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Demystifying the Private Placement Debt Market

October 15, 2012

Speaker Introductions

- **Van Thorne, Managing Director, MetLife Investments**
- **Rick Fischer, Director, MetLife Investments**
- **Mike Connolly, CTP, Vice President and Treasurer, Tiffany & Co.**
- **Ferdinand Jahnel, Vice President and Treasurer, Henry Schein, Inc.**

Tiffany & Co. – Highlights

- **Established 1837**
- **Publicly traded since 1987 / S&P 500 Index**
- **FY 2011 – $3.7 billion in revenues**
- **247 Tiffany & Co. stores in 22 countries**
- **Vertical Integration:**
  - Centralized distribution from the U.S.
  - Internally manufacture 60% to 65% of goods sold
    - Manufacturing facilities in the United States
  - Acquire approximately 60% of diamonds as “rough”
    - Diamond operations in Belgium, South Africa, Botswana, Namibia, Mauritius and Vietnam

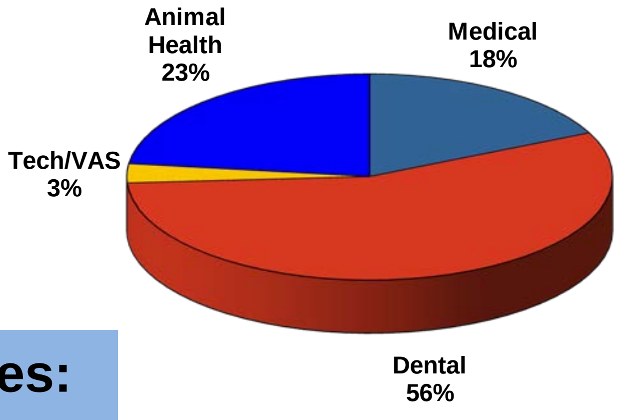
Tiffany & Co. – Private Placement History

- **1996: Direct Transaction – ¥5 billion, 15 years**
- **1998: Syndicated Transaction – $100 million, 10/12 years**
- **2002: Syndicated Transaction – $100 million, 7/10 years**
- **2003: Syndicated Transaction – ¥15 billion, 7 years**
- **2008/2009: Direct Transactions/Shelf – $400 million, 7/10 years**
- **2010: Direct Transaction – ¥10 billion, 6 years**
- **2012: Direct Transactions/Shelf – $250 million, 30 years (20-year average maturity)**

Henry Schein – Corporate Overview

HSIC is the largest distributor of healthcare products and services to office-based practitioners

- **Serving Dental, Physician and Animal Health practitioners**
- **Broad range of value-added products and services**
  - One-stop shop for our customers
- **Operations or affiliates in 26 countries**
- **Fortune 500® company**
- **Member of the NASDAQ 100® Index**



2011 Worldwide Sales: $8.5 billion

Henry Schein – Growth Since Going Public

($ in millions, except per share data)	**1995**	**2011**	**Compound Annual Growth Rate**
Sales	$616.2	$8,530.2	18%
Operating Income	$19.3	$582.1	24%
Operating Margin	3.1%	6.8%	23bp
Net Income	$9.1	$367.7	26%
Diluted EPS	$0.34	$3.97	17%

From continuing operations and excluding certain non-recurring items.

Henry Schein – Treasury Infrastructure

1. **Henry Schein Corporate Treasury team**
   - Centralized global responsibilities for all Corporate Treasury activities, incl. cash/investments/debt, capital structure, banking relations, financial risk/FX
   - Risk management responsibilities, i.e., all insurance related activities
   - 15 team members mainly at HQ in Melville, New York

2. **Treasury Technology infrastructure**
   - Treasury Management System (TMS) / Treasury Workstation
   - Corporate member of SWIFT network
   - Online financial market & FX trading platforms

3. **Key architectural elements to manage cash**
   - Global: multi-currency notional pooling (N.A., Europe, Australasia)
   - Local: physical pooling (U.S., Europe, Australia)
   - U.S.: access to capital markets for debt/equity financing
   - Main banking partners participate in the Company's credit facility

Henry Schein – Private Placement History

- **1998/99: Initial Private Placement issuances**
  - Syndicated transaction structure
  - Transaction size: $100m/$130m
  - Term: 10 years
  - Paid off in 2008/09

- **2010/12: Private Placement Shelf Agreements**
  - Counterparties: 3 U.S.-based life insurance companies
  - Shelf agreement term: 3 years
  - Total capacity: $775m
  - **Drawn to date: $200m**
    - 2010: $100m for 10 years
    - 2012: $100m for 7/12 years

What are Debt Private Placements?

- **“Privately-placed” fixed income securities, exempt from registration with the SEC**

- **Section 4(2) of the Securities Act of 1933 exempts from registration "transactions by an issuer <u>not involving any public offering</u>”**

- **Purchasers of these securities must be “sophisticated” investors**

What is the “Traditional” Debt Private Placement Market?

- **A corporate bond asset class that has existed in its current form for many years (does not include Rule 144a transactions)**

- **Bonds are sold directly or via an agent to institutional investors**

- **Represents an important financing channel for issuers that do not have access to or choose not to access the public debt markets, due to:**
  - Minimum size* and ratings requirements
  - Costs (associated with registration process, public offering and ratings maintenance)
  - Confidentiality concerns

**Inclusion into Barclay’s (former Lehman) U.S. Aggregate or Corporate bond indices requires a $250 million issue size.*

Summary Comparison of Debt Markets

	Bank Debt	Private Placements	Public Bonds
Tenor	• Short term (3 to 5 yrs) • Revolving or term loans	• Long term (3 to 30 yrs+) • Bullets or amortizing	• Long term (3 to 30 yrs+) • Bullets • Standard maturities
Uses	• Working capital • Funding bridge	• Acquisitions, growth capex • Long-term asset matching	• Acquisitions, growth capex • Long-term asset matching
Rate	• Floating	• Fixed or floating	• Generally fixed
Callability	• Par	• Fixed: MW (T+50 bps) • Floating: reducing schedule	• Fixed: MW (T+20 to 50 bps)
Fees	• Placement/syndication • Commitment	• None if directly placed • Placement (agented issues)	• Registration/ratings fees • Highest placement fees
Investors	• Single bank or clubs • Relationship focused	• Single/clubs/larger groups • Buy-and-hold nature • Relationship focused	• Sizable groups • Can be active traders
Covenants	• Most restrictive	• Similar to banks (can be slightly looser)	• Generally, no financial covenants

Private Placement Issuers

- **Public or privately-held corporations (or similar entities*)**
  - A big misconception is that the market is just for privately-held companies
  - Roughly half of the issuers in the market are publicly-held and generally these credits (many with household names) issue in larger sizes
- **U.S. or foreign-based (large volumes come from abroad)**
- **Wide sector diversification (excluding the obvious more "equity-attractive" industries)**
- **Primarily "investment grade" credit qualities**

**For example, special purpose vehicles that issue credit tenant leases (CTLs) or project finance related notes.*

Issuers Use Private Placement Proceeds for a Variety of Needs

- **Proceeds raised through private placement issues are used for:**
  - Mergers and acquisitions
  - Growth capital
  - The refinancing of existing bank debt and/or maturing long-term bonds, and
  - Special dividends and/or recapitalizations (assuming credit quality remains reasonable)

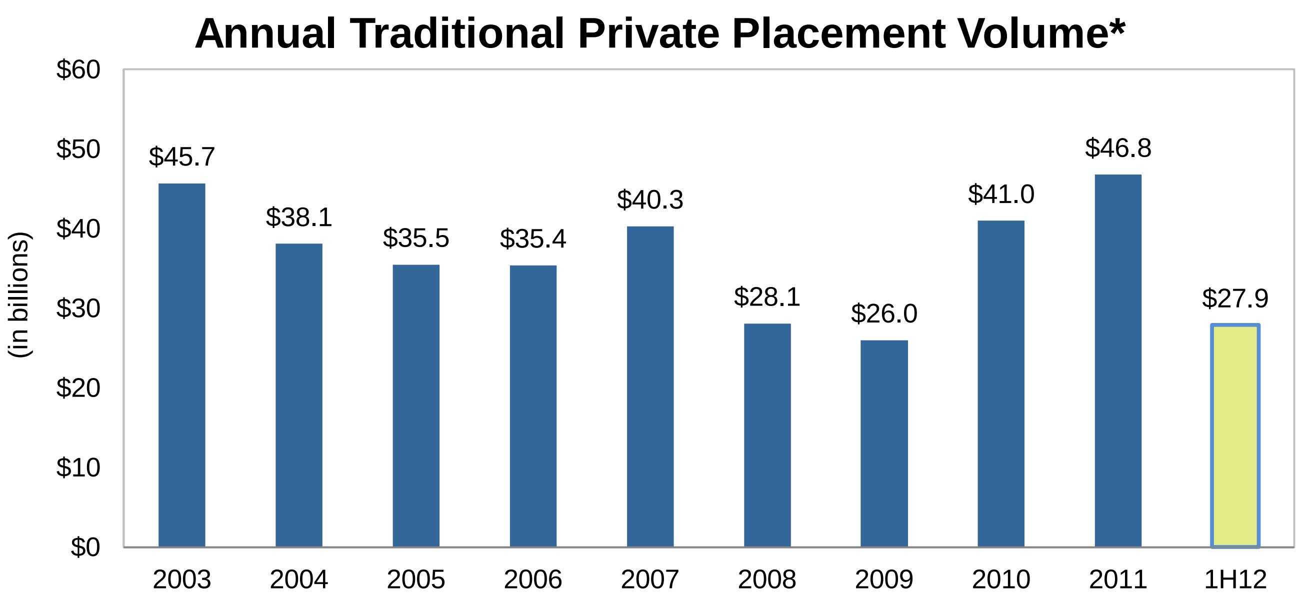
In general, issuers are seeking to fund longer-term assets and/or add or maintain a more permanent layer of debt capital

Private Placement Investors

- **Primarily U.S.-based life insurance companies that require long-term assets to match their liability profiles**
- **Roughly 40 active buyers, with the top 3 to 5 players consistently purchasing in excess of 50% of new-issue volume**
- **Almost exclusively buy-and-hold investors**
- **A small secondary market exists between active purchasers**
  - On occasion, holders may want to add to or lighten-up on a position
  - Portfolio duration rebalancing may also drive secondary purchases/sales

Market Size and Stability

- Approximately $40 to $50 billion of new issuance annually
- ~ 10% of the size of the U.S. IG bond market (ex. Financials)
- Generally more stable than the public bond markets

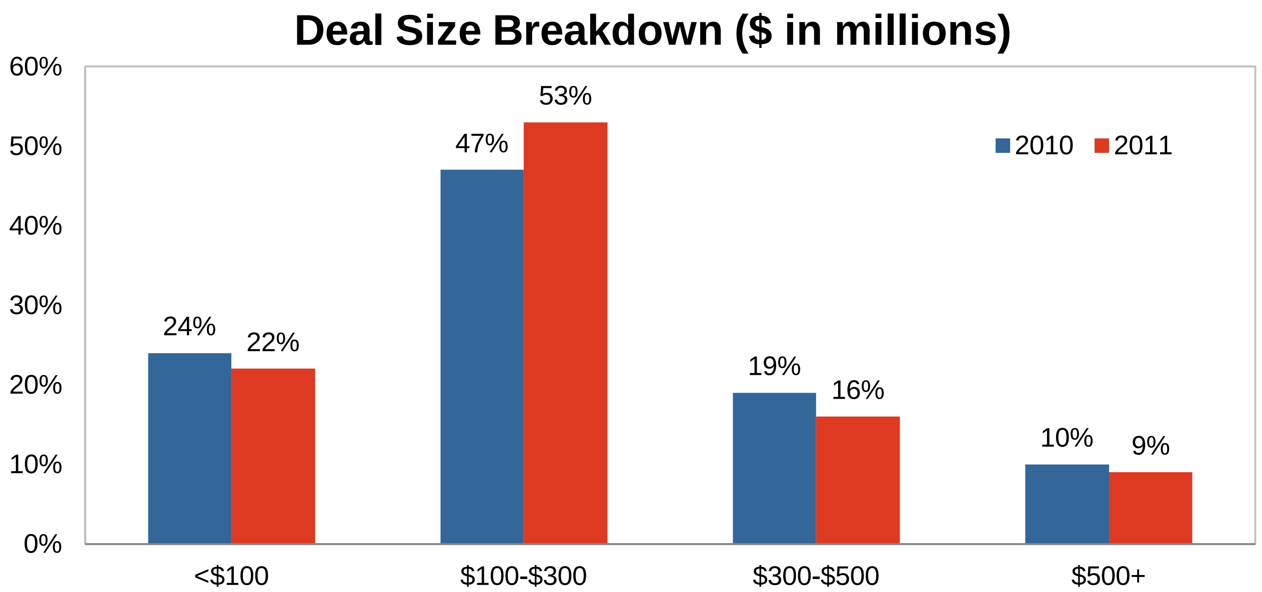


Even during the height of the financial crisis, private placements were being executed

**Roughly $3 to $5 billion, annually, of directly-placed financings not captured.*
Source: Thomson Reuters and The Private Placement Monitor.

Deal Size and Number of Issues

- Average issue size of approximately $200 million, with issue sizes ranging from $50 million to over $1 billion
- Roughly 200 issues per year

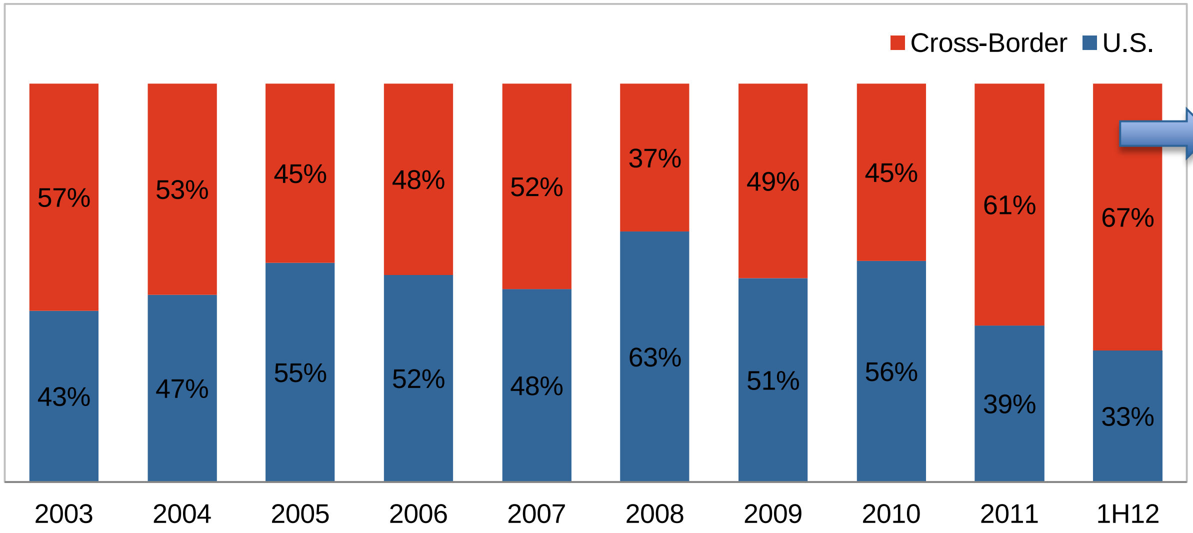


Source: Thomson Reuters and Bank of America.

Issuers by Geography

- Issuance from foreign-based credits is significant, representing roughly 50% of dollar volume raised over the last decade
- U.K., Aussie and Canadian issuers consistently tap the market

Foreign-Based Issuance by Dollars Raised

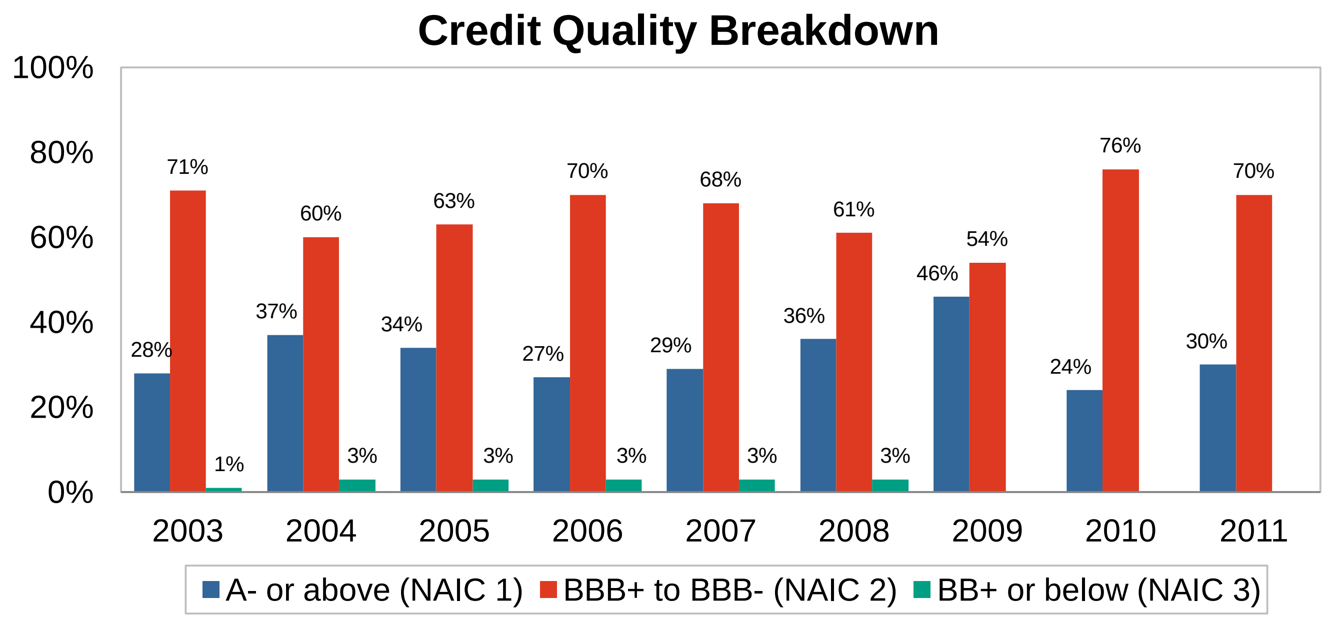


Looming bank constraints have driven recent elevated issuance from high-quality European credits

Source: Thomson Reuters and Bank of America.

Issuer Credit Quality

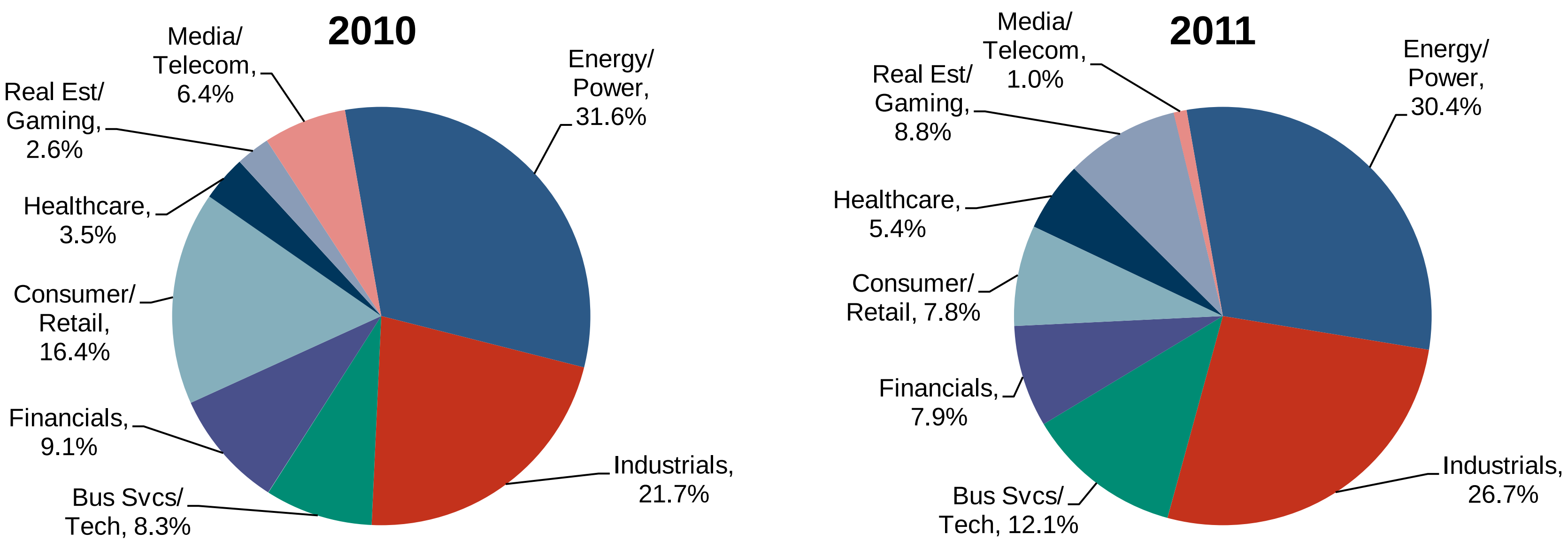
- **Principally an investment grade market (per investor credit evaluations, as most issuers are not rated by the agencies)**
- **Below investment grade issuance is generally very light**



Source: Thomson Reuters and Bank of America.

Issuance by Industry Sector

- **Not surprisingly, Energy and Power (utilities) has consistently been the largest issuing sector in the market**
- **Following widely-defined (general) Industrials, there is board diversification of issuance by industry**

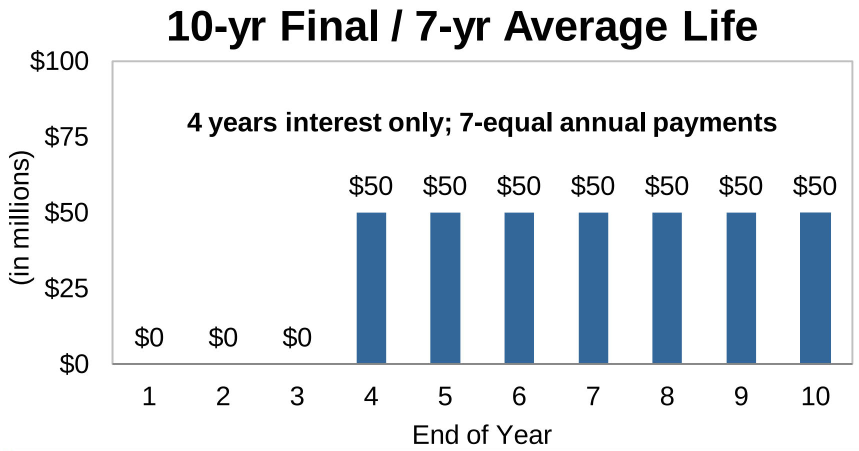


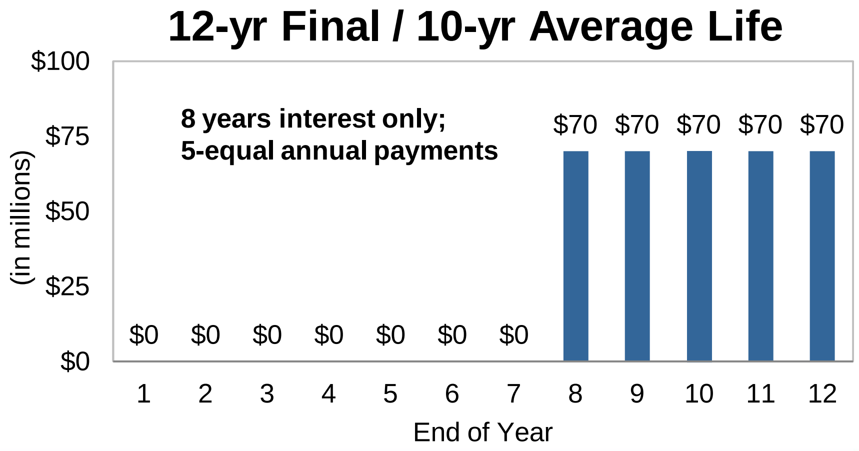
Source: Thomson Reuters and Bank of America.

Traditional Debt Private Placement Structure

- **Ranking**
  - Generally unsecured; can be secured as well (by blanket lien or specific assets)
  - Pari passu with bank debt (Inter-creditor arrangement if secured)

- **Tenor**
  - Maturities range from 3 to 30 years+ (typically 7 to 12)
  - Bullet and/or amortizing structures ($350 million amortizing issue example below)





Traditional Debt Private Placement Structure (cont'd)

- **Coupon**
  - Primarily fixed rate, priced at a credit spread over U.S. Treasuries
  - Floating rate notes also exist and are priced at a credit spread over LIBOR; spread over LIBOR is generally fixed for the life of the issue (i.e., it does not float with a leverage grid, etc.)

- **Callability**
  - Fixed rate: make-whole at a Treasuries + 50 bps discount rate
  - Floating rate: NC1/2 with gradually reducing schedule thereafter

- **Currencies**
  - Predominantly a U.S. dollar market
  - Issuance can be in all major currencies (€, £, C$, A$, ¥, etc.)
  - Swap breakage language generally included for non USD-denominated issues

Legal Documentation and Financial Covenants

- **Model Form Note Purchase Agreement**
  - Legal documentation template developed by lenders, agents and legal counsel
  - Speeds execution process (no need to “re-create wheel” for every new issue)
  - Similar to bank loan agreement documentation

- **Financial Covenants**
  - Generally structured to match those of the issuer’s primary credit facility
  - Typically two or three depending on credit quality (maintenance-based)
    - **Leverage ceiling** (Debt/EBITDA or Debt/Capitalization)
    - **Interest or Fixed Charge Coverage floor** (EBITDA/Interest Expense, EBITDAR/Interest + Rents, etc.)
    - **Net Worth minimum**
  - Other standard provisions include “priority” debt and sale of assets limitations

Issuer Motivations for Accessing the Private Placement Market

- **Diversification of Financing Sources**
  - Complement to shorter-term bank borrowings
  - Broadening of lender base (frees up bank capacity)
  - <u>Source of liquidity</u> when other markets dry-up or become dislocated

- **Structuring Flexibility**
  - Tailored maturities; acceptance of amortizing notes
  - Deferred funding availability ("locking-in" current interest rates)

- **No Ratings Requirement**
  - Elimination of <u>size-bias</u>
  - No need for annual ratings confirmations from the agencies

Issuer Motivations for Accessing the Private Placement Market (cont'd)

- **Low-Cost Execution**
  - No registration or rating agency fees
  - Competitive issuance costs* vs. public bond/bank markets
  - Modest legal fees for lenders' outside counsel
- **Competitive Pricing**
  - Credit spreads close to the levels of applicable publicly-traded comparables
  - Credits in out-of-favor or less "understood" industries could actually price tighter then in public markets
- **Familiarity with Lenders**
  - Manageably-size investor groups
  - Maintenance of confidentiality (controlled distribution of issuer information)
  - Relationship-focused, patient lenders (buy-and-hold mentality)

**Zero or nominal placement fees if directly executed.*

Investor Motivations for Lending into the Private Placement Market

- **Portfolio Diversification**
  - An alternative to public bonds; adding granularity to overall portfolios
  - Access to a unique set of issues/issuers that could not otherwise be sourced
    - Structured deals for public bond issuers (e.g., CTLs, project finance, etc.)
    - Niche business sector and foreign-based opportunities

- **Structuring Flexibility**
  - Permits best asset-liability portfolio management
  - Mutli-tranched tenors or amortizing bonds for better duration matching
  - Primarily fixed rate with valuable call protection

- **Covenant Protections**
  - Provide early warning signs of declining performance; guard against event risk
  - Key aspect of long-term lending and relative illiquidity of asset class

Investor Motivations for Lending into the Private Placement Market (cont'd)

- **Favorable Loss Experience**
  - Priority debt restrictions reduce risk of structural subordination
  - Average recoveries have been favorable relative to public asset classes
- **Relationship Investing**
  - Enhanced assess to management leads to stronger credit knowledge
  - Efficient refinance and add-on opportunities
- **Yield Enhancement Versus Public Asset Classes**
  - Illiquidity premium
  - Added credit spread for structural complexities

Private Placement Transaction Timeline (Direct vs. Agented)

Week	Directly Placed	Agented
1	• Perform initial diligence and credit work • Prepare summary term sheet	• Begin drafting offering memorandum ("OM") • Start pre-documentation of Note Purchase Agreement ("NPA")
2 - 3	• Receive credit approval • Agree on pricing and terms • **Set coupon** ("circle" a rate)	• Continue drafting of OM and NPA • Begin drafting roadshow presentation
4 - 5	• Conduct in-person due diligence • Review legal documentation	• Finalize OM, pre-documented NPA and roadshow presentation
6	• **Close and fund**	• Launch transaction and conduct roadshow
7		• Field investor questions (while "in-market")
8		• Receive bids; allocate investors; **set coupon**
9		• On-site group due diligence
10 - 12		• Finalize legal documentation
13		• **Close and fund**
Post-Close	• **Single point of contact** for communication, e.g., compliance certificates, NPA modifications	• **Multiple points of contact**

Post-Close Issuer/Investor Relationship

- **Not "high-maintenance" – the issuer generally sets the tone**
  - Buy-and-hold investor philosophy
  - Typically less interaction than with bank group (private placement lenders not seeking ancillary business)

- **Examples of contact**
  - Delivery of quarterly and annual covenant compliance certificates and financials
  - Annual lenders' meetings or update calls (optional)
  - Event-driven updates
  - Amendments/modifications to the NPA
  - NAIC appeals participation

In general, issuers find that a greater level of contact leads to more efficient execution of add-on financings and/or amendments

The NAIC and its Ratings

- **NAIC (National Association of Insurance Commissioners)**
  - U.S. regulatory support organization
  - Governed by chief regulators from the 50 states
- **SVO (Securities Valuation Office)**
  - NAIC branch
  - Responsible for credit quality assessment of securities owned by state-regulated insurance companies
- **Ratings**
  - Govern insurance company capital reserve requirements
  - Material jump in capital charge from "2" to "3" rating

NAIC Rating	S&P Equivalent
1	A- or better
2	BBB+ to BBB-
3	BB+ to BB-
4	B+ to B-
5	CCC
6	CC, C, D

The NAIC Ratings Process

- **Initial Rating**
  - Occurs post-close
  - Lead investor submits appropriate documentation (audits, NPA, etc.)
  - SVO analyst evaluates and submits credit quality recommendation to Committee
  - Could take up to 12 months
  - Pre-ratings are possible but rare

- **Annual Updates**
  - Ratings updated/confirmed annually
  - Investors file issuer's audits

- **Ratings Appeals**
  - Investor-sponsored
  - Issuer participation

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