

# Dallas Business Journal

## **National Envelope Corp. bought out of Ch. 11**

*PE firm buys National Envelope out of Ch. 11 bankruptcy for \$280M*

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A West Coast private equity firm has plans to turn around North America's largest envelope maker after buying the Frisco-related business out of bankruptcy in a deal worth a total of about \$208 million.

The deal for NEC Holdings Corp., the corporate parent of Frisco-based National Envelope Corp., included a \$150 million purchase of the 58-year-old business by Los Angeles-based Gores Group LLC, along with the assumption of a roughly \$20 million debt to International Paper Co. and a \$37.7 million note.

Producing approximately 37 billion envelopes annually, National Envelope has nearly 3,389 employees and 14 manufacturing sites across the country, bankruptcy court records show. Locally, the company has its headquarters in Frisco and a production facility in Ennis. A number wasn't available on National Envelope's Dallas-Fort Worth employee base.

With a new balance sheet and a renewed focus on customer service and grabbing market share, Gores Group officials say the future is bright for National Envelope.

"We think there's tremendous upside," said Tim Meyer, National Envelope's board chairman.

Meyer acknowledged that the volume of envelopes in use is shrinking 3 percent to 5 percent per year. He added, though, that there are pockets of potential expansion in the envelope market, such as in direct mail, where use declined during the latest recession.

"You will see some growth in that market," he said.

National Envelope's new leadership also will focus on pricing. Too many envelopes are being made in the industry, and that has had an effect on pricing, Meyer said.

"Our focus is to bring some more rational and sustainable pricing to the industry," he said, declining to discuss details of that focus.

The company also will seek to grab more market share, Meyer said. That will be especially true in the "consumer" envelope segment, which bankruptcy court filings say made up a little over a third of the company's 2009 revenue. The consumer segment, in

which National Envelope is the No. 2 player with 14 percent share, is largely concentrated in the financial, direct mail, insurance, utilities, fulfillment, nonprofit and courier industries, along with big companies that use envelopes on a day-to-day basis, bankruptcy court filings say. It includes envelopes used for business transactions, automated teller machines, payroll and direct mail.

Rival envelope maker Cenveo Inc. is No. 1 in that space, Meyer said. “With an enhanced customer focus, we’re pretty confident that we can gain share in this important segment,” he added.

In addition to grabbing more market share, Gores Group officials see National Envelope getting into new markets, such as the “retail” envelope segment, where it could produce high volumes of No. 10 envelopes.

“Those are greenfield opportunities that this business doesn’t do,” Meyer said.

“There are a number of segment-specific opportunities that National Envelope will pursue.”

Gores Group officials also said they will steer their new portfolio company into at least one unspecified market outside the company’s core business of envelopes. “That will become a priority for us early next year,” Meyer said.

Meyer said he did not know what impact these various initiatives will have on National Envelope’s Dallas-Fort Worth headcount. To the extent National Envelope is successful in pursuing growth opportunities, that could create jobs locally, he added.

Within the company, expect a change in the organization of the business to ensure that all employees know what they are supposed to be doing and are held accountable for getting their jobs done, Gores Group officials said. That will likely include a realignment of the sales force, Meyer said.

“I think you will see a renewed focus on go-to-market (efforts) and sales strategy,” said Jordan Katz, a managing director at the Gores Group responsible for the National Envelope acquisition. “You will see a more efficient cost structure ... (and) perhaps a rationalized manufacturing footprint.”

On top of all that, a search is on for a strong CEO to lead National Envelope, Meyer said. That chief executive will be based in the Dallas-Fort Worth area, he added. National Envelope is using a search firm, which Gores Group officials declined to name.

### **National’s unsealing**

National Envelope had a 21 percent share of the overall envelope market in 2008 — the latest numbers available.

The company posted a loss of around \$44.2 million on \$676.2 million in revenue in 2009, compared with a \$7.9 million loss on \$799 million in sales in 2008, bankruptcy court documents say.

Between January and April of this year, privately held National Envelope had a \$6.1 million loss on \$224.4 million in revenue, according to the company's bankruptcy filings.

Founded in 1952 by Holocaust survivor William Ungar, the company has been stung in the last few years by the global recession and the replacement of print communications and media by electronic formats, court documents say.

In addition, National Envelope had too much debt, bankruptcy court records say. The company faced "significant liquidity constraints" because of defaults on a credit agreement with General Electric Capital Corp., along with National Envelope's inability to get access to new financing under that agreement, bankruptcy court records say. All told, National Envelope's debts to General Electric Capital totaled around \$150.2 million, bankruptcy documents say.

At the time of its June 10 filing for Chapter 11 protection, National Envelope had assets and debts of between \$100 million and \$500 million apiece, bankruptcy records say.

Despite its troubles, National Envelope garnered plenty of interest when it was auctioned Aug. 20. Gores Group officials confirmed that other bidders included affiliates of rival envelope maker Cenvéo Inc. and the private equity firm Sun Capital Partners Inc.

The auction was done under Section 363 of the Bankruptcy Code. Holland O'Neil, a partner in the bankruptcy and restructuring group at Gardere Wynne Sewell LLP who is not associated with National Envelope, said section 363 auctions are a good means for would-be buyers to snap up assets.

"Whether you're in or out of bankruptcy, there are benefits for the buyer," she said.