

## Equity Research

October 5, 2016

### Mark Palmer

(212) 588-6582  
mpalmer@btig.com

### Giuliano Bologna

(212) 588-6583  
gbologna@btig.com

## Financials

### Genworth Financial, Inc.

#### Downgrading to Neutral (from Buy) as Risk/Reward Proposition More Balanced Following Rally

We are downgrading Genworth Financial to Neutral (from Buy) and removing our price target of \$5 following the achievement of that level. While we continue to see a path for GNW to position itself for a split that would help to unlock the value of its U.S. mortgage insurance unit including the separation and isolation of its troubled long term care (LTC) insurance unit, we also believe the progress made toward that end was priced into the stock as it appreciated by 215% since February 11.

- As such, we view GNW's risk/reward proposition as much more balanced at this point. The stock's valuation at 0.25x the company's book value ex. accumulated other comprehensive income (AOCI) and the potential upside associated with the successful execution of the actions required to facilitate a value-unlocking split is countered by the ongoing risks associated with the LTC unit, the company's \$600mm debt maturity in 2018 – GNW had \$934mm of cash as of June 30 – and the headwinds created by persistently low interest rates.
- We believe the rally in GNW shares occurred in large part due to stability in its operating results during the past couple of quarters, as the return of stable performance from its LTC unit in particular is a prerequisite for the company's various restructuring actions, in our view. We also think the stock's outperformance has stemmed in part from the solid operating performance of GNW's U.S. mortgage insurance (U.S. MI) unit during 1H16 given that unit's particular importance in any sum-of-the-parts valuation of the company.
- Valuation:** GNW shares trade at 0.25X the company's book value ex. accumulated other comprehensive income (AOCI) as of June 30. Based on our sum-of-the parts valuation for GNW, we believe that the value of GNW's share are within +/- 15% from current levels over the next 12 months. BTIG does not assign price targets to Neutral-rated stocks.

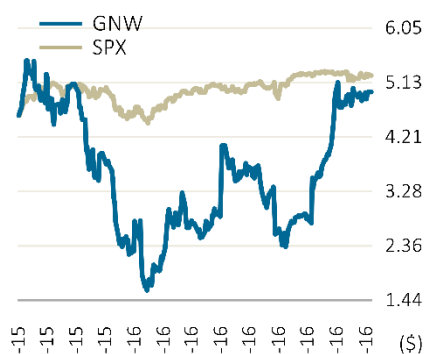
GNW

\$5.07

### NEUTRAL

52 week range \$1.61 - \$5.50  
Market Cap (m) \$2,475

#### Price Performance



Source: IDC

## Estimates

	1Q15 A	2Q15 A	3Q15 A	4Q15 A	FY15 A	1Q16 A	2Q16 A	3Q16 E	4Q16 E	FY16 E	FY17 E
Diluted EPS (Adj.)	0.31	(0.39)	(0.57)	(0.59)	(1.24)	0.11	0.34	0.22	0.22	0.89	0.96
BVPS (Ex-AOCI)	21.31	20.77	20.31	19.72	19.69	19.76	20.07	20.30	20.54	20.60	21.10
Operating Income	295	245	(351)	(203)	(14)	150	351	223	226	950	951

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

- ▶ The perceptions of U.S. MI's value also received a boost in mid-August when Arch Capital Group (ACGL, Not Rated) announced it would acquire United Guaranty from AIG (AIG, Not Rated) at 9.5x FY15 earnings per share, a multiple that implied that the stocks of most of the publicly traded private mortgage insurers were inexpensive.
- ▶ We believe significant additional share price appreciation in GNW would require actual execution of the company's plan to transfer ownership in and potentially divest its GLAIC life insurance business, including the receipt of necessary regulatory approvals; continued stability in its LTC unit as well as progress on its requests for premium rate increases from various state insurance regulators; additional visibility regarding its ability to address its 2018 debt maturity; and stability in its publicly traded Canadian and Australian mortgage insurance units, both in terms of their share prices given GNW's stakes in those units and their ability to continue to upstream dividends to its holding company.

## Income Statement

Genworth Financial Operating Model	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Dec-16	Dec-17
\$ millions	2013A	1Q14A	2Q14A	3Q14A	4Q14A	2014A	1Q15A	2Q15A	3Q15A	4Q15A	2015A	1Q16A	2Q16A	3Q16E	4Q16E	2016E	2017E
Premiums	5,148	1,307	1,343	1,395	1,386	5,431	1323	1134	1145	1157	4,759	794	1127	1104	1110	4,135	4,541
Net investment income	3,271	805	813	805	819	3,242	803	793	783	781	3,160	789	779	771	775	3,114	3,050
Net investment gains (losses)	(37)	(17)	34	(27)	(10)	(20)	-16	8	-51	-16	(75)	-19	30	0	0	11	-
Insurance and investment product fees and other	1,021	227	225	231	229	912	225	222	223	234	904	221	300	225	226	972	907
<b>Total revenues</b>	<b>9,403</b>	<b>2,322</b>	<b>2,415</b>	<b>2,404</b>	<b>2,424</b>	<b>9,565</b>	<b>2,335</b>	<b>2,157</b>	<b>2,100</b>	<b>2,156</b>	<b>8,748</b>	<b>1,785</b>	<b>2,236</b>	<b>2,101</b>	<b>2,111</b>	<b>8,233</b>	<b>8,497</b>
Benefits and other changes in policy reserves	4,895	1,194	1,256	1,986	2,184	6,620	1243	1232	1290	1435	5,200	860	1193	1163	1169	4,385	4,721
Interest credited	738	183	184	185	185	737	180	181	179	180	720	177	173	188	182	720	727
Acquisition and operating expenses, net of deferrals	1,659	378	404	398	405	1,585	380	295	314	433	1,422	394	327	338	346	1,405	1,356
Amortization of deferred acquisition costs and intangibles	569	134	138	143	156	571	121	101	563	207	992	99	112	109	108	428	422
Goodwill impairment	-	-	-	550	299	849	-	-	-	-	-	-	-	-	-	-	-
Legal Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	492	127	120	114	118	479	116	103	105	104	428	105	80	80	80	345	320
<b>Total Benefits and Expenses</b>	<b>8,353</b>	<b>2,016</b>	<b>2,102</b>	<b>3,376</b>	<b>3,347</b>	<b>10,841</b>	<b>2,040</b>	<b>1,912</b>	<b>2,451</b>	<b>2,359</b>	<b>8,762</b>	<b>1,635</b>	<b>1,885</b>	<b>1,878</b>	<b>1,885</b>	<b>7,283</b>	<b>7,546</b>
<b>Income before income taxes</b>	<b>1,050</b>	<b>306</b>	<b>313</b>	<b>(972)</b>	<b>(923)</b>	<b>(1,276)</b>	<b>295</b>	<b>245</b>	<b>(351)</b>	<b>(203)</b>	<b>(14)</b>	<b>150</b>	<b>351</b>	<b>223</b>	<b>226</b>	<b>950</b>	<b>951</b>
Provision for income taxes	324	87	85	(185)	(215)	(228)	91	70	(134)	(36)	(9)	23	110	62	63	259	266
Tax rate	30.9%	28.4%	27.2%	19.0%	23.3%	17.9%	30.8%	28.6%	38.2%	17.7%	64.3%	15.3%	31.3%	28.0%	28.0%	27.2%	28.0%
<b>Net income (loss)</b>	<b>726</b>	<b>219</b>	<b>228</b>	<b>(787)</b>	<b>(708)</b>	<b>(1,048)</b>	<b>204</b>	<b>175</b>	<b>(217)</b>	<b>(167)</b>	<b>(5)</b>	<b>127</b>	<b>241</b>	<b>160</b>	<b>163</b>	<b>691</b>	<b>685</b>
Income (loss) from discontinued operations	-	-	-	-	-	-	-	(314)	(21)	(73)	(408)	(19)	(21)	-	-	(40)	-
Less: net income attributable to noncontrolling interests	152	35	52	57	52	196	50	54	46	52	202	55	48	50	50	203	200
<b>Net income (loss) available to common stockholders</b>	<b>574</b>	<b>184</b>	<b>176</b>	<b>(844)</b>	<b>(760)</b>	<b>(1,244)</b>	<b>154</b>	<b>(193)</b>	<b>(284)</b>	<b>(292)</b>	<b>(207)</b>	<b>53</b>	<b>172</b>	<b>110</b>	<b>113</b>	<b>488</b>	<b>485</b>
<b>Earnings per share - diluted</b>	<b>\$1.15</b>	<b>\$0.37</b>	<b>\$0.35</b>	<b>(\$1.70)</b>	<b>(\$1.53)</b>	<b>(\$2.51)</b>	<b>\$0.31</b>	<b>(\$0.39)</b>	<b>(\$0.57)</b>	<b>(\$0.59)</b>	<b>(\$1.24)</b>	<b>\$0.11</b>	<b>\$0.34</b>	<b>\$0.22</b>	<b>\$0.22</b>	<b>\$0.89</b>	<b>\$0.96</b>
<b>Net operating income per share - diluted</b>	<b>\$1.24</b>	<b>\$0.37</b>	<b>\$0.31</b>	<b>(\$0.65)</b>	<b>(\$0.83)</b>	<b>(\$0.80)</b>	<b>\$0.31</b>	<b>\$0.24</b>	<b>\$0.13</b>	<b>(\$0.17)</b>	<b>\$0.51</b>	<b>\$0.21</b>	<b>\$0.25</b>	<b>\$0.22</b>	<b>\$0.22</b>	<b>\$0.90</b>	<b>\$0.96</b>
Total stockholders' equity, excluding AOCI	11,891	12,032	12,243	11,231	10,477	10,477	10,632	10,381	10,101	9,814	9,814	9,870	10,045	10,180	10,318	10,318	10,653
Total AOCI	2,542	3,483	4,215	3,934	4,446	4,546	4,692	3,309	3,478	3,010	3,110	4,185	5,088	5,063	5,038	5,138	5,288
<b>Total stockholders' equity</b>	<b>14,812</b>	<b>15,515</b>	<b>16,458</b>	<b>15,165</b>	<b>14,923</b>	<b>14,923</b>	<b>15,324</b>	<b>13,690</b>	<b>13,579</b>	<b>12,824</b>	<b>12,824</b>	<b>14,055</b>	<b>15,133</b>	<b>15,243</b>	<b>15,356</b>	<b>15,356</b>	<b>15,841</b>
<b>Book value per share</b>	<b>\$29.55</b>	<b>\$31.27</b>	<b>\$32.68</b>	<b>\$30.54</b>	<b>\$30.04</b>	<b>\$30.04</b>	<b>\$30.72</b>	<b>\$27.39</b>	<b>\$27.30</b>	<b>\$25.77</b>	<b>\$25.73</b>	<b>\$28.14</b>	<b>\$30.24</b>	<b>\$30.40</b>	<b>\$30.57</b>	<b>\$30.66</b>	<b>\$31.37</b>
<b>Book value per share (excluding AOCI)</b>	<b>\$23.73</b>	<b>\$24.25</b>	<b>\$24.31</b>	<b>\$22.62</b>	<b>\$21.09</b>	<b>\$21.09</b>	<b>\$21.31</b>	<b>\$20.77</b>	<b>\$20.31</b>	<b>\$19.72</b>	<b>\$19.69</b>	<b>\$19.76</b>	<b>\$20.07</b>	<b>\$20.30</b>	<b>\$20.54</b>	<b>\$20.60</b>	<b>\$21.10</b>
Weighted average diluted shares	501.2	502.7	503.6	496.6	496.7	499.9	498.9	499.9	497.4	497.6	498.5	499.4	500.4	501.4	502.4	500.9	504.9

Source: BTIG Estimates and Company Documents

---

## BTIG Covered Companies Mentioned In This Report

GENWORTH FINANCIAL, INC. (GNW, Neutral, \$N/A PT; Current Price: \$5.07; Analyst: mark.palmer)

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

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.

### Regulatory Disclosures

#### Analyst Stock Ratings Definitions

**BTIG LLC's ("BTIG") ratings, effective May 10, 2010, are defined as follows:**

**BUY** – A stock that is expected at initiation to produce a positive total return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**SELL** – A stock that is expected at initiation to produce a negative total return of 15% or greater over the next 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

**NEUTRAL** – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

**NOT RATED** – A stock that is not rated but that is covered by BTIG.

#### Distribution of Ratings and Investment Banking Clients

BTIG must disclose in each research report the percentage of all securities rated by the member to which the member would assign a "buy", "neutral" or "sell" rating. The said ratings are updated on a quarterly basis. BTIG must also disclose the percentage of subject companies within each of these three categories for whom the member has provided investment banking services within the previous twelve months. **Stocks under coverage as of the end of the most recent calendar quarter (June 30, 2016): 185**

**Distribution of BTIG's Research Recommendations (as of June 30, 2016):**

**BUY: 61.6%; NEUTRAL: 35.7%; SELL: 2.7%**

**Distribution of BTIG's Investment Banking Services (as of June 30, 2016):**

**BUY: 84.6%; NEUTRAL: 15.4%; SELL: 0%**

For purposes of FINRA ratings distribution rules, BTIG's stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

### Company Valuation and Risk Disclosures

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

**Valuation:** GNW shares trade at 0.25X the company's book value ex. accumulated other comprehensive income (AOCI) as of June 30. Based on our sum-of-the parts valuation for GNW, we believe that the value of GNW's share 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		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

## Other Disclosures

Additional Information Available Upon Request

## General Disclosures

Research reports produced by BTIG LLC ("BTIG") are published for and intended to be distributed solely to BTIG institutional and corporate clients. Recipients of BTIG reports will not be considered clients of BTIG solely because they may have received such BTIG report.

The equity research analyst(s) responsible for the preparation of this report receives compensation based upon a variety of factors, including the quality and accuracy of research, internal/client feedback, and overall Firm revenues.

BTIG reports are based on public information and BTIG considers the same to be reliable, comprehensive information, but makes no representation or warranty that the reports are accurate or complete. BTIG opinions and information provided in this report are as of the date of the report and may change without notice.

This research report is not an offer to buy or sell or solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal. This research report was not drafted specifically for any particular individual or entity and is not a personal recommendation to participate in any particular trading strategy or transaction. Any recipient of this research report should obtain independent advice specific to their personal circumstances before undertaking any investment activity and must make their own independent evaluation of any securities or financial instruments.

Facts, views or opinions presented in this report have not been reviewed by, and may not reflect information known to, employees or other professionals in the "BTIG Group" (BTIG Group includes, but is not limited to, BTIG and its parents, subsidiaries and/or affiliates). BTIG Group employees, including Sales Representatives and Traders, may provide oral or written commentary or advice that may be inconsistent with the opinions and/or views expressed in this research report. BTIG Group employees and/or its affiliates not involved in the preparation of this research report may have investments in securities or derivatives of securities of companies mentioned in this report that are inconsistent with the views discussed in this report.

Investors in securities products bear certain risks in conjunction with those investments. The value of, and income from, any investments may vary because of changes in interest rates or foreign exchange rates, securities prices or market indexes, operational or financial conditions of companies or other factors within or beyond the companies control. Recipient of the research reports should be aware that investments in equity securities may pose significant risks due to the inherent uncertainty associated with relying on forecasts of various factors that can affect the earnings, cash flow and overall valuation of a company. Any investment in equity securities should be undertaken only upon consideration of issues relating to the recipient's overall investment portfolio and objectives (such as diversification by asset class, industry or company) as well as time horizon and liquidity needs. Further, past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. There may be time limitations on the exercise of options or other rights in any securities transactions.

Investing in foreign markets and securities, including ADRs, is subject to additional risks such as currency fluctuation, limited information, political instability, economic risk, and the potential for illiquid markets. Investing in emerging markets may accentuate these risks. Non-U.S. reporting issuers of foreign securities, however, may not make regular or complete public disclosure relating to their financial condition or the securities that they issue.

The trademarks and service marks contained herein are the property of their respective owners. Third-party data providers make no warranties or representations of any kind relating to the accuracy, completeness, or timeliness of the data they provide and shall not have liability of any damages of any kind relating to such data. The report or any portion hereof may not be reprinted, sold or redistributed without the written consent of BTIG. This report is intended only for use by the recipient. The recipient acknowledges that all research and analysis in this report are the property of BTIG and agrees to limit the use of all publications received from BTIG within his, or her or its, own company or organization. No rights are given for passing on, transmitting, re transmitting or reselling the information provided.

## **Jurisdiction and Dissemination**

BTIG is a U.S. broker-dealer and member of FINRA and SIPC.

BTIG Australia Limited ACN 128 554 601, member of ASIC and ASX; BTIG Hong Kong Limited, an Exchange Participant of SEHK and licensed and regulated by the SFC; BTIG Ltd, member of the LSE, authorized and regulated by the FSA; and BTIG Singapore Pte Ltd, registered and licensed with MAS; are all separate but affiliated entities of BTIG. Unless governing law permits otherwise, you must contact a BTIG entity in your home jurisdiction for further information, or if you want to use our services in effecting a transaction.

Issues and approved for distribution in the UK and EEA by BTIG Ltd. to eligible counterparties and professional clients only. Issued and distributed in Australia to “wholesale clients” only by BTIG Australia Limited. In Singapore and Hong Kong, further information may be obtained from BTIG Singapore Pte Ltd and BTIG Hong Kong Limited, respectively.