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)

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2011</th>
<th>Compound Annual Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>$616.2</td>
<td>$8,530.2</td>
<td>18%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>$19.3</td>
<td>$582.1</td>
<td>24%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>3.1%</td>
<td>6.8%</td>
<td>23bp</td>
</tr>
<tr>
<td>Net Income</td>
<td>$9.1</td>
<td>$367.7</td>
<td>26%</td>
</tr>
<tr>
<td>Diluted EPS</td>
<td>$0.34</td>
<td>$3.97</td>
<td>17%</td>
</tr>
</tbody>
</table>

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 not involving any public offering”

• 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

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

Annual Traditional Private Placement Volume*

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (in billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>$45.7</td>
</tr>
<tr>
<td>2004</td>
<td>$38.1</td>
</tr>
<tr>
<td>2005</td>
<td>$35.5</td>
</tr>
<tr>
<td>2006</td>
<td>$35.4</td>
</tr>
<tr>
<td>2007</td>
<td>$40.3</td>
</tr>
<tr>
<td>2008</td>
<td>$28.1</td>
</tr>
<tr>
<td>2009</td>
<td>$26.0</td>
</tr>
<tr>
<td>2010</td>
<td>$41.0</td>
</tr>
<tr>
<td>2011</td>
<td>$46.8</td>
</tr>
<tr>
<td>1H12</td>
<td>$27.9</td>
</tr>
</tbody>
</table>

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

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

Deal Size Breakdown ($ in millions)

<table>
<thead>
<tr>
<th>Category</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$100</td>
<td>24%</td>
<td>22%</td>
</tr>
<tr>
<td>$100-$300</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>$300-$500</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>$500+</td>
<td>10%</td>
<td>9%</td>
</tr>
</tbody>
</table>

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.

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

Credit Quality Breakdown

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)

### 10-yr Final / 7-yr Average Life

- 4 years interest only; 7-equal annual payments

### 12-yr Final / 10-yr Average Life

- 8 years interest only; 5-equal annual payments

<table>
<thead>
<tr>
<th>Year</th>
<th>8-yr Final / 10-yr Average Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$0</td>
</tr>
<tr>
<td>2</td>
<td>$0</td>
</tr>
<tr>
<td>3</td>
<td>$0</td>
</tr>
<tr>
<td>4</td>
<td>$0</td>
</tr>
<tr>
<td>5</td>
<td>$0</td>
</tr>
<tr>
<td>6</td>
<td>$0</td>
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<tr>
<td>7</td>
<td>$0</td>
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<td>8</td>
<td>$0</td>
</tr>
<tr>
<td>9</td>
<td>$0</td>
</tr>
<tr>
<td>10</td>
<td>$0</td>
</tr>
<tr>
<td>11</td>
<td>$70</td>
</tr>
<tr>
<td>12</td>
<td>$70</td>
</tr>
</tbody>
</table>
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)
  – *Source of liquidity* 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 *size-bias*
  – 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 than 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 access 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)

<table>
<thead>
<tr>
<th>Week</th>
<th>Directly Placed</th>
<th>Agented</th>
</tr>
</thead>
</table>
| 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

<table>
<thead>
<tr>
<th>NAIC Rating</th>
<th>S&amp;P Equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>A- or better</td>
</tr>
<tr>
<td>2</td>
<td>BBB+ to BBB-</td>
</tr>
<tr>
<td>3</td>
<td>BB+ to BB-</td>
</tr>
<tr>
<td>4</td>
<td>B+ to B-</td>
</tr>
<tr>
<td>5</td>
<td>CCC</td>
</tr>
<tr>
<td>6</td>
<td>CC, C, D</td>
</tr>
</tbody>
</table>
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
Speaker Contact Information

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