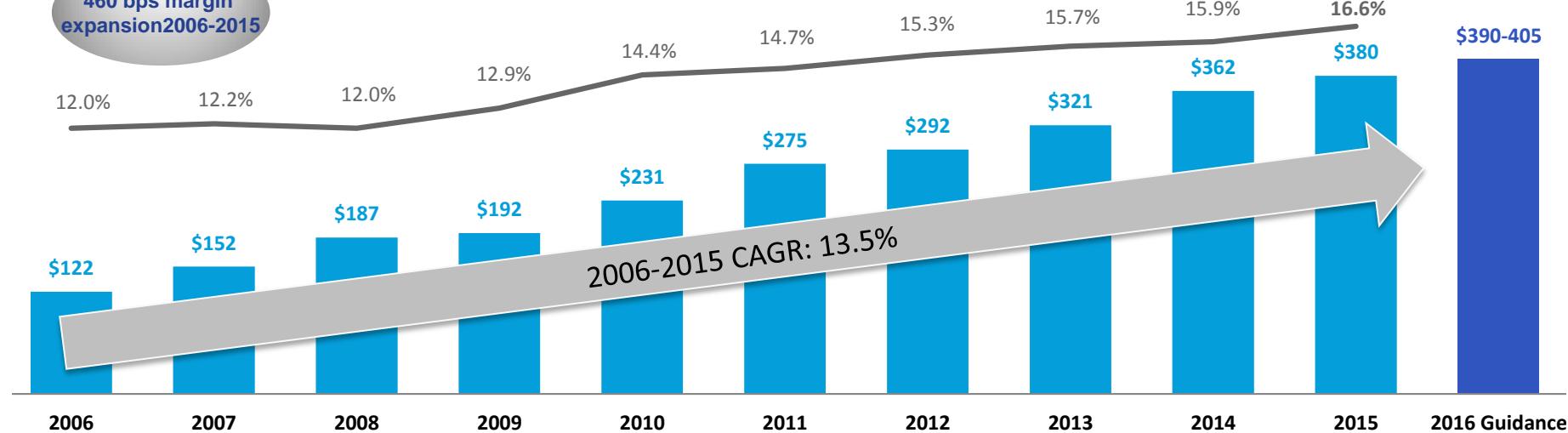
# STRONG FINANCIAL PERFORMANCE

Total Revenues (\$mm)



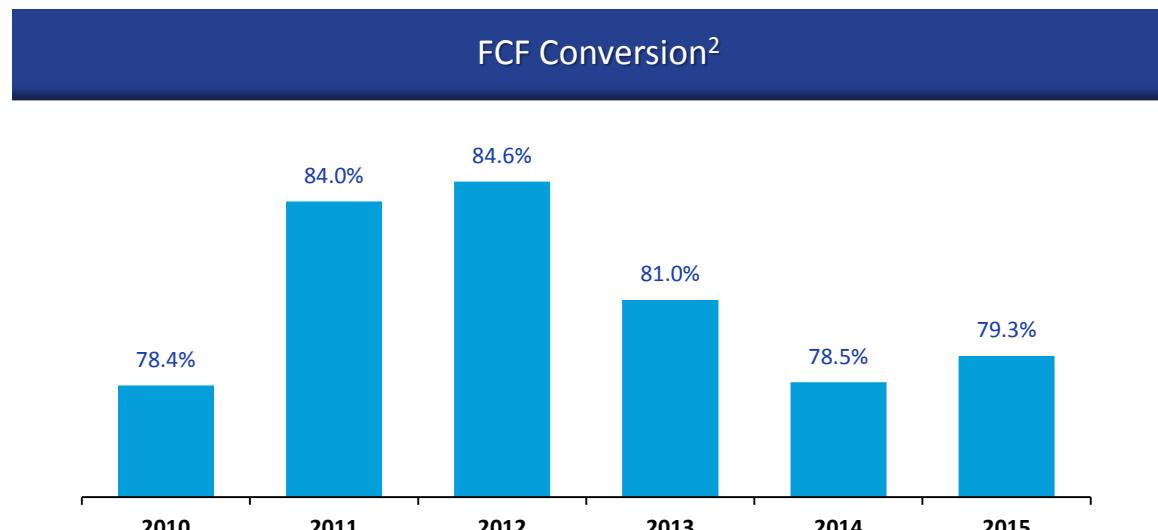
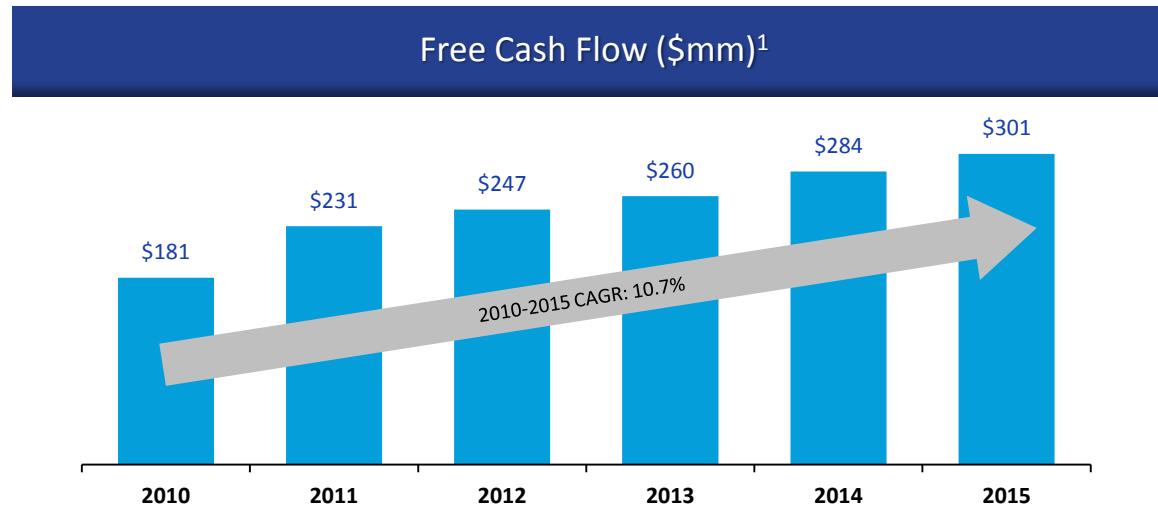
Adjusted EBITDA<sup>1</sup> (\$mm) and Adjusted EBITDA Margin<sup>1</sup>

460 bps margin expansion 2006-2015



<sup>1</sup> See SEC filings for reconciliation of Adjusted EBITDA to Net Income

# STRONG FREE CASH FLOW

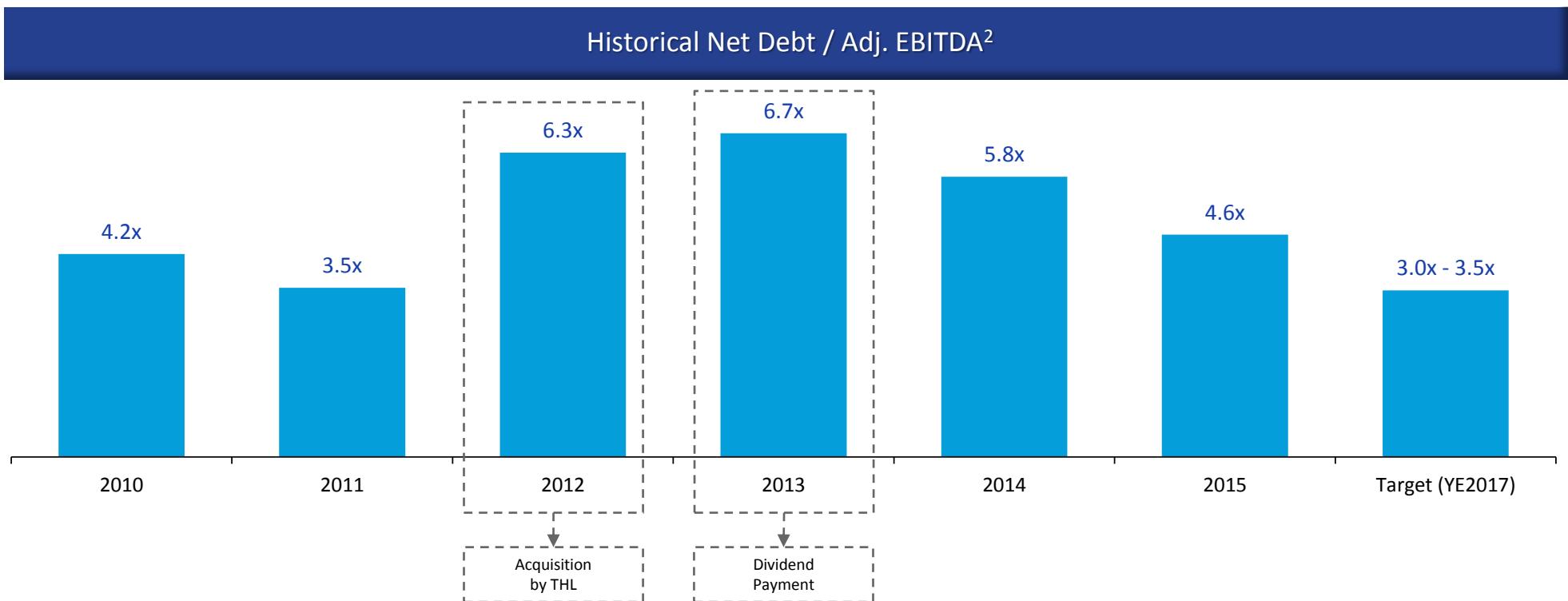


<sup>1</sup> Free Cash Flow defined as Adjusted EBITDA less CapEx.

<sup>2</sup> Free Cash Flow Conversion defined as (Adjusted EBITDA – CapEx) / Adjusted EBITDA.

# STRONG BALANCE SHEET AND LIQUIDITY

- / Majority of primary proceeds from 2015 IPO used to reduce existing indebtedness
- / Solid free cash flow generation with ability to self-fund organic growth and opportunistic acquisitions
- / Ample liquidity going forward supported by new revolver of \$640 million<sup>1</sup>
- / Target gross leverage YE 2016: <4.0x; YE 2017: 3.0x - 3.5x



<sup>1</sup> ABL revolver comprised of \$500 million facility, \$40 million FILO tranche, and \$100 million seasonal facility increase.

<sup>2</sup> See SEC filings for reconciliation of Adjusted EBITDA to Net Income.



# GROWTH OPPORTUNITIES

# MULTIPLE LEVERS FOR GROWTH

1

## Grow Wholesale Business

- / Increase share of shelf at company-owned and 3rd party stores; increase % of self-manufactured product
- / Drive continued product innovation through new licenses and integration of new manufacturing acquisitions
- / Expand into adjacent business-to-business channel

2

## Grow our International Presence

- / Drive international growth through customization of products to local tastes and holidays
- / Expand retail presence through store-within-a-store concept with select international retailers
- / Represents ~15% of revenues in 2015

3

## Pursue Accretive Acquisitions

- / Completed numerous successful acquisitions over the past 16 years
- / Emphasis on smaller, bolt-on acquisitions that add scale and/or unique capabilities
- / Significant synergy potential through leveraging existing distribution, production and marketing capabilities

4

## Expand Our Retail Store Base

- / Plan to open ~30 stores per year representing ~4% annual square footage growth
- / New stores generate a ~3 year payback and 50% ROIC in year 3

5

## Drive Additional Growth and Productivity From Existing Stores

- / Continue to improve brand image and awareness
- / Pursue merchandising initiatives to drive increased units per transaction
- / Convert existing stores to new, more customer interactive format

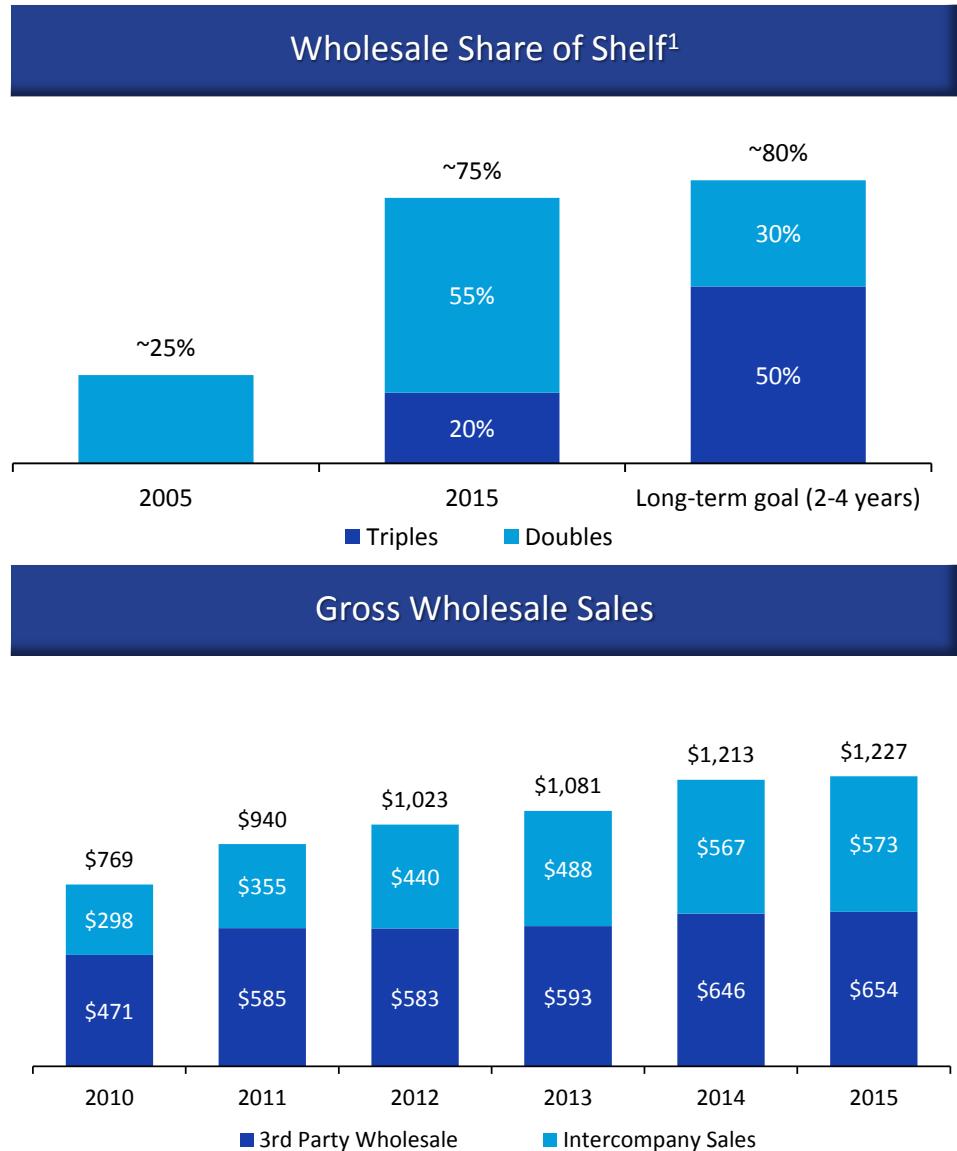
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## Grow Our Global Digital Platform

- / Enhance customer experience through integrated omni-channel strategy
- / Further develop international capabilities through country specific sites
- / Currently represents only approximately 10% of retail sales

# GROW WHOLESALE BUSINESS

- / Wholesale growth driven by our leading scale, vertical operating model and strong innovation
- / Product portfolio initiatives include:
  - Building out wearable / costume business to capitalize on recent acquisitions
  - Acquisition of new licenses and expansion into new categories under existing licenses
- / Expansion into adjacent business-to-business channel
  - Targeting under-served consumer segments
  - Expansion into adjacent “alternative markets”
  - B2B opportunities with restaurants, bars, children’s activity centers and sports arenas
- / White label partnership opportunities with other online retailers
- / Benefit from expansion in Mexico via master franchise agreement with Grupo Oprimax



<sup>1</sup> Based on product COGS.

# GROW OUR INTERNATIONAL PRESENCE

## INITIATIVES BY COUNTRY/REGION:



### Mexico:

- / Franchise agreement with Grupo Oprimax to open 80 stores by 2024
- / Five stores open by end of 2016
- / Target 50% share of shelf



### United Kingdom:

- / Two retail locations up and running
- / Store-in-store concepts currently in ~40 Woody's locations
- / Dedicated party retail space in ~400 Clinton's locations



### Australia:

- / Store-in-store concepts currently in ~140 Big W stores
- / Plan to add additional 50 locations in 2016



### Continental Europe:

- / Dedicated space in large retailers in several countries, including Spain, Germany, Belgium, Switzerland

# PURSUE ACCRETIVE ACQUISITIONS ACROSS THE VALUE CHAIN

## Acquisition Strategy

Global and scalable infrastructure provides a strong platform for future acquisitions

Emphasis on smaller, bolt-on acquisitions that add scale and / or unique capabilities

Potential areas of focus include:

- / Broaden and deepen product capabilities
- / Expand retail presence, including domestic franchisee buyouts
- / Expand international presence

Significant synergy potential through leveraging existing distribution, production and marketing capabilities

## History of Strategic Bolt-on Acquisitions

								
Description	Manufacturer of costumes located in Madagascar	Two franchise groups comprising 23 stores	US custom injection molded plastics manufacturer	U.K. based designer, sourcer and distributor high-end costumes	US distributor of metallic balloons	Chain of ~50 party retail stores	German distributor of party goods	U.K. based costume company
Date of acquisition	Mar. 2016	Jan. 2016	Aug. 2015	Mar. 2015	Oct. 2014	May 2013	Jan. 2011	Sep. 2010
Size	\$5mm	\$28mm	\$11mm	\$12mm	\$10mm	\$38mm <sup>1</sup>	\$47mm	\$34mm
Rationale	Will allow the Company to source up to 15% of its costumes/ accessories and capture the full manufacturer-to-retail margin on these products	Market consolidation, widening company-owned retail territory, improve management and brand integrity of these locations, realize cost synergies	Provides opportunity to earn full manufacturing to retail margin on plastic products including drinkware, serveware, and cutlery	Provides significant sourcing and vertical integration synergies, as well as access to a higher-end costume customer	Creates ability to capture full manufacturing-to-retail margin on balloons that PRTY manufactures and sells at company-owned stores	Accelerated our growth throughout New England, a densely populated region where we did not have a market presence	Expanded European reach and enabled direct supply of latex balloon requirements previously sourced from 3rd party vendors	Provided costume design and sourcing capabilities as well as additional resources in the U.K. and European markets

<sup>1</sup> Including the repayment of \$9.0 million outstanding under iParty's credit agreement

# EXPAND OUR RETAIL STORE BASE

/ Current retail network includes approximately 910 party superstores, including:

- Approximately 680 company-owned stores in the U.S. and approximately 50 stores in Canada
- Approximately 180 franchised locations

/ Opportunity to add over 400<sup>1</sup> additional Party City stores in the U.S., Canada and Mexico



<sup>1</sup> Includes franchise stores in Mexico.

<sup>2</sup> 2013 includes 54 stores acquired from iParty



## Target New Store Economics with Vertically-Integrated Model

Sales at Maturity	~\$2 million
Initial Sales Growth	8 – 10% over 3 – 4 years
Year 3 EBITDA Margins	-20%
Average Total Net Investment	\$765k

Payback Period ~3 Years

*Through our vertical model, we are able to enhance our total profitability by capturing the manufacturing-to-retail margin on a significant portion of our retail sales and by leveraging our access to multiple channels. In this way, we are like no other retailer.*

# DRIVE ADDITIONAL GROWTH & PRODUCTIVITY FROM EXISTING STORES

Continue to improve brand image and awareness

- / Strong emphasis on price-value proposition – “Nobody Has More Party For Less”
- / New ad campaign targeted to grow market share: “It’s not a party unless it’s a *Party City* party!”



Convert existing stores to new, more customer interactive format

- / Expect to have all ~150 remaining stores converted by 2018
- / Remodeled stores expected to generate sales growth 5-6% higher than non-remodeled in the first year
- / New store management model increases employee engagement and improves customer service

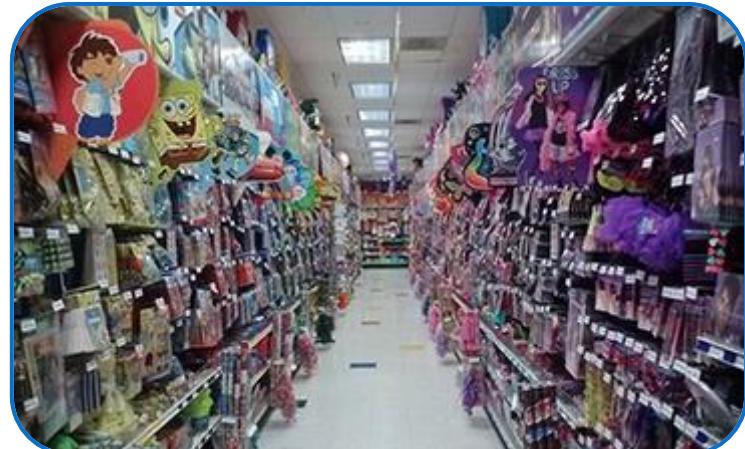


Pursue merchandising initiatives to drive increased units per transaction

- / Broadening products within existing license arrangements
- / Added color coordinated dress-up and candy products



Increase share of shelf of vertical products in redesigned party stores



# ⑥ GROW OUR DIGITAL PLATFORM

- / E-commerce today represents ~10% of total retail sales
- / Mobile currently 50% of e-commerce traffic and 25% of e-commerce sales
- / Much broader offering online: ~80K SKUs online vs. ~30K in store
- / Linking stores to online with perks like free Wi-Fi and in-store ordering for free shipping
- / Increasing engagement through social media sites and user-generated content
- / Insulated from other online retailers (SKU intensive, low price point and low turn makes unattractive for online competition)



## Initiatives for 2016 to drive e-commerce:

- / Buy online and pick up in stores (pilot program with balloon bouquets)
- / Expanding our Party Ideas section of the website to harness partner and user generated content
- / Expanded assortment of SKUs only available online (party kits, web-only party patterns) and personalization options
- / Continual use of Party City website and social marketing to communicate products, party ideas, assortment, and value

