Genworth 中泛控股 CHINA OCEANWIDE HOLDINGS

BROXTON CAPITAL ADVISORS

Genworth Merger Update: Merger on Track

CO Merger is not a binary outcome. Broxton Outlines Funding strategies for Unstacking, Equity Value and EPS Forecast by Strategy If the Purchase is not Completed

August 21, 2017

Price target for Merger Completion: $5.43

Price target for Merger Fail: $6.65-9.63*

There are several updates since our February report. Genworth (GNW) Holders approved the sale of Genworth to China Oceanwide (CO) for $5.43. Although, we advised that the company was worth more and GNW had "sandbagged" the value of the company in the Proxy Statement, mostly passive institutional investors approved the sale with 30% of holders abstaining. This could lead to the 262-claim problem we outlined in our first report: November 21 report. GNW massively exceeded its own 2017 earnings estimate, in the proxy statement, of 66 cents by posting diluted earnings of 71 cents in the first two quarters. At this point, our sum of the parts value is $9.63 as outlined in the column to the right. The biggest concern is that management does not anticipate and properly hedge a possible deal failure. GNW can still easily achieve the payment of maturities and the purchase of GLAIC from GLIC without the completion of the merger (as outlined later). We predict a slight cash build at the holding company throughout the end of 2017 as tax transfer payments are collected and the international subsidiaries remit a further $ 75 million in dividends along with the possibility of the first dividends from U.S. MI. The milestones reached and remaining milestones for deal completion are listed below:

- ✓ Shareholder approval
- ✓ Unstacking approved (altering subsidiary structure to receive regular dividends from GLAIC)
- State approvals (led by Delaware)
- International approvals
- CFIUS approval

At this point we have had positive comments from New York and Delaware regulators.

Holding company senior notes	Amount
6.52% SNT due 2018	598 mm
7.70% SNT due 2020	397 mm
7.20% SNT due 2021	389 mm
7.63% SNT due 2021	724 mm
4.90% SNT due 2023	399 mm
4.80% SNT due 2024	400 mm
6.50% SNT due 2034	297 mm
6.15% Floating Rate Junior Notes, due 2066	598 mm
Holding company total	3,802 mm
Holding company stats	6/30/2017
Investment	$ Value in mm
Holding Company Cash & liquid investments	858 mm
GNW MI Canada MIC.TO	1,390 mm
GNW MI Australia GMA.AX	620 mm
GNW MI U.S. (12 X 2017 EPS)	3,936 mm
GLAIC	1,200 mm
Long Term Care (GLIC)	0 mm
Other	300 mm
Hold co. value	8,304 mm
Hold co. debt	(3,500) mm
Inclusive of $300 mm discount for the 6.15% JSNs	
Hold co. net value	4,804 mm
GNW shares outstanding	4989mm
Liquidation value / share	$9.63
Current book value / share	$19.88
Going Concern Value	$16.96

Options for GNW if the CO buyout is not Achieved

If the deal with CO were to fall through GNW has several options to fund the Unstacking if desired. We estimate that to maintain a $600 million cash cushion at the holding company (through 2018) and contribute the $700 million for the unstacking, Genworth Holdings will need to raise approximately $1.2 billion: Genworth's bonds are trading at slightly above or below par. The tables below outline projected expenses and available strategies:

December 2017 Holding Company cash and investments:	$875 mm
2018 Interest	-$220 mm
2018 Maturity	-$600 mm
2018 Net Other Costs	-$200 mm
Dividends Received	$200 mm
Tax Payment Reimbursements	$100 mm
Unstacking Costs (discretionary)	-$700 mm
Holding Company Cash Remaining	-$605 mm
Totals Without Unstacking	$95 mm
Options for funding and leaving a $600 mm cash cushion	
Sale of 30-40% of USMI	$1,200 mm
Sale of Genworth Canada	$1,400 mm
Bond Issuance	$1,200 mm
Senior Secured line	$1,200 mm
Issuance of 400 mm shares:	$1,200 mm
Holding Company Cash Remaining	$595 mm

The following table uses a base of $1.35 earnings per share and the current book value of $19.88 per share in order to demonstrate the effect on EPS and book value per strategy:

STRATEGY	Pro Forma EPS	Pro Forma Book Value/
Current 2018	$1.35	$19.88
Sale of 30-40% of USMI	1.09	$18.08
Sale of Genworth CDN	$0.96	$16.52
Senior Secured line	$1.20	$19.88
Bond Issuance	$1.16	$19.88
Sale of 400 mm shares:	$0.74	$11.04

Conclusion

The completion or failure of the merger will not lead to a binary outcome and Genworth will deploy one of the available strategies listed above. The most beneficial and planned strategy is to sell a portion of the U.S. mortgage insurance company (USMI). This also fits in with Genworth's historical strategy of owning a majority portion of a publicly traded mortgage company. The sale of Canada may also create a tax burden. The assumption above also omits the possibility of special dividends from the mortgage subsidiaries, which have totaled over $500 mm in the last few years. Management may determine to issue shares as well or may also

Genworth Holdings Goals:

- Begin receiving dividends from the life insurance subsidiary (GLAIC) through the unstacking process.
- Pay 2018 bond maturities
- Continue receiving dividends from Australian and Canadian mortgage subsidiaries
- Begin receiving dividends from U.S. MI

determine to hold off on the unstacking which would reduce capital needs significantly. In any event we would expect GNW management to begin loading up one or more of the available strategies as a hedge against the failure of the CO purchase. We believe that GNW should create the credit line for $500-1,000 mm and continue to work on the equity sale of U.S. MI.

*The variance in price target if there is a merger fail is based on the impact of each available strategy

Note: we do not consider long term care to have value or be a threat to GNW. November 21 report

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