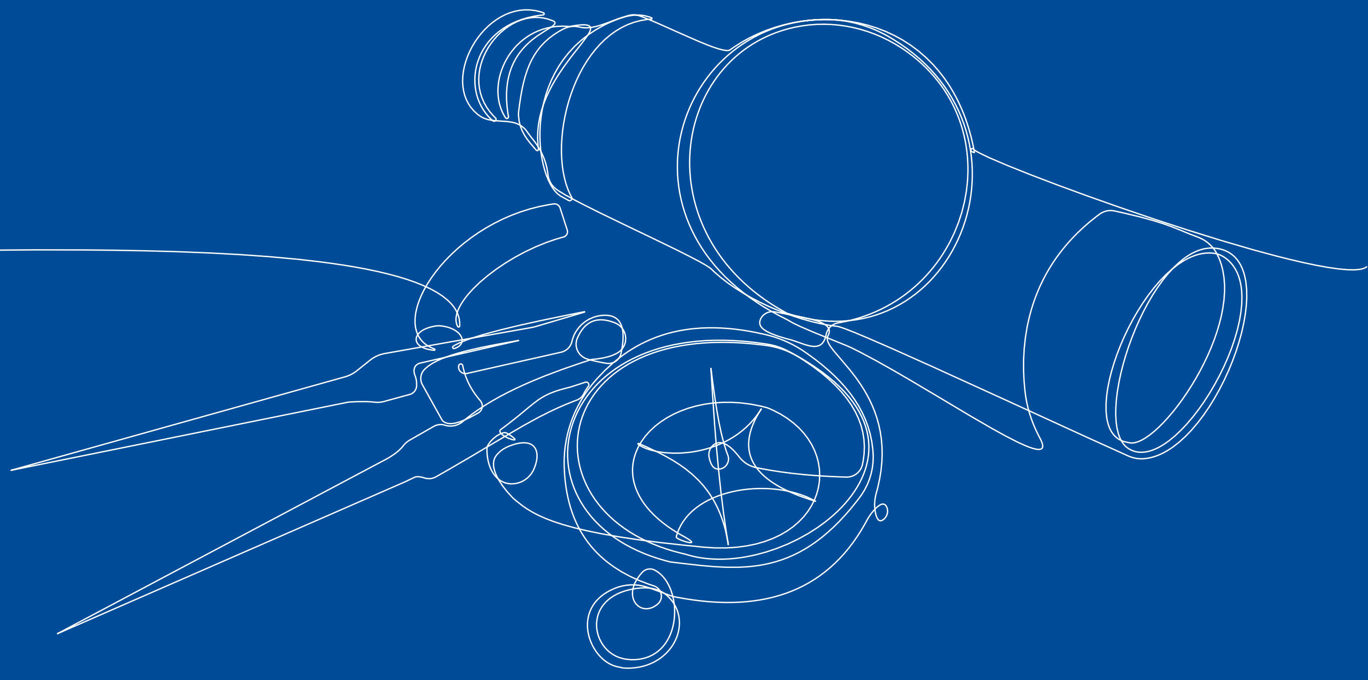
Invested In — What Matters

Prudential Private Capital Insights

Navigating the World of Private Placements

The Prudential Private Capital Guide to Private Placements



Prudential Private Capital

Contributors

Brian Thomas

Brian Thomas is the Managing Director of Prudential Private Capital's Energy Finance group. He oversees the private placement activity in the oil & gas sectors. Brian is also a Partner of PGIM Energy Partners, the energy-focused, middle-market mezzanine debt and equity business sponsored by Prudential Private Capital. Prior to this role, Brian served as Senior Vice President responsible for energy and corporate finance investments in the Dallas office-based territory: Southwest US. He joined Prudential in 1995.

Brian received a BBA and an MBA from the University of Texas at Austin's McCombs School.

Dianna Carr

Dianna Carr-Coletta is the Managing Director of Prudential Private Capital's Corporate and Project Workouts group and oversees the management and restructuring of non-performing investments. Prior to this role, Dianna led a Chicago-based Corporate Finance team responsible for marketing, originating and managing private placement and mezzanine investments in Michigan and Wisconsin. She joined Prudential in 2000.

Dianna received a BA from Michigan State University and an MBA from Northwestern University's Kellogg School of Management.

Mike Campion

Mike Campion is a Senior Vice President in Institutional Asset Management for Prudential Private Capital, located in Newark. He is assistant portfolio manager for Prudential Private Capital's affiliated and non-affiliated accounts, including primary responsibility for the Gibraltar and POJ sub-advisory portfolios. Mike is also responsible for overseeing new deal allocations, performance related analysis and various analytical portfolio management functions. Mike joined Prudential in 1997. Prior to transferring to Prudential Private Capital in 2003, he worked in PGIM Investment Operations.

Mike received a BS from Lehigh University and an MBA from Rutgers University.

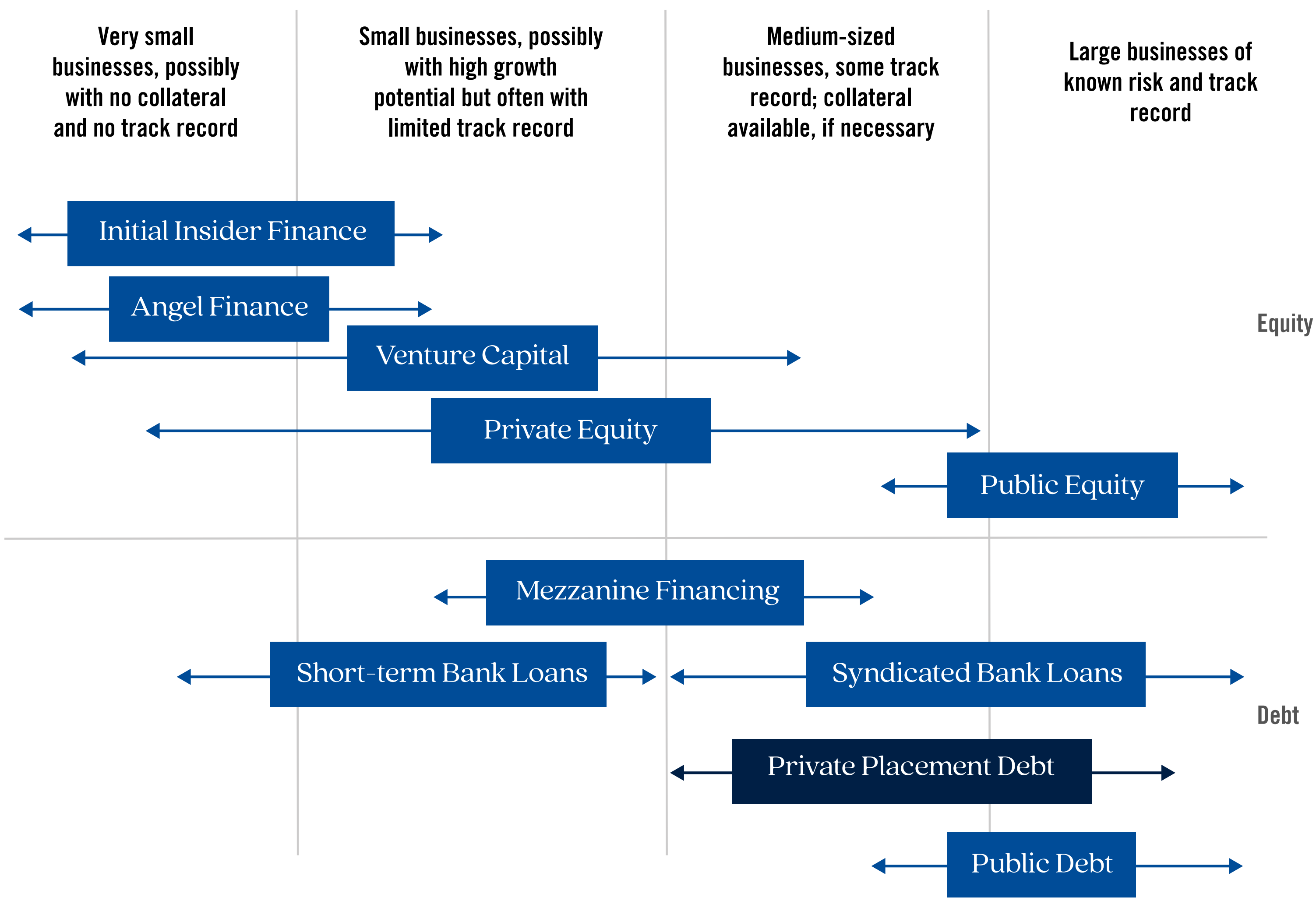
Contents

What is a Private Placement?

A private placement is an alternative means for companies to raise capital, as opposed to traditional bank financing, private equity, mezzanine financing or issuing a corporate bond in the public market.

When companies are first starting out, they are often funded by the owners or a family loan. However, as they grow, many businesses are unable to finance all needs solely from internal cash flows. When capital needs exceed cash-on-hand, businesses can utilize the following types of capital:

Types of Capital Available to Businesses



So What is a Private Placement, Really?

A "private placement," also known as a "private placement debt offering," is the private sale, or "issue" of corporate debt or equity securities by a company, or "issuer," to a select number of investors. It is another avenue for businesses to raise capital, versus selling a publicly offered security or establishing a traditional bank credit arrangement.

There are three key features that would classify a securities issue as a private placement:

1. The securities are not publicly offered

2. The securities are not required to be registered with the Securities and Exchange Commission (SEC)

3. The investors are limited in number and must be "accredited"[1]

Companies, both public and private, issue in the private placement market for a variety of reasons, including a desire to access long-term, fixed-rate capital, diversify financing sources, add additional financing capacity beyond existing investors (banks, private equity, etc.) or, in the case of privately held businesses, to maintain confidentiality.

Since private placements are offered only to a limited pool of accredited investors, they are exempt from registering with the SEC. This affords the issuer the opportunity to avoid certain costs associated with a public offering as well as allows for more flexibility regarding structure and terms.

Traditionally, middle-market companies have issued debt in the private placement market through two primary channels:

1. Directly with a private placement investor, such as a large insurance company or other institutional investor

2. Through an agent (most often an investment bank) on a best efforts basis who solicits bids from several potential investors -- this is typically for larger transactions: $100MM+

A private placement issuance is a way for institutional investors to lend to companies in a similar fashion as banks, with a "buy-and-hold" approach, and with no required trading or public disclosures. Historically, insurance companies refer to investments as purchasing "notes," while banks make "loans."

[1]An investor is considered "accredited" if they meet minimum financial net worth qualifications as well as other requirements set by the federal government; They are considered to be more experienced and are the only investors allowed to purchase private placements. Being accredited should imply that the investor has the knowledge required to make prudent investment decisions but also that they can afford to take a loss should something go wrong.

Uses

Long-term capital is congruent with a company's long-term investments. Thus, capital raised from issuing a private placement is most commonly used to support long-term initiatives versus short-term needs, such as working capital. Companies, both public and private, use the capital raised from private placements in the following ways:

- Debt refinancing
- Debt diversification
- Expansion/Growth capital
- Acquisitions
- Stock buyback/Recapitalization
- Taking a public company private
- Employee Stock Ownership Plan (ESOP)

Pricing and Payment Structure

Just like public debt issues, private placement debt issues are essentially IOU's issued by companies. They are a promise made by the company to investors, that they will pay back the investor's original investment along with a rate of interest in the meantime. The amount of original investment is often referred to as the "par" value. The rate of interest is usually called the "coupon" rate. The company is also promising to pay back investors by a certain time, known commonly as the "maturity date."

Private placement debt is predominantly a fixed-income note that pays a set coupon, on a negotiated schedule. Private placements are priced similarly to public securities, where pricing is determined by the US Treasury rate, with the addition of a credit risk premium.

Repayment of the principal can be accomplished in several ways, depending on the credit quality and needs of the issuer, such as sinking fund payments (amortization) or "bullets" as well as tailored/bespoke amortization. Interest is typically paid quarterly or semi-annually.

A private placement allows for tailored terms and structures to meet the specific financing needs of the issuer.

"A private placement is simply a means for companies to raise money, outside of their traditional banking relationships or public debt offering."

- Brian Thomas, Managing Director,
Prudential Private Capital

Types of Private Placements

One of the key advantages of a private placement is its flexibility.

The most common type of private placement is long-term, fixed-rate senior debt, but there is an endless array of structuring alternatives. One of the key advantages of a private placement is its flexibility. Private placement debt securities are similar to bonds or bank loans, and can either be secured, meaning they are backed by collateral, or unsecured, where collateral is not required.

The types of private placement debt issuances include:

Senior Debt

Essentially an I.O.U. issued by companies; a promise made by the business to investors that the company will pay back the original investment along with a rate of interest. Senior debt can be unsecured or secured and sits above subordinated debt in the capital structure, and is senior in terms of payback priority.

Subordinated Debt

This type of financing sits in between senior debt and equity in the capital structure. It is typically unsecured and subordinated in terms of payback priority to senior asset-based or bank loan debt on the books.

Term Loans

A term loan is most often used by companies to finance the purchase of machinery or equipment. During the "term" of the loan, the borrower may make payments of interest to the lender, but make no principal payments. At the maturity of the loan, the borrower is then obligated to repay all of the principal at once. A term loan may carry a floating rate of interest as well.

Revolving Loans

Revolving loans, or lines of credit, are used by companies to maintain a steady flow of cash. Revolving loans are usually secured with a company's inventory, accounts receivable, or both. What is "revolving" about this type of loan is the amount of the loan itself, which can vary on a daily basis. The typical interest rate attached to a revolving line of credit is a floating rate.

Asset-Backed Loans

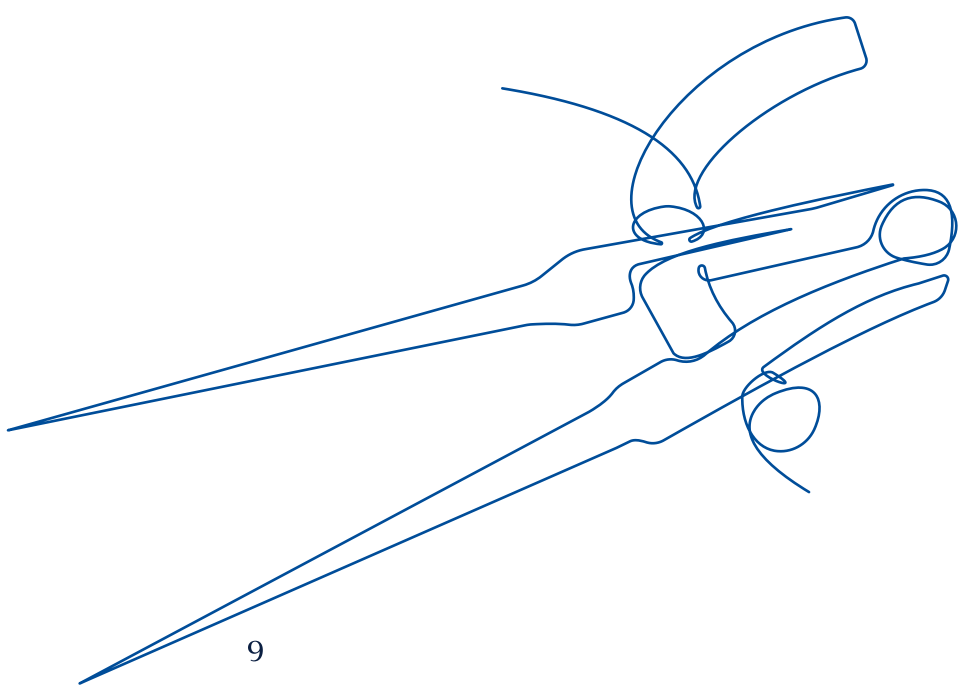
Any security which is "asset backed" has some sort of collateral attached to it. There are asset-backed public securities as well as asset-backed private placement securities. The underlying collateral for an asset backed security can vary greatly, but includes plants/ facilities or equipment based on appraisal.

Leases

A private placement that facilitates leasing for a company will closely resemble a debt security or term loan. Leasing deals exist for the benefit of the company doing the leasing. From the perspective of a lender, or lessor, a leasing deal is no different from a loan; the lessor puts up an amount of money and receives payments from the lessee for a certain length of time, and the lessor facilitating the lease will have predetermined the return they would want to receive. The primary difference between a lease and a loan is that at the end of the term, the item being leased is not the property of the lessee, but of the lessor who will then sell the item, either to the lessee or in the open market.

Shelf Issues

A shelf issue is not really a form of private placement in and of itself, but usually a debt or equity security, or a type of loan that is not intended to be immediately used by a company. A company might sense that they have an upcoming need for capital but not an immediate need, which would be the reason for setting up a shelf issue. Upcoming needs could include the acquisition of another company, building a new facility, buying new equipment, or building up new inventory for an upcoming peak season. Instead of waiting until the need for the capital arrives, a company will finalize the agreement with a lender or investor in advance and the capital will be put aside, or on "a shelf," until the company needs the funds.



How a Private Placement Both Complements and Differs from a Bank Facility

Utilizing both bank debt and private placements can help a business achieve its strategic goals while simultaneously minimizing funding risk.

Accessing capital under a traditional bank credit arrangement and through a private placement relationship are not mutually exclusive events. Properly executed, companies can do both, establishing access to a broader palate of stable capital in support of their long-term corporate objectives.

A private placement both complements and differs from a bank loan in the following ways:

1 Short-Term vs. Long-Term Orientation

Bank loan commitments tend to be shorter term (typically 3-5 years), whereas private placements offer longer maturities (typically 3-12+ years). Because of this, a private placement is often well-suited for financing the long-term goals of a business, such as growth by way of an acquisition or to finance a new plant and equipment assets. Alternatively, the short-term nature of bank loans makes them more suited for fluctuations in working capital. The long-term nature of private placements allows companies more time to realize a return on their investment as well as minimizes the refinancing risk that comes with shorter-term debt maturities.

2 Broadens Capital Pool

The introduction of private placement financing to existing bank debt expands the pool of capital available to companies; they would have multiple types of capital to draw from depending on the need at hand. The breadth and investment appetite of the private placement market can often equal or exceed that of the syndicated bank market.

3 Diversifies Capital Structure

The combination of bank loans and private placement financing diversifies a company's capital base, better preparing them for any changes to interest rates and other issues that could arise by taking on only one type of debt. Private placement lenders are often able to consider financing arrangements that extend beyond senior debt to include junior capital and equity.

4 Minimizes Fees

While banks rely on ancillary services and fee generation to enhance investment return, private placement lenders rely solely on the yield they receive from their loans. As a result, the private placement provider's interest in lending is not dependent upon "expectations" for future fee income, better aligning issuer and lender interests over the life of the lending relationship.

Reduced dependence on a single market for capital can be an important consideration for companies should bank regulators become more stringent, or during times of heightened public market volatility.

5 Regulatory and Market Independence

The private placement market along with the insurance companies and pension plans that participate in the market are not subject to governance by the Office of the Comptroller of the Currency or the regulations that impact bank lending practices. Similarly, the private placement market is often seen as a more stable market than the public debt markets, and is "open for business" at times when the broader public debt market is "closed." Reduced dependence on a single market for capital can be an important consideration for companies should bank regulators become more stringent, or during times of heightened public market volatility.

6 Contrasting Capitalization

Private placement providers are capitalized differently than banks. The capital they have to deploy is traditionally more stable than the capital the bank market relies upon. Reason being that insurance companies and pension plans are not materially exposed to short-term liquidity risk. This was most acutely demonstrated during the 2008-2009 financial crisis, as many private placement lenders continued to provide capital, while many banks limited their lending availability to preserve corporate liquidity.

7 Structural Parity

When combining bank debt with a private placement, transactions are often completed on a "pari-passu" basis. In this manner, both the bank lenders and private placement lenders work together to maximize the company's access to low cost capital, while ensuring that neither lender group is disadvantaged by structure nor their rights as a senior lender. For transactions involving collateral, the private placement structure is typically negotiated and documented with an intercreditor agreement that governs how collateral proceeds are shared equitably between lenders in the event of a liquidation. If a bank loan is unsecured, private placement notes will most likely also be unsecured, and an intercreditor document is typically not required.

Ensuring that private placement debt is pari-passu with all other senior debt obligations, including bank loans, is the most efficient and cost-effective way to issue debt in the private placement market. This approach also improves the ability to work with lenders on any post transactions modifications and amendments that may be needed over the life of the financing.

“A private placement is a way for companies to access long-term, fixed-rate debt that nicely complements their existing bank facility.”

- Dianna Carr, Managing Director,
Prudential Private Capital

	BANK FINANCING	PRIVATE PLACEMENT FINANCING	BENEFITS
Term	Short term (up to 5 years)	Long term (over 5 years)	Long term (over 5 years)
Rate	Floating rate (LIBOR + spread)	Fixed rate (treasury + spread)	Limit our partner's exposure to interest rate risk
Use of Proceeds	Working capital	Long-term physical assets, acquisitions, share repurchases	Diversify our partner's capital base to provide greater flexibility and resources to fund various capital needs
Structure & covenants	Banks and private placement lenders would lend on either a) an unsecured pari-passu basis with the same covenants or b) a senior secured basis with shared collateral		Structural parity would align the interests of the lender base and provide simplicity for our partners

The combination of private placement financing and bank debt can play an important role in a company's business strategy, providing the capital needed to operate on both a day-to-day basis as well as funding initiatives that support growth for years to come.

Example: Hypertherm®

Many say a business is only as good as its employees. Hypertherm, an advanced metal cutting company, was so proud of the role its 1,300+ Associates played in its success, that in 2001, it created an employee stock ownership plan (ESOP) to hold a minority stake in the company's stock.

When succession planning twelve years later, Hypertherm's founder and majority owner decided to transition the company to a 100% ESOP ownership. Hypertherm's ESOP and financial consultant, Verit Advisors, was brought in to help secure the necessary financing, and thus introduced the company to Prudential Private Capital.

After assessing Hypertherm's needs and financial profile, Prudential Private Capital structured a financing package that included a senior secured term loan as well as a shelf facility, under which Hypertherm could issue additional debt as needed. It was important to Hypertherm that Prudential Private Capital also design an amortization structure for the deal that fit the company's cash-flow profile and existing debt-maturity schedule.

One of the main challenges the company faced while transitioning was finding the right combination of senior debt and subordinated seller notes that would allow for the full buyout of the founder's majority stake, and also avoid over-levering the company to the point of financial risk or limiting their ability to grow in the future. Another challenge was structuring the debt as to not subordinate the claims of the Hypertherm Associates, while retaining an investment grade credit rating and associated pricing.

Prudential Private Capital's financing package was augmented by shorter-tenor financing from the company's bank, which provided a senior secured revolver and an additional term loan. A strong working relationship between the lenders allowed for a constructive negotiation with an outcome satisfactory to all parties involved, most importantly Hypertherm.

To finance a 100% ESOP conversion that would support its long-term strategy, Hypertherm chose Prudential Private Capital for its expertise in ESOP transactions, the flexible structuring of its financing package, and because of the relationship-focused approach that met Hypertherm's financing needs.

How to Complete a Private Placement

All companies need capital. Issuing a private placement is a practical means by which a company can raise capital, however, the process involved is not as well-known as other public market alternatives. The purpose of this post is to detail the exact steps involved in issuing a private placement, revealing that it is not so different from how businesses obtain bank financing.

The timeline for completing a private placement will vary based on the size and credit profile of each issuer as well as the specific private placement investor, however, it generally takes 6-8 weeks to complete the first transaction, and occurs as follows:

The first step, **Deal Launch**, initiates the window of time from which the issue is offered to investors, to when a decision must be made, typically 1-3 weeks.

Next, the **Negotiations** stage kicks off discussions between the issuer and the investor on the specifics involved with the investment, such as pricing or legal terms. Alternatively, the issuer may know what would be attractive to the investor and have structured the deal accordingly. Negotiations will continue to take place leading up to closing.

During the **Information Gathering** step, the investor will complete their due diligence on the company, which often involves the following:

- Reviewing and verifying the company's financial statements
- Meeting with the management team
- Assessing the company's long-term outlook and market position
- Industry analysis

At the **Investment Risk Analysis** stage, the investor will determine its credit rating for the company issuing the private placement, which is a reflection of how capable the issuer is of making interest and principal payments. This process is similar to how rating agencies determine ratings for public bond issuers. The investor will ask questions such as:

- How stable are the company's revenues and earnings?
- How stable are input costs and operating expenses?
- How stable is the management team and how deep is the bench?
- Who are the company's main competitors and what are the competitive dynamics of the industry?
- Who are the main customers and is there any significant customer concentration?
- Is the company profitable? Why or why not?
- What is the long-term target debt to equity ratio?
- What is the long-term target debt to earnings ratio?
- What other debt obligations are outstanding?
- What is their track record for paying creditors?
- What is the company's long-term growth strategy?

After answering these questions and performing a full analysis of the company's financials, an investor can determine how much risk they feel is associated with providing capital to the company. Generally, the higher the risk, the lower the quality rating.

Next, during the **Pricing** stage, the lender determines what interest rate is needed to compensate for the associated risk. Private placements are priced similarly to public securities, where pricing is typically determined by adding a credit risk premium, or spread, to the corresponding US Treasury rate.

Once the company and the investor agree to a spread, they move to the **Rate Lock** step. This is when the private placement provider and the company agree to lock-in the interest rate, or coupon, based on the agreed upon spread and the prevailing US Treasury rate at a specific day and time. For non-USD financing, the multi-currency swap would also be executed at this stage.

The final step, **Closing**, is the formal exchange during which the actual transfer takes place between the issuer and the investor; the issuer transfers the security that was offered to the investor in exchange for the money the investor agreed to pay for it. The steps to closing very much resemble the process for establishing a line of credit with banks.

Although the process for issuing a private placement is less familiar than securing bank debt, ultimately, the two processes are quite similar. Furthermore, the relationship developed during the issuance process will not end at closing, but will extend through the life of the financing and beyond.

How the Private Market Has Responded During Times of Capital Market Volatility

In general, the private placement market consistently demonstrates its ability to remain open in the midst of a crisis and find a way to fund companies' capital needs, during periods when the public debt markets and or the bank market might otherwise not be accessible. It's typically characterized as being a much more patient and long-term focused market, consequently, the private market doesn't tend to react rashly to short-term, temporary dislocations in market appetite.

Q&A

Brian Thomas

Dianna Carr

Michael Campion

How did lenders react during the '08 financial crisis?

Brian Thomas: September 15th, 2008, that's when Lehman Brothers declared bankruptcy. The markets largely seized up on the public side, the bank markets began to also similarly contract.

Dianna Carr: I can remember vividly the fourth quarter of 2008 when it really started feeling the nerves that was in the capital markets. Lenders in general, most of them were in a liquidity crisis.

How did businesses react?

Michael Campion: I think businesses along with the investors were all obviously anxious to say the least given the tone in the markets.

DC: There was no capital available for clients or for new loans. Anyone who needed to renew any facilities were very nervous about that.

BT: Many of them were asking the same questions we were. "Is this a temporary issue? Is this a long-term secular trend? If I can't rely on my banks, and I can't access the public markets, where am I going to find capital to fund my business?"

How did the private market respond to the crisis?

BT: The private placement market was also cautious but largely available for those companies that needed capital during that period of time.

How did Prudential Private Capital respond?

MC: We did take about a two-week hiatus to figure out and reassess where we thought the market stood. Then we were actively providing capital again.

DC: The vast majority, when we spoke to our clients, were very open in talking about what their concerns were. Often the biggest concerns they had was liquidity, and if they were going to have availability of capital if they were to need it.

BT: Sometimes it was companies that we'd been talking to for years, that found themselves coming back to us, because the other traditional avenues that they had relied on had essentially dried up.

BT: We found them reaching out to us as much for simply just advice on what was going on, as much as they were for capital. I remember one relationship where we were in the process of closing and documentation when the public markets completely shut down. We had already worked with them before, we were looking to honor our relationship with them, and we found a way to basically "diligence" the situation, and fund during a period of time when essentially most banks were completely closed down.

DC: A client that we had a shorter relationship with, we had just begun our relationship I believe in 2005 -- this client didn't specifically have an immediate capital need, but because what they saw was going on around them, because of their concern about not having availability from their banks if that was the case, they wanted to make sure they had some availability from other sources. The CFO called me, reached out to me and said, "Would you be interested in potentially looking at putting a Pru-Shelf in place for us, so that I can sleep better at night?" That's exactly what we did in the first quarter of 2009. We went forward and underwrote a $125 million Pru-Shelf facility for this client. I remember his comments years after, him saying, "Prudential Private Capital was there for us. I slept better at night, knowing that I had that capital available to me." We wanted most of all to make sure that we had capital available for our clients if they needed it. We really made the bet that we were going to come out of this in the long-run, but you had to take a long-term perspective.

How did the private market respond to times of market volatility versus other types of lenders, in general?

MC: Most private market investors really view providing capital to their companies as a partnership, and so when times of trouble or volatility or the company becomes very challenged, that's really where the investor can show their true colors. Really take the approach of "We're going to weather the storm together, and both come out successful on the other end."

How does Prudential Private Capital respond to times of market volatility, in general?

DC: Prudential Private Capital responds during times of market volatility with a very steady hand. We have been at this a long time and we've seen various markets. When we are seeing volatility in the markets, we are making sure that we're communicating with each other, we know what we can and what we can't do. When a client calls, we are able to respond to them in a way where they know we can be there for them.

BT: One of the things that Prudential Private Capital has always done is spent a considerable amount of time developing insight, knowledge and rapport with management teams within industries, long before there's an actual capital need. It's that knowledge that allows us to make decisions based on insight during periods of time when most people might otherwise be concerned about deploying capital. It's one of the key things that I think allowed us to fund and invest a number of transactions during the fourth quarter of 2008, when essentially the broader bank market and the public market, and much of the private market was otherwise unavailable to companies.

"Most private market investors really view providing capital to their companies as a partnership, and so in times of trouble or volatility, or the company becomes very challenged, that's really where the investor can show their true colors."

- Michael Campion, Senior Vice President,
Prudential Private Capital

Example: TIFFANY & CO.

Founded in 1837 and established as Tiffany & Co. in 1853 by Charles Lewis Tiffany, the Company's principal business is as a jeweler and specialty retailer, whose merchandise offerings include an extensive selection of jewelry as well as timepieces, sterling silverware, china, crystal, stationery, fragrances and accessories. Tiffany & Co. (NYSE:TIF) has an unparalleled reputation, and a brand known for unsurpassed design and quality in all of its products.

Tiffany & Co. has been a client of Prudential Private Capital since 1998. In 2008, Prudential Private Capital met with the Company and discussed various financing options, including a Pru-Shelf facility. The Pru-Shelf facility provides companies, such as Tiffany & Co., with significant flexibility and capital diversification.

In the fall of 2008, Tiffany & Co. had a desire to access the private placement market in some capacity. However, market conditions were continuing to deteriorate, and capital availability was constrained for all companies. At this time, Tiffany & Co. reached out to Prudential Private Capital to evaluate potential alternatives, including the Pru-Shelf facility. From Tiffany & Co.'s perspective, the concept of a product that provides access to long-term financing during a volatile time in the capital markets was extremely appealing.

By December 2008, Prudential Private Capital established a $150 million Pru-Shelf facility for Tiffany & Co. Soon thereafter, the Company priced $100 million of senior notes under the facility, which it utilized to refinance an upcoming principal payment as well as to provide for increased liquidity during an unprecedented economic environment.

Why Issue a Private Placement?

One of the most common questions we hear from CEOs and CFOs is, "Why would I issue a private placement?" Here are our top 11 reasons:

1

Privacy and Control

Private placements enable companies that value privacy to remain private. In contrast to public debt and equity offerings -- which require public filings, disclosures of company information and financing documents and terms -- private placement transactions are negotiated confidentially and public disclosure requirements are limited. With a private placement, companies would not be beholden to public shareholders.

2

Long Maturities

Private placements provide longer maturities than typical bank financing arrangements. They are ideal for companies seeking to extend or layer their refinancing obligations out beyond the typical 3-5-year bank tenor. Additionally, longer maturities often allow for limited amortization, which can be attractive to companies seeking to invest in capital assets, acquisitions and/or invest in projects that have a longer investment return runway.

3

Fixed Rate

Typically, private placements are offered at a fixed-interest rate, minimizing interest rate risk. Through a fixed-rate financing, companies can avoid the concern commonly associated with floating-rate coupons, should underlying interest rates rise. A fixed coupon generally allows companies to allocate the cost of debt capital for specific project financings, acquisitions or large capital investment programs.

Creating capital access in both the private debt and bank markets can allow companies to optimize their access to debt capital.

4

Diversify Capital Sources

Private placements help diversify a company's sources of capital and capital structure. The stable investment appetite shown by insurance companies and other large institutional investors in the private placement market is typically independent from many of the market variables that impact bank market lending activity. Since the terms of private placements can be customized, these transactions are typically crafted to complement existing bank credit facility capacity as opposed to directly competing with these relationships. Creating capital access in both the private debt and bank markets can allow companies to optimize cycles when bank liquidity may be tight.

5

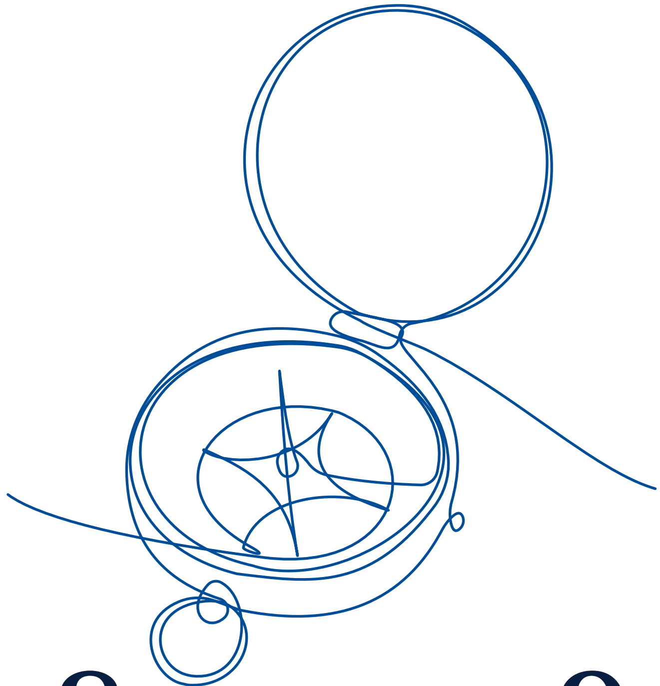
Additional Capacity

Many companies issue private placements because they have outgrown their borrowing capacity and need capital beyond what their existing lenders (banks, private equity firms, etc.) can provide. Private placements typically focus on cash flow lending metrics and can be completed on either a secured or unsecured basis, depending on the issuer's existing capital structure liquidity.

6

Buy-and-Hold

Private placements are typically "buy-and-hold," meaning the debt investment wouldn't be purchased with the intent to sell to another investor. Thus, private placement borrowers benefit from the ability to create a long-term relationship with the same investor throughout the life of the financing.



7

Ease of Execution

Private placement financings are regularly completed by both privately-held, middle-market companies as well as large public companies. These transactions provide issuers with access to capital on a scale that rivals underwritten public debt offerings, but without certain preconditional requirements, such as ratings, public registrations or minimum size restrictions. For public companies, private placements can offer superior execution relative to the public market for small issuance sizes as well as greater structural flexibility.

8

Cost Savings

A company can often issue a private placement for a much lower all-in cost than it could in a public offering. For public issuers, the Security and Exchange Commission (SEC) related registration, legal documentation and underwriting fees for a public offering can be expensive. Additionally, in contrast to banks that often rely on ancillary services and fee generation to enhance investment return, private placement lenders rely exclusively on the yield from the notes that they purchase. Taking into consideration the yield-equivalent savings on avoided underwriting fees, in conjunction with the yield premium often associated with first time issuers and small issuance premiums, private placements can provide a very attractive alternative to the public debt market.

9

Fewer Investors

Unlike issuing securities on the public market, where companies issuing debt securities often deal with hundreds of investors, private placement transactions typically involve fewer than 10-20 investors, and in many cases, are completed with a single large institutional investor. This approach can materially simplify the investor tracking burden for issuers as well as allow them to concentrate their investor-relationship efforts on a few key financial partners.

The process for pricing private placement debt transactions is very similar to that of public securities

10

Familiar Pricing Process

The process for pricing private placements debt transactions is very similar to that of public securities. The coupon set for fixed-rate notes issued reflects the underlying US Treasury rate corresponding to the tenor of the notes issued, plus a credit risk premium (a "credit spread"). This process allows for general transparency as to the approach that institutional investors undertake when establishing the economics of the transaction.

11

Speed of Execution

The growth and maturity of the private placement market has led to improved standardization of documentation, visibility of pricing and terms as well as increased capacity for financings. As a result, the private market can accommodate transactions as small as $10 million and as large as $1-$2 billion. That, when combined with standardized documentation and a smaller universe of investors, fosters quick execution of an investment, generally within 6-8 weeks (for an initial transaction, with follow-on financings executed within a shorter time frame). As noted, it can be much faster to issue a private placement versus a public corporate bond (particularly for first-time issuers) due to the elimination of prospectus drafting, rating agency diligence and registering requirements with the SEC.

Prudential Private Capital

There are important considerations for a company when determining whether to issue a private placement. When choosing a private placement lender or investor, some key characteristics to look for are:

- They are relationship-oriented rather than transaction-orientated. It's important that they show interest in the businesses they finance as well as work to understand the needs of the business and how it functions

- Because private placement debt is typically long-term, it is vital for the private placement investor to have the capacity to grow as a financial partner and have the knowledge and experience to help a company navigate during challenging times

- They are fast-acting, responsive and have access to key decision-makers within their organization

- The private placement investor demonstrates a constant appetite for private placement debt throughout market cycles and the calendar year

- They follow through on their commitments

Ultimately, it is most important to find a private placement investor who can offer financing best fitted for the goals of your business. If you're interested in issuing a private placement, Prudential Private Capital is here to help.

Please visit prudentialprivatecapital.com for more information.