

## Equity Research

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## Financials

### Genworth Financial, Inc.

#### CFIUS Hurdle Removed in Oceanwide Transaction, Delaware Amended Application Remains Outstanding

Genworth Financial's (GNW) deal to be acquired by China Oceanwide (952 HK, Not Rated) for \$5.43 per share in cash had been viewed as a binary event featuring two key hurdles: approvals from both the Committee on Foreign Investment in the United States (CFIUS) and the Delaware Department of Insurance (DDOI). One of which was removed when the Genworth stated in a press release on Saturday that CFIUS had completed its review of the proposed transaction and concluded that there are no unresolved national security concerns.

**GNW**

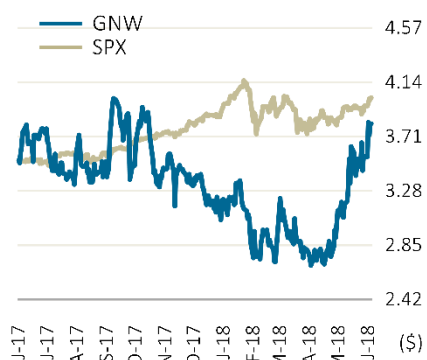
**\$3.81**

### NEUTRAL

52 week range \$2.69 - \$4.01

Market Cap (m) \$1,915

#### Price Performance



Source: IDC

- ▶ On April 24, GNW and Oceanwide had announced the withdrawal of their 3rd CFIUS Joint Notice and re-filed a 4th Joint Notice which was allowed to proceed directly to the 45 day investigation period following a one-day review period. With the refiling, GNW intended to provide additional time to continue conversation about the company's mitigation plan which involved the use of a third-party service provider to safeguard the personal data of policyholders.
- ▶ We expect the stock to respond positively to the CFIUS announcement as it removed one of two significant binary events related to the transaction.
- ▶ Our hesitancy with regard to GNW was due in large part to the significant uncertainty related to the CFIUS and DDOI approvals which most believed were more likely to fail – coupled with our view that the stock could trade in the pennies in the immediate aftermath had the deal falling apart. The result has made GNW shares exceedingly hard to play from the long or short sides.
- ▶ **We reiterate our Neutral rating on GNW.** We believe the stock is close to fairly valued in light of the upside associated with the \$5.43 per share takeout price and the downside if the deal fails to close.
- ▶ **Valuation:** Based on our sum-of-the parts valuation for GNW, we believe the value of its shares are within +/- 15% from current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.

## Estimates

	1Q17 A	2Q17 A	3Q17 A	4Q17 A	FY17 A	1Q18 A	2Q18 E	3Q18 E	4Q18 E	FY18 E	FY19 E
Diluted EPS (Adj.)	0.29	0.30	0.15	0.65	1.39	0.25	0.27	0.25	0.24	1.01	1.23
BVPS (Ex-AOCI)	19.39	19.80	20.00	20.70	20.72	20.67	20.94	21.19	21.43	21.43	22.36
Operating Income	332	401	286	(290)	729	228	236	220	218	901	1,036

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

Please Read: Important disclosures and analyst's certification appear in Appendix

- ▶ During GNW's 1Q18 conference call, management said negotiations with the DDOI regarding the proposed de-stacking transaction in which Genworth's Holding Company would purchase Virginia-based Genworth Life and Annuity Insurance Company (GLAIC) from Delaware-domiciled Genworth Life Insurance Company (GLIC) for a total consideration of approximately \$700mm had been unsuccessful as both sides were unable to agree on a mutually acceptable fair market value for GLAIC. As a consequence, management said GNW and Oceanwide were working on a revised transaction with no unstacking.
- ▶ In a status update released on June 5th, the DDOI stated that the department received an amendment to the Form A reflecting the anticipated removal of the unstacking from the proposed transaction which will start the process anew. Furthermore, the DDOI noted that some of the information necessary for its evaluation of the transaction was not yet available to Genworth or China Oceanwide and that it could not currently estimate a timeframe.
- ▶ Going forward, the revised transaction structure will require the review and approval of other U.S. state insurance departments in addition to China and other international jurisdictions.
- ▶ Inasmuch as the amended Form A application has removed the most prominent obstacle identified during the DDOI review of the transaction, it has been perceived as an incremental positive.
- ▶ While we acknowledge the progress, we continue to believe the potential risks associated with the DDOI application including those identified by the Deputy Insurance Commissioner in her statement remain a key source of uncertainty. As such, we view GNW shares as fairly valued when we consider the significant downside risk if the deal fails to close.

## Income Statement

Genworth Financial Operating Model	Dec-13	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-19
\$ millions	2013A	2014A	2015A	2016A	1Q17A	2Q17A	3Q17A	4Q17A	2017A	1Q18A	2Q18E	3Q18E	4Q18E	2018E	2019E
Premiums	5,148	5,431	4,759	4,160	1136	1111	1135	622	4,004	1140	1129	1117	1106	4,492	4,315
Net investment income	3,271	3,242	3,160	3,159	790	801	797	812	3,200	804	806	808	810	3,228	3,187
Net investment gains (losses)	(37)	(20)	(75)	72	34	101	85	45	265	-31	0	0	0	(31)	-
Insurance and investment product fees and other	1,021	912	904	978	211	210	198	207	826	202	201	200	199	802	782
<b>Total revenues</b>	<b>9,403</b>	<b>9,565</b>	<b>8,748</b>	<b>8,369</b>	<b>2,171</b>	<b>2,223</b>	<b>2,215</b>	<b>1,686</b>	<b>8,295</b>	<b>2,115</b>	<b>2,136</b>	<b>2,125</b>	<b>2,115</b>	<b>8,491</b>	<b>8,284</b>
Benefits and other changes in policy reserves	4,895	6,620	5,200	5,245	1246	1206	1344	1383	5,179	1311	1318	1324	1331	5,283	4,936
Interest credited	738	737	720	696	167	163	164	152	646	156	165	166	154	640	646
Acquisition and operating expenses, net of deferrals	1,659	1,585	1,422	1,273	270	240	265	247	1,022	240	239	238	236	953	948
Amortization of deferred acquisition costs and intangibles	569	571	992	498	94	139	83	119	435	104	103	102	101	410	414
Goodwill impairment	-	849	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	492	479	428	337	62	74	73	75	284	76	76	76	76	304	304
<b>Total Benefits and Expenses</b>	<b>8,353</b>	<b>10,841</b>	<b>8,762</b>	<b>8,049</b>	<b>1,839</b>	<b>1,822</b>	<b>1,929</b>	<b>1,976</b>	<b>7,566</b>	<b>1,887</b>	<b>1,900</b>	<b>1,905</b>	<b>1,898</b>	<b>7,590</b>	<b>7,248</b>
<b>Income before income taxes</b>	<b>1,050</b>	<b>(1,276)</b>	<b>(14)</b>	<b>320</b>	<b>332</b>	<b>401</b>	<b>286</b>	<b>(290)</b>	<b>729</b>	<b>228</b>	<b>236</b>	<b>220</b>	<b>218</b>	<b>901</b>	<b>1,036</b>
Provision for income taxes	324	(228)	(9)	358	116	130	102	(555)	(207)	63	49	46	46	204	218
Tax rate	30.9%	17.9%	64.3%	111.9%	34.9%	32.4%	35.7%	191.4%	-28.4%	27.6%	21.0%	21.0%	21.0%	22.7%	21.0%
<b>Net income (loss)</b>	<b>726</b>	<b>(1,048)</b>	<b>(5)</b>	<b>(38)</b>	<b>216</b>	<b>271</b>	<b>184</b>	<b>265</b>	<b>936</b>	<b>165</b>	<b>186</b>	<b>174</b>	<b>172</b>	<b>697</b>	<b>819</b>
Income (loss) from discontinued operations	-	-	(408)	(29)	-	-	(9)	-	(9)	-	-	-	-	-	-
Less: net income attributable to noncontrolling interests	152	196	202	210	61	69	68	(88)	110	53	50	50	50	203	200
<b>Net income (loss) available to common stockholders</b>	<b>574</b>	<b>(1,244)</b>	<b>(207)</b>	<b>(248)</b>	<b>155</b>	<b>202</b>	<b>116</b>	<b>353</b>	<b>826</b>	<b>112</b>	<b>136</b>	<b>124</b>	<b>122</b>	<b>494</b>	<b>619</b>
<b>Earnings per share - diluted</b>	<b>\$1.15</b>	<b>(\$2.51)</b>	<b>(\$1.24)</b>	<b>(\$0.63)</b>	<b>\$0.29</b>	<b>\$0.30</b>	<b>\$0.15</b>	<b>\$0.65</b>	<b>\$1.39</b>	<b>\$0.25</b>	<b>\$0.27</b>	<b>\$0.25</b>	<b>\$0.24</b>	<b>\$1.01</b>	<b>\$1.23</b>
Total stockholders' equity, excluding AOCI	11,891	10,477	9,814	9,550	9,716	9,923	10,034	10,391	10,391	10,391	10,527	10,651	10,773	10,773	11,242
Total AOCI	2,542	4,546	3,110	3,194	3,096	3,095	3,035	3,027	3,127	2,627	2,627	2,627	2,627	2,727	2,877
<b>Total stockholders' equity</b>	<b>14,812</b>	<b>14,923</b>	<b>12,824</b>	<b>12,644</b>	<b>12,812</b>	<b>13,018</b>	<b>13,018</b>	<b>13,418</b>	<b>13,418</b>	<b>13,018</b>	<b>13,154</b>	<b>13,278</b>	<b>13,400</b>	<b>13,400</b>	<b>14,019</b>
<b>Book value per share</b>	<b>\$29.55</b>	<b>\$30.04</b>	<b>\$25.73</b>	<b>\$25.33</b>	<b>\$25.57</b>	<b>\$25.97</b>	<b>\$25.95</b>	<b>\$26.72</b>	<b>\$26.76</b>	<b>\$25.90</b>	<b>\$26.17</b>	<b>\$26.41</b>	<b>\$26.66</b>	<b>\$26.66</b>	<b>\$27.89</b>
<b>Book value per share (excluding AOCI)</b>	<b>\$23.73</b>	<b>\$21.09</b>	<b>\$19.69</b>	<b>\$19.13</b>	<b>\$19.39</b>	<b>\$19.80</b>	<b>\$20.00</b>	<b>\$20.70</b>	<b>\$20.72</b>	<b>\$20.67</b>	<b>\$20.94</b>	<b>\$21.19</b>	<b>\$21.43</b>	<b>\$21.43</b>	<b>\$22.36</b>
Weighted average diluted shares	501.2	499.9	498.5	499.1	501.0	501.2	501.6	502.1	501.5	502.7	502.7	502.7	502.7	502.7	502.7

Source: BTIG Estimates and Company Documents

## BTIG Covered Companies Mentioned in this Report

GENWORTH FINANCIAL, INC. (GNW, Neutral, \$N/A PT; Current Price: \$3.81; Analyst: Mark.Palmer)

## Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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#### Genworth Financial, Inc. (GNW, Neutral)

**Valuation:** Based on our sum-of-the parts valuation for GNW, we believe the value of its shares are within +/- 15% from current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.

**Risks:** The primary risks to our rating include: an accelerated rate of deterioration within GNW's U.S. Mortgage Insurance portfolio, credit downgrades that could hamper new business generation in all segments, a slowdown in the Chinese economy that could negatively affect the company's mortgage insurance units in commodity-focussed Australia and Canada, tail risk associated with the company's Long-Term care exposures, and

reinvestment risk given the current low interest rate environment. Upside risks include a de-stacking of the GNW's life insurance business and progress towards a split of GNW's life insurance and mortgage insurance businesses.

**Genworth Financial, Inc. (GNW)**

(\$)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
11-Apr-12	7.54	11	Mark Palmer	Buy
08-May-13	10.68	NA	Mark Palmer	Neutral
08-Oct-13	12.62	17.50	Mark Palmer	Buy
04-Feb-14	14.53	18	Mark Palmer	Buy
24-Mar-14	17.93	22	Mark Palmer	Buy
06-Nov-14	8.66	16	Mark Palmer	Buy
11-Feb-15	8.33	15	Mark Palmer	Buy
10-Aug-15	5.24	13	Mark Palmer	Buy
30-Oct-15	4.87	10	Mark Palmer	Buy
05-Feb-16	1.86	5	Mark Palmer	Buy
05-Oct-16	5.12	NA	Mark Palmer	Neutral

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