

MMS06: Revisiting Those Investment Guidelines

Presented To



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Agenda



How Treasurers Are Managing Their Cash in Zero Yield Environment

Investment Policies

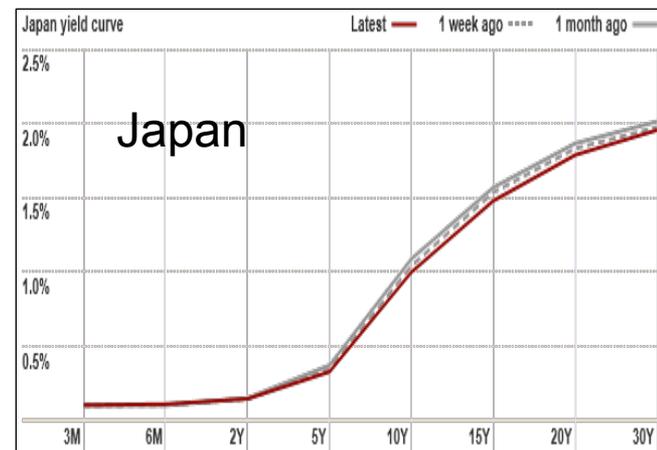
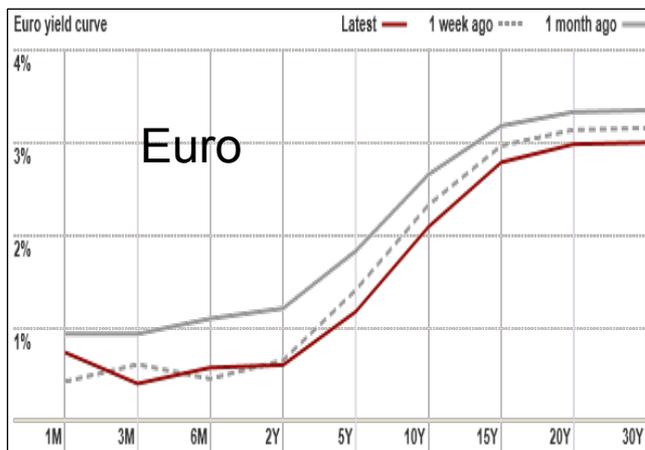
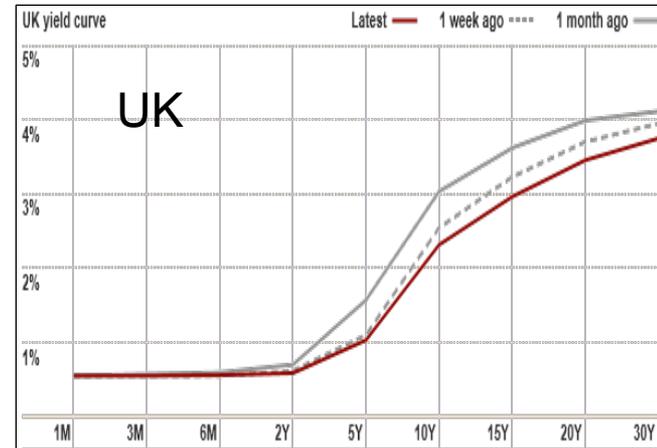
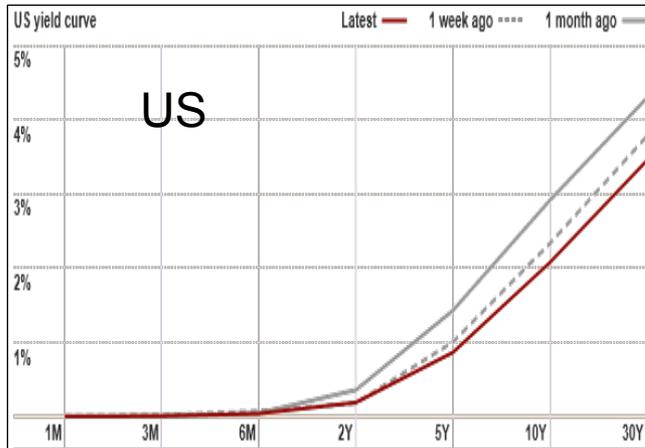
Case Study – PSS World Medical

How Treasurers Are Managing Their Cash in Zero Yield Environment



Not Much Opportunity

Low yield
Very flat curve (especially short)



*Source: Financial Times

Four Types of Corporate Cash



Operating Cash: Day-to-Day

Reserve Cash: Safety Cushion

Accumulation Cash: Strategic/Episodic

Stranded Cash: Escrows, Sinking Funds, etc.

*The Four Types of Corporate Cash was first published by Treasury Strategies in 1995.

How Management of Corporate Cash Has Changed Post-Crisis

Type	Change in Amount	Risk Appetite
Operating Cash	↓	↓↓↓↓↓
Reserve Cash	↑↑↑↑↑	↑
Accumulation Cash	↑↑	↑
Stranded Cash	↑	↓↓↓

Investment Policies



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Treasury Strategies' Advice to Corporate Clients



Key advisory themes emerging from our work with corporate treasurers:

Review and clarify investment policies to gain consensus around the gray areas. Many policies assume US Treasuries are AAA-rated and provide no direction for a portfolio manager in the event of a downgrade.

Shorten investment maturities – Continue two-year trend of going ultra-short. Treasury Strategies does not recommend selling portfolio securities outright. Rather, proceeds of maturing securities should be reinvested in only the shortest of instruments.

Increase credit quality – Proceeds of maturing securities should be reinvested into securities of similar or higher credit quality, including AAA and AA+ sovereign debt.

Move assets into insured bank deposits – Some governments are providing explicit, unlimited guarantees. In other countries, the coverage is implicit for the largest banks.

Move assets into money market funds (MMFs) – They provide diversification, professional management, credit analysis, and transparency.

Disclaimer: Treasury Strategies recommendations are situation-specific and based upon careful, individual analysis. The advice cited above may or may not be appropriate for your specific situation.

Treasury Strategies' Advice to Corporate Clients



Some key advisory themes emerging in our work with corporate treasurers include combinations of the following:

Issue commercial paper – Top-rated firms should issue as much commercial paper as the market will absorb. Ride out the storm with as much cash on the balance sheet as possible.

Issue debt securities – Over time, the sovereign downgrades will increase the long-term cost of funds for all issuers; companies are well-advised to lock in today's rates.

Improve treasury technology tools – Treasurers learned from the 2008 crisis that timely and accurate information along with global visibility of cash is essential. Accelerate the implementation of new treasury workstations to improve cash visibility globally, and use investment portals to get better market and fund views.

Improve cash forecasting – Sharpen pencils around cash forecasts.

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How are MMFs Reflected in Corporate Instrument Policies?



Treasury Strategies surveyed 160 Corporate Treasury Professionals regarding their money market mutual fund investment practices.

Maximum holding limits in any single mutual fund:

- Of the 41% respondents citing limits to investing in any single mutual fund, 77% of these respondents have a maximum investment of 10%-30% in a single fund.

Maximum holding limit in any single fund as a notional amount:

- The notional amount varies by the size of the corporate's portfolio.

Maximum holding in any single fund family:

- Of the 27% respondents listing a limit on investing in a single fund family, 70% have a maximum investment of 10-30% in single family fund.

Maximum holding in any single fund holding issuer:

- Of the 22% who listed a limit, 60% have a maximum investment of 5% or lower in a single fund holding issuer.

Minimum credit rating to be eligible for investment:

- Of the 81% who listed a minimum credit rating requirement, 81% have a minimum money market fund rating of AAA-A.

Maximum exposure to a single country:

- Of the 23% who listed a limit, 65% have a maximum investment level of 10%-20% in any particular country.

Case Discussion

PSS World Medical

(NASDAQ: PSSI)



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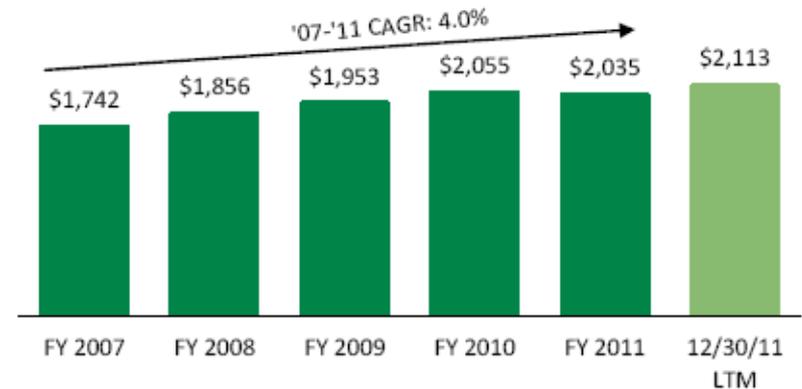
PSSI – Company Overview

Business description

- National distributor of medical products, equipment, pharmaceutical-related products and provider of professional and consulting services to the physician, long-term care, assisted living, home health and hospice markets
- Conducts business through two operating segments:
 - Physician business (~70% of net sales)
 - Extended Care business (~30% of net sales)
- Sources products globally from 3rd-party manufacturers
- Company also distributes store brand products: 3rd-party manufactured products under PSSI-associated brands (~17% of sales)
 - Represents over 1,400 SKUs and approximately 200 product categories sourced from approximately 80 manufacturers, globally
- Distributes through 46 full-service distribution centers, serving 50 states
- Employees: approximately 3,900
 - Includes approximately 950 sales professionals and 550 delivery professionals
- Headquarters: Jacksonville, Florida

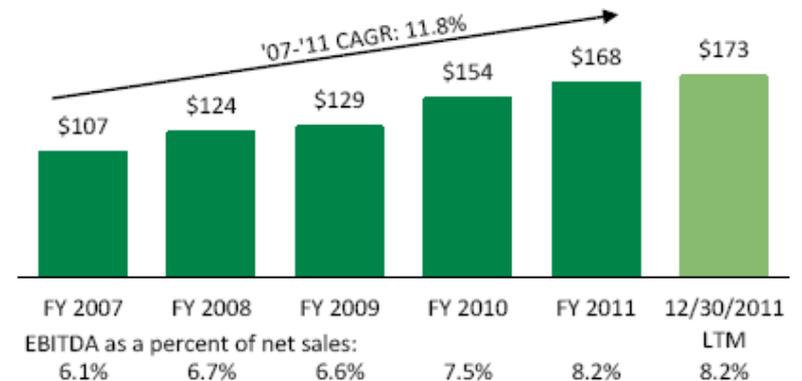
Net sales

(\$ in millions)



EBITDA

(\$ in millions)



PSSI – Conservative Financial Policies



Dividends

- PSSI has not paid dividends nor does it plan to initiate a dividend

CapEx

- Annual CapEx spend of ~\$18 – \$27mm over the past three fiscal years
- ~\$29mm budgeted FY2012E CapEx

Cash and cash equivalents

- Primarily consists of demand deposits and registered money market mutual funds
- Seeks to maintain a significant level of liquidity

Debt

- Revolving credit facility primarily used to fund short-term borrowings for working capital investments, small/medium business acquisitions and share repurchases
 - Targeted revolver draw of under \$50mm
 - Anticipates use of revolver going forward (if needed) to fund short term borrowings for working capital investments and small/medium business acquisitions

Return on committed capital ⁽¹⁾

- PSSI targets hurdle rate of 30% return on committed capital (“ROCC”) and has achieved a ROCC of 35.5% and 33.5% in FY2011 and FY2010, respectively

(1) ROCC is defined as earnings before interest and taxes (net income, plus provision for income taxes, plus interest expense, plus amortization interest and investment income) / two period average tangible, non-financial book value of equity (total assets, less cash, less goodwill and intangibles (net), less total liabilities, plus debt).

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