GENWORTH FINANCIAL

May 28, 2019

Looks like the buyout is not going through. China Oceanwide is reported to be in default on its Oceanwide Plaza in Downtown L.A. and there are still some regulatory approvals for the buyout lacking after over 30 months. We expect the deal to be canceled on or before the June 30, 2019 deadline. Since the deal was announced, shareholders have lost over $1 billion dollars as the shares declined. We heavily advised against voting for the deal in 2016 including lobbying ISS. Broxton 2017 letter to the board of directors of Genworth: "*In a sense GNW has no parents, the board and management don't own many shares, and it has not attracted a large holding from a competent investor that could steer or lead the company… 35% of the shares are owned by mindless index funds that have no interest in the company….. This acquisition was couched in terms of needed liquidity and failed bids. This picture was presented, in order to create the ecosystem necessary to complete the deal.*" In 2016 we wrote: GNW shareholders are being enticed into a deal which makes no sense. We published extensively on various aspects of GNW.

Value & Debt

We estimate the value of the shares to be around $8.00. Genworth Financial is not an insurance company it is a Holding company which owns 5 different insurance companies. Most of the value is in the 3 mortgage insurance subsidiaries which we value at about $5.6 billion. We project the group will produce net income of $787 million this year. We estimate annual dividends to the holding company from the Mortgage subsidiaries of $350-450 million in 2019 and 2020. The Holding company debt:

Holding Company Debt

Genworth Holdings debt	recent price	YTM	Amount MM
Floating Rate Senior Secured Term Loan, due 2023	NA	NA	445
7.70% Senior Notes, due 2020	100.5	7.09%	397
Intercompany note issued by GNW to GLIC	NA	NA	200
7.20% Senior Notes, due 2021	97.7	8.64%	381
7.625% Senior Notes, due 2021	97.1	9.03%	703
4.90% Senior Notes, due 2023	84	9.47%	399
4.80% Senior Notes, due 2024	83.2	9.26%	400
6.50% Senior Notes, due 2034	76.25	9.49%	297
Floating Rate Junior Notes, due 2066	53	NA	598
Subtotal			3,820

2019-2021 mortgage insurance subsidiary pro formas

Genworth Mortgage subsidiaries 2019 -2021 Pro Forma	2018	2019	2020	2021
REVENUES:				
Premiums	$1,644	$1,677	$1,710	$1,745
Net investment income	$298	$298	$308	$308
Net investment gains (losses)	-$152	$0	$0	$0
Policy fees and other income	$4	$4	$4	$4
Total revenues	$1,794	$1,979	$2,022	$2,057
BENEFITS AND EXPENSES:				
Benefits and other changes in policy reserves	$224	$235	$255	$260
Acquisition and operating expenses, net of deferrals	$304	$315	$325	$330
Amortization of deferred acquisition costs and intangibles	$100	$100	$100	$100
Interest expense	$27	$30	$30	$30
Total benefits and expenses	$655	$680	$710	$720
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$1,139	$1,299	$1,312	$1,337
Provision for income taxes	$276	$314	$318	$323
INCOME (LOSS) FROM CONTINUING OPERATIONS	$863	$985	$995	$1,013
Less: income (loss) attributable to noncontrolling interests	$178	$198	$200	$203
INCOME FROM CONTINUING OPERATIONS	$685	$787	$795	$810
Dividends to the holding company		$400	$450	$450

Strategic Alternatives

We have discussed what the alternatives are for GNW if they want to raise capital in our August 2017 report. The company also addresses the Strategic alternatives in their 10-K. However, we are not sure of what the post deal volatility environment will bring to the bonds and shares. There is a good possibility of management replacement. In general, the shares are a good value. We are just not sure how low they go or if they will shoot higher if the deal is canceled. Without any additional funding through asset sales we estimate the holding company will have $1.7 billion of liquidity through 2021 from existing cash and dividends versus $1.7 billion in bond maturities. The best course for the holding company is to expand the secured credit line by $1 billion to smooth over the amortizations at a cost of 5-6% versus selling parts of mortgage subs which they are getting about a 10% return on.

We caution for volatility and advise invetsors to wait for the reaction of the deal being abandoned before buying shares or bonds.

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