

Genworth: Stakeholder Incentives And Facts On The Ground Point To Ultimate Approval Of China Oceanwide Merger

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by: Seven Corners Capital Management

Summary

- In October 2016, Genworth and China Oceanwide executed a Merger Agreement pursuant to which China Oceanwide will acquire Genworth for \$5.43/share in cash.
- The final approvals for the merger are now lining up, with Genworth's principal insurance regulator holding a public hearing on the merger in less than four weeks (on November 28th).
- Given the incentives of the parties involved and the facts on the ground, we believe the China Oceanwide merger is very likely to be approved by the remaining applicable regulators.
- A recently published Genworth short thesis regarding the merger will in our opinion inevitably be disproven for the reasons stated herein.

Ever since Genworth Financial (GNW) and China Oceanwide Group announced the signing of their merger agreement back in October 2016, GNW shareholders have patiently waited for the merger to close and thereby receive the promised \$5.43/share in cash for their stock. In June 2018, GNW and China Oceanwide received the long-desired CFIUS approval for the transaction, which many market observers previously believed could potentially imperil the deal, and just a few days ago came the announcement that the Delaware Department of Insurance has scheduled a hearing regarding the merger on November 28th. As we explain further below, we believe that the incentives of the respective parties involved (namely, GNW, China Oceanwide, the regulators and GNW's current and prospective policyholders) and the facts on the ground (specifically, GNW's discussions with the regulators and the most recently available financial statements for China Oceanwide) point to the ultimate approval of the deal in the fairly near future (GNW's management recently stated on their Q3 2018 earnings call that they expect the deal to close by the end of 2018). Thus, we estimate that the transaction's likelihood of consummation has now risen to about 90% (up from 75% when we first reviewed the deal back in January 2017).

We note that yesterday, November 1st, SA contributor Hindenburg Investment Research published a short thesis on GNW entitled "Genworth: We See Almost No Chance Of Regulatory Approval. This Deal Would Be A Disaster For Policyholders". While we have seen some pretty weak short theses in our day (and we have reviewed many short theses over the past decade or so), Hindenburg's is one of the weakest we have run across. To the extent applicable, we have included our rebuttals to various of the points raised by this short thesis under the respective topics discussed herein.

Genworth's productive discussions with regulators point to ultimate deal approval

If anybody should know whether GNW's and Oceanwide's applicable regulators are likely (or not) to approve the Oceanwide acquisition, it would be GNW's management team, who since CFIUS approved the deal in June of this year have been in close touch with them. On the most recent earnings call held on October 31st, GNW's CEO McInerney provided a comprehensive update on where things stand with the various regulators who have yet to

1/21/2019 Genworth: Stakeholder Incentives And Facts On The Ground Point To Ultimate Approval Of China Oceanwide Merger - Genworth Financial, Inc. (NY...
approve the transaction. Below we have included a few excerpts from the Q3 call which in
our view indicate that it now appears quite likely the regulators will be on board with
respect to the transaction (emphases added).

[CEO] Tom McInerney

I am very pleased to report that we reached the critical milestone with the Delaware Department of Insurance last week. Delaware, one of our primary state regulators, set a date for the public hearing on the proposed transaction. This has been a highly anticipated moment for both Genworth and Oceanwide. The public hearing, which is a formal step in Delaware's approval process, will be held on November 28. The Delaware commissioner has up to 30 days following the hearing to issue a ruling on our transaction. Delaware is the only regulator of Genworth that will hold a public hearing for this transaction. Given the timing of the hearing date and duration of the review period, we are targeting closing the deal by year end...

[Analyst] Ryan Krueger

Hi, thanks. Good morning. Could you give us some additional perspective on the other approvals that you need to obtain in China and the process to achieve that?

Tom McInerney

So Ryan, I talked about the NDRC process. And so they have oversight an approval for macroeconomic planning policy issues in China. So they have accepted the filing. So I think that allows us to go forward. The other entities include SAFE, which is the State Administrator for Foreign Exchange, so they, obviously, have to sign off the funding for the deal. And we have a contingent structure in place for that. So I think both Oceanwide and Genworth feel comfortable with where we are, but, obviously, ultimately SAFE will have to opine. In the CBIRC, which is the China Banking and Insurance Regulatory Commission, they will be providing an advisory opinion on the deal, and so that's another process we go through. I have, in the last so many months, have had several meetings with this CBIRC. And again, I think, I've mentioned before that they are supportive because of the opportunity that Oceanwide and Genworth have in terms of bringing the expertise and long term care insurance to China, which is a significant priority.

Ryan Krueger

Thanks. And then in the U.S. outside of Delaware is New York, the only other state that you have not received approval from?

Tom McInerney

So we -- good question Ryan. We've received approval before from Virginia and North Carolina. But they were approving the deal when we were still pursuing and staffing. So not only changed the deal and done the supplementation filings, they have to reapprove for the new structure, but again, I think that they seem to be comfortable. In New York, those discussions are also going well. I think we've mentioned in the past that New York is among the 50 states that deemed to be the expert in the cyber security issues, so one of the areas of focus -- for New York -- for both New York and also the other state regulators is on the cyber security protection. So obviously, since the June approval by the CFIUS, we have reviewed with New York and with the other regulators, but particular with New York, the CFIUS mitigation plan, and my view is they seemed to be quite comfortable with that. I think New York has their own cyber security regulations, and the CFIUS plan in part was designed, so that it would also meet all the parameters for New York. So we feel comfortable with that. And then the GSEs have to approve the deal. Their focus is on, obviously, U.S. MI. And again, we think this transaction is a positive for U.S. MI particularly because of the \$1.5 billion capital investment

plan. And then, in addition to the GSEs overseeing U.S. MI, the Canada and Australia regulators have to approve the deal on behalf of the GMA and MIC. So those are the overall regulatory process. Obviously, it took quite awhile 18 months or so on the CFIUS process, and we were focused on that. And I think the other regulators wanted to see how that process went. And so since June, we've really geared up for the other regulators. And I would, from a Genworth perspective, we think those processes are going well.

Given that GNW's management has apparently been in close contact with the Delaware Department of Insurance (GNW's principal regulator), we seriously doubt that Delaware would proceed to schedule a November 28th hearing if there was any real possibility that the merger would not be approved. Logically, we think if that if Delaware had any issues regarding approval, they would handle these directly with GNW and Oceanwide prior to putting a public hearing on their calendar. We also expect that the other U.S.-domiciled regulators will likely follow Delaware's lead in determining whether to greenlight the GNW-Oceanwide deal.

Incentives of the stakeholders align to support the Oceanwide merger

The bottom line buttressing our view that the transaction will be approved is that GNW's interests in closing the Oceanwide transaction are highly aligned with the applicable regulators' interests in protecting policyholders. GNW's long-term care (or LTC) operations will receive \$175 million as additional claims-paying resources in connection with the merger (on the Q3 earnings call, GNW's CEO specifically called this out, stating that "We believe the Oceanwide capital plan and the \$175 million contribution to GLIC clearly demonstrates that the Oceanwide acquisition is in the best interest of policyholders, customers and other stakeholders...."). Logically, are GNW's LTC policyholders better off with or without an extra \$175 million injected into GNW's LTC subsidiaries? We think the answer to this question is obvious (and note that, as further discussed below, neither GNW nor Oceanwide have any legal obligation to contribute any funds to the LTC subsidiaries). GNW will also have a strong financial backer in China Oceanwide, which will not only be a source of capital (Oceanwide has committed to infusing an additional \$1.5 billion into the company post-closing, with the final amounts to be contributed by March 31, 2020), but should also help to improve GNW's insurance ratings, thereby allowing GNW to sell more products to customers. Clearly, the more competitive the insurance marketplace, the better for policyholders. Again we ask, is GNW better off with or without an additional \$1.5 billion of capital infused over time? We think the answer is quite clear (they are), leading us to believe that GNW's insurance and other regulators will sign off on the deal. Finally, the Chinese regulators should also be incentivized to approve the transaction, since China Oceanwide has repeatedly stated that it intends to use GNW's expertise in long-term care to bring this product to China. Societal problems caused by China's rapidly aging population, due to the country's one-child policy, could be alleviated with an active LTC insurance market, which currently does not exist there.

Hindenburg Investment Research, however, apparently disagrees with us on these points, stating in their piece the following:

[W]e think this deal would create the sort of asset/liability mismatch that gravely threatens Genworth's policyholders. It would give China Oceanwide access to Genworth's investment portfolio of over \$70 billion in assets, which appears to be a much needed liquidity lifeline for the conglomerate. Meanwhile, the vast majority of Genworth's liabilities (i.e. future claims by policyholders) would be based domestically in the U.S... This would make the deal incredibly dangerous for U.S. policyholders given the cross-border enforcement issues between the U.S. and China. The dynamic would make it virtually impossible for regulators to approve what looks to be a disaster in the making.

Note that Hindenburg is essentially stating that GNW's regulators will not approve the Oceanwide transaction because they are afraid that Oceanwide will somehow siphon off GNW's assets, thus robbing GNW's policyholders of the resources that are supposed to pay their future claims (Hindenburg asserts that these assets will be a "much needed liquidity lifeline for the [Oceanwide] conglomerate").

First off, we believe that Hindenburg has done a rather poor job understanding GNW's most recent balance sheet, because GNW actually has over \$100 billion in assets, not \$70 billion (see page 3 of the Q3 2018 10-Q filing). Perhaps Hindenburg meant to say "investments" rather than "assets"(?). Regardless, Hindenburg appears to be unaware that GNW's insurance subsidiary assets (which constitute the vast majority of the assets on the balance sheet) are highly-regulated and ring-fenced off from the holding company. Any entity controlling the holdco (as Oceanwide will following the completion of the merger) would need the permission of the applicable insurance regulators to dividend assets up from the insurance subsidiaries to the holdco. A simple Google search for "insurance company dividends approval regulators" brings up the following from the National Association of Insurance Commissioners, or NAIC (which should have put to rest Hindenburg's concerns on this front):

Because investment is a large part of the insurance business, regulators pay close attention to investment risk, encouraging less risky investment when appropriate. In the 1990s, insolvencies caused by high-risk investment strategies led U.S. regulators to consider their oversight and possible restriction of insurer investments by imposing either a defined limits or a defined standards approach. Using a defined limits approach, regulators place certain limits on amounts or relative proportions of different assets that insurers can hold to ensure adequate diversification and limit risk. Using a defined standards approach, regulators restrict investments based on a "prudent person" approach, allowing for discretion in investment allocation if the insurer can demonstrate their adherence to a sound investment plan. Also, the NAIC Capital Markets & Investment Analysis Office reviews insurers' assets for credit risk, potentially driving insurers toward less-risky investment.

For certain material transactions—such as large investment or reinsurance transactions, extraordinary dividends, change in control and the amount of dividends paid—commissioner preapproval is required in an insurance holding company system. This is to help ensure that the assets of an insurer adequately protect the policyholders and are not unfairly distributed to others.

(source here)

Obviously, no insurance regulator would allow Oceanwide to systematically raid GNW's investment holdings for its own "liquidity purposes", if doing so would leave any GNW insurance subsidiary under-reserved or undercapitalized. Thus, there could be no way without the insurance regulators' permission for Oceanwide to "access...Genworth's investment portfolio of over \$70 billion in assets [sic]", even if Oceanwide desired to do. Thus we see the main plank of the Hindenburg short thesis go completely up in smoke.

China Oceanwide should have ample funds to complete the GNW acquisition

Some market participants might wonder whether China Oceanwide can actually consummate the GNW acquisition as planned. After all, they are a Chinese conglomerate, and Chinese conglomerates have not exactly been receiving favorable press recently. Fortunately, the Virginia Bureau of Insurance (one of GNW's regulators) has helpfully posted China Oceanwide's 2017 year-end financial statements for anyone to review, so we can make our own determination as to their financial strength and solvency. From these we find that China Oceanwide (1) as of 12/31/17 had shareholders equity of \$8.74 billion (which was UP OVER \$2 billion from 12/31/16) and OVER \$10 billion of net working capital (including nearly \$4.7 billion in cash) and (2) in 2017 had total comprehensive income of \$888MM, as shown below:

**Consolidated Balance Sheet
December 31, 2017**

Company: China Oceanwide Holdings Group Co., Ltd. (seal)		Amount Unit: USD	
Item	Note	Ending Balance	Beginning Balance
Current assets:			
Cash or cash equivalent	6.1	4,664,305,276.60	6,430,546,481.11
Settlement reserve	6.2	344,181,808.72	439,791,630.38
Loans to banks and other financial institutions			
Financial assets measured at fair value through current profit or loss	6.4	1,778,853,096.51	1,629,858,143.28
Margin loans	6.3	886,156,764.92	646,391,571.28
Financial derivative assets	6.5	11,672,577.11	122,101.87
Notes receivable	6.6	3,683,294.85	14,876,890.36
Accounts receivable	6.7	541,043,980.74	141,823,849.81
Prepayments	6.8	294,658,653.37	360,827,082.31
Premiums receivable	6.9	14,724,878.83	9,898,017.76
Reinsurance accounts receivable	6.10	4,320,877.83	4,148,775.23
Reinsurance contract reserves receivable	6.11	23,033,858.77	25,851,792.65
Interests receivable	6.12	125,333,575.27	87,811,702.36
Dividends receivable	6.13	4,268,095.67	319,966.65
Other receivables	6.14	6,667,561,866.68	5,569,456,210.25
Repurchase of sale of financial assets	6.15	1,022,253,493.29	738,464,194.65
Inventories	6.16	12,951,229,391.84	10,240,640,667.87
Assets classified as held for sale			
Refundable deposits	6.17	31,386,003.32	32,630,113.59
Non-current assets to be matured within a year	6.18	134,068,824.27	48,472,144.41
Other current assets	6.19	269,510,960.68	431,014,980.43
Total current assets		29,772,247,279.27	26,852,946,316.25

**Consolidated Balance Sheet (Continued)
December 31, 2017**

Company: China Oceanwide Holdings Group Co., Ltd. (seal)		Amount Unit: USD	
Item	Note	Ending Balance	Beginning Balance
Current liabilities:			
Short-term borrowing	6.36	2,582,593,582.52	2,449,764,912.74
Short-term financing funds payable	6.37	237,110,713.17	240,304,509.17
Borrowings from banks and other financial institutions	6.38	186,416,296.03	276,412,770.00
Financial liabilities measured at fair value through current profit or loss	6.39	1,962,452.30	3,110,670.91
Fund introduction			
Financial derivative liabilities	6.40	5,736,545.26	
Notes payable	6.41	2,565,928.32	28,026,097.65
Accounts payable	6.42	1,278,849,149.33	1,290,639,707.90
Advances from customers	6.43	283,475,626.04	589,303,510.20
Advance premiums	6.44	16,573,534.68	15,693,130.47
Financial assets sold for repurchase	6.45	1,582,987,651.65	1,087,110,181.65
Handling fee and commission payable	6.46	9,565,922.04	8,773,629.85
Employee compensation payable	6.47	288,942,931.13	197,166,289.22
Tax payable	6.48	574,423,745.70	482,181,205.49
Interest payable	6.49	298,294,998.07	281,581,133.53
Dividends payable	6.50	880,224.55	704,702.44
Other payables	6.51	604,931,334.60	390,444,068.50
Reinsurance accounts payable	6.52	11,105,506.59	6,580,460.98
Compensation payable	6.53	2,335,835.98	3,934,704.06
Insurance contract reserves	6.54	373,726,139.32	355,097,648.86
Funds for agency trading of securities	6.55	1,260,474,956.67	1,449,080,827.79
Non-current liabilities to be matured within a year	6.56	8,339,207,687.37	2,971,258,101.09
Other current liabilities	6.57	1,631,650,025.15	852,119,229.41
Total current liabilities		19,573,810,786.45	12,979,289,491.91
VII. Total comprehensive income		888,204,093.64	-86,416,877.43
Total comprehensive income attributable to owners of the parent company		746,227,578.65	-286,504,459.48
Total comprehensive income attributable to minority shareholders		141,976,514.99	200,087,582.04

Legal Representative of Enterprise: Lu Zhiqiang (seal) Accounting Principal: Zhao Yingwei (seal) Chief Accountant: Zhao Yingwei (seal)

An entity that, at last check, had close to \$5 billion in cash and over \$10 billion in working capital on its balance sheet should, should (we think) be able to afford the approximately \$2.7 billion necessary to close the GNW transaction. We also note that the head of China Oceanwide, Chairman Lu, is estimated by Forbes to be personally worth approximately \$3.7 billion as of this very moment:

#73 Lu Zhiqiang



REAL TIME NET WORTH

as of 11/1/18

\$3.7B

- Lu Zhiqiang chairs China Oceanwide Group of Beijing, a conglomerate active in real estate, finance and technology.
- Oceanwide invests in or controls China-listed Oceanwide Holdings, Minsheng Holdings, China Oceanwide Holdings, Minsheng Bank and Legend Holdings.
- Oceanwide Plaza, the \$1 billion residential and retail complex it is building in downtown Los Angeles, is set to be completed in 2019.
- Oceanwide continues to pursue its \$2.7 billion acquisition of insurance holding company Genworth, with parties agreeing to extension until December.

Moreover, we somehow doubt that GNW's management team would spend much of the past two years (since the signing of the merger agreement) and millions of dollars of company money on service providers attempting to get a deal approved by multiple regulators in various different jurisdictions if they were not extremely confident that the prospective acquirer had the funds and/or financing necessary to pay for the acquisition. What would be the point of doing so?

Hindenbug nevertheless claims that the acquirer, China Oceanwide Group Co., is a financial disaster and will never be able to close the deal, stating the following:

China Oceanwide's finances show that operating and investing cash flow have been consistently negative over the past five years and have recently deteriorated further. Debt has skyrocketed to unsustainable levels.

Tellingly, Hindenburg completely fails to mention the balance sheet items we point out above, instead focusing on cash flow metrics. Why omit the most important detail (how much cash the buyer has)? Hindenburg also asks investors to believe that an entity (Oceanwide Group) that had over \$29 billion in current assets as of the end of 2017 is (as Hindenburg states in their article) "approaching near-term crisis levels" because they have "a massive stack of \$11b+ of short-term debt coming due". According to our math, though, \$29 billion is a quite a bit more than \$11+ billion (in fact, it is over 2.5X greater), so we doubt Oceanwide will have a liquidity crisis anytime soon.

Finally, Hindenburg states that "China Oceanwide Has Been Aggressively Pledging Shares of Its Public Subsidiaries As Loan Collateral". To which we respond: "And...?" Hindenburg appears unaware that this activity is very commonplace? Companies routinely pledge the equity of subsidiaries as collateral for lines of credit. Doing so doesn't signify "financial distress" in and of itself (if it did, most companies would be considered "distressed"). There is literally "nothing to see here" on this point, in our opinion. Hindenburg further notes that "Oceanwide Holdings Co's [sic] S&P rating currently stands at CCC+, placing it deep within speculative territory." But again, so what? "Oceanwide Holdings Co" is not the acquiring entity, China Oceanwide Holdings Group Co., Ltd is. So

what is the relevance that "Oceanwide Holdings Co" has a CCC+ rating? There is none, at least with respect to the GNW acquisition. Hindenburg's argument is similar to saying that Berkshire Hathaway (BRK.A) would have trouble making a large acquisition if Burlington Northern's debt ratings were downgraded to junk, which would be a complete non sequitur.

Understanding the Oceanwide Deal's Funding Mechanics

There may be some confusion in the market right now regarding how the Oceanwide-to-Genworth flow of funds will occur when the merger completes. The parties currently anticipate that Oceanwide will transfer the \$2.7 billion merger consideration from the Chinese mainland to the United States to pay off GNW's equityholders. This is why the parties need the approval of China's State Administration of Foreign Exchange (or SAFE), which controls such cross-border flows out of the mainland. The Virginia Bureau of Insurance, however, posted this letter sent to them by law firm Bland & Sorkin regarding the deal's funds flow, which may be the source of whatever confusion exists. Investors should be aware that this is a CONTINGENT funding structure that will likely not even be used (i.e., it is simply a back-up plan in the event the SAFE approval is not obtained). Indeed, the top of page 2 of Bland & Sorkin's letter states that it describes "a proposed contingent funding structure for the Proposed Transaction...[representing] a contingent approach to funding the approximately \$2.7 billion Aggregate Merger Consideration" for the GNW-Oceanwide deal (emphases added). On the Q3 earnings call from several days ago, we note the following exchange between an analyst and GNW's CEO:

Ryan Krueger

Hi, thanks. Good morning. Could you give us some additional perspective on the other approvals that you need to obtain in China and the process to achieve that?

Tom McInerney

So Ryan, I talked about the NDRC process. And so they have oversight an approval for macroeconomic planning policy issues in China. So they have accepted the filing. So I think that allows us to go forward. The other entities include SAFE, which is the State Administrator for Foreign Exchange, so they, obviously, have to sign off the funding for the deal. And we have a contingent structure in place for that. So I think both Oceanwide and Genworth feel comfortable with where we are, but, obviously, ultimately SAFE will have to opine. In the CBIRC, which is the China Banking and Insurance Regulatory Commission, they will be providing an advisory opinion on the deal, and so that's another process we go through. I have, in the last so many months, have had several meetings with this CBIRC. And again, I think, I've mentioned before that they are supportive because of the opportunity that Oceanwide and Genworth have in terms of bringing the expertise and long term care insurance to China, which is a significant priority.

Under the heading in their article entitled "Recent Modifications To The Proposed Deal Structure Give Us No Confidence In China Oceanwide As A Credible Counterparty", though, Hindenburg makes a big deal out of the funding mechanics for the deal, claiming that the funding structure looks "rickety", and concluding as follows:

We are unnerved by the fact that Oceanwide and Genworth are suggesting new, offshore funding channels... The notion that such funding is to comprise almost 2/3 of the total merger consideration strikes us as grasping at straws.

Hindenburg appears to be unaware of the contingent nature of the plan outlined in the above-referenced Bland & Sorkin letter to the Virginia Bureau of Insurance. Contrary to Hindenburg's assertions, having this alternative financing mechanism in place actually makes the merger MORE LIKELY (not less) to close, since Oceanwide should be able to fund the full merger consideration even if it does not receive clearance from SAFE.

Regardless of the Oceanwide merger completion, Genworth's LTC liabilities DO NOT represent a near-term problem that could "sink the company". Sum of the Parts far exceeds GNW's stock market valuation.

GNW's stock price, which recently traded in the low \$4s, indicates that investors seem worried about what might happen to the company should the Oceanwide deal fall apart. Perhaps they view the company's LTC issues (which have been thoroughly documented), as something that could bring down the holdco (i.e., the publicly-traded entity) and wipe out the equity. As we have explained in our prior GNW articles, though, GNW's LTC subs are legally separate from their mortgage insurance (or MI) subsidiaries. Hence, there is no legal way that the LTC claims can negatively affect the value of the MI subsidiaries. In October 2016, GNW terminated the parental support agreement that had previously required GNW to use the holdco's assets (i.e., amounts divided up from the MI subsidiaries) to financially support GNW's LTC subsidiaries. This extinguished any legal obligation the holdco had to put more any money into the LTC subsidiaries. CEO McInerney on the Q3 earnings call stated as much when he said that "Oceanwide and Genworth have no plans to infuse additional capital to the legacy LTC business beyond the \$175 million" which is voluntarily being contributed to LTC in connection with the closing of the Oceanwide merger. Thus, even if the LTC subsidiaries have a negative value, IT DOES NOT NEGATIVELY AFFECT THE SIGNIFICANT VALUE OF GNW's MI SUBSIDIARIES. (For a full discussion of this issue, please specifically see our article entitled "Genworth: Time For Plan B?").

Fortunately for GNW investors, GNW's MI subsidiaries are firing on all cylinders (as shown in this week's Q3 2018 earnings report) and hence their value keeps increasing. In fact, we have updated our previously-calculated sum-of-the-parts for GNW and find that, even if one values all of GNW's life insurance and annuity operations (which constitute the significant portion of the company's book value) at zero, the remainder is still worth \$8.58/share, or over double the current market price, as follows:

Genworth Sum-of-the-Parts Valuation (ex-L&A businesses) = \$4.31B, or \$8.58/share based on 502.6 million GNW shares outstanding, calculated as follows:

1. Value of GNW Canada equity @ 11/2/18 = 57.2% X C\$3.82B X 0.76 f/x = \$1.66B; plus
2. Value of GNW Australia equity @ 11/2/18 = 52.0% X A\$0.99B X 0.72 f/x = \$0.37B; plus
3. Value of U.S. M.I. @ 9/30/18 = 12X \$440MM LTM Operating Income = \$5.28B; minus
4. Estimated Net Holdco Debt @ 9/30/18 = \$3.00B;
5. Equals Total of \$4.31 billion.

(source: GNW earnings releases and SEC filings)

No wonder China Oceanwide wants to close the merger transaction as soon as possible, we believe that they are getting a truly amazing deal (a steal, actually)! Moreover, even if the Oceanwide transaction were somehow to fall through, there would be no near-term liquidity issues for GNW, since (1) the holding company currently has over \$600 million of cash and liquid assets (per GNW's Q3 2018 earnings report) and (2) GNW's next significant bond amortization payment does not occur until June 2020, when \$400 million

of 7.70% Senior Notes (CUSIP 37247DAM8) come due (see page 287 of GNW's 2017 Form 10-K filing; note that the bonds maturing in 2018 have already been paid off, per page 9 of the Q2 2018 earnings press release). Thus, GNW would have well over a year and a half to come up with a viable back-up plan to deal with future bond maturities.

We believe that the section in Hindenburg's short thesis titled "We Expect Genworth's Long-Term Care Book Will Sink The Company Regardless Of Who Owns It" and their arguments about GNW's long-term care (or LTC) exposures are thus uninformed and, in our view, simply repeat tired and discredited claims of past short-sellers. The fact that Hindenburg repeats a clearly disproven claim (that GNW's LTC exposure can and will sink the holdco and its MI subsidiaries) should give readers pause. And, frankly, should a reasonable investor give any credit to Hindenburg's supposed "deep dive" into GNW's LTC reserve levels when (as shown above) it appears that Hindenburg doesn't have enough understanding of how even basic insurance law and regulations work in the relevant jurisdictions where GNW operates.

Conclusion

We believe that the GNW-China Oceanwide transaction is extremely likely to close, as originally contemplated, at \$5.43/share in cash. We think this because it is in the interests of all stakeholders, including regulators and policyholders, to see the deal through to completion. Not only will GNW's LTC subsidiaries receive an additional \$175 million to pay future claims in connection with the merger, but Oceanwide has also agreed to infuse a further \$1.5 billion into the company over the next few years. We also think that it is clear that Oceanwide has ample financial resources to complete the deal, which we expect to close by the end of 2018 (as GNW's management recently stated on their earnings call). Even if the Oceanwide deal were somehow to unexpectedly collapse, though, GNW has no major debt maturities for over a year and a half and our sum-of-the-parts calculations indicate that GNW's equity is fairly valued at over \$8.50/share currently, completely excluding any value for its life and annuities businesses. So either way, we see significant upside in the stock. While it has indeed been a long slog over the past two years, approval of the merger and consummation of the deal now appear clearly in sight.

While we wish all investors luck (including the shorts), we believe that Hindenburg's thesis is quite a slim reed to lean on if you are short and, much like the original Hindenburg, will inevitably go down in flames due to events (namely, the closing of the GNW-Oceanwide transaction). If the GNW-Oceanwide transaction closes as scheduled at \$5.43/share, this would leave anyone shorting GNW at current levels with massive losses (~33% of the amount shorted) in a span of just two months, which we calculate to be a CAGR of approximately -453%(!) [$1.33 ^ {(12/2)} - 1$]. As a picture is supposed to be worth a thousand words, we part with the following:



Disclosure: I am/we are long GNW. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Comments (143)

Hindenburg Investment Research, Contributor

Ok I have to admit I love the graphic. On some of your points:

1. As we noted, we think the potential for abuse with this deal is very high. China Oceanwide could sell off assets, engage in affiliate reinsurance agreements, and affiliate investment contracts that indeed could extract investments and capital out of the overall structure. Regulators do not tightly control every single asset transfer, reinsurance agreement, or asset sale as you suggest.

As one of many examples I would implore you to look at the CNO/Beechwood insurance deal. Regulators approved an LTC deal with an offshore unrated reinsurer which summarily invested the carrier's assets into a Ponzi scheme. "Tight regulation" sounds great in theory but abuse is nonetheless rampant. Given the jurisdictional issues between the U.S. and China that magnifies the potential problem considerably

2. China Oceanwide has consistently generated negative operating and investment cash flow, which has been bridged by spiking debt levels. They have aggressively pledged shares of equity in their subsidiaries, which have been consistently declining in price. This is an inherently unstable conglomerate that is using unstable collateral to prop up its liquidity.

3. China Oceanwide's assets you cite in your piece include \$13b of inventory as well as rising receivables balances, intangibles, goodwill, etc. These are not appropriate metrics for analyzing the long-term (or even short-term) solvency of China Oceanwide let alone its ability to support Genworth with its debt and reserving issues.

4. At the end of the day the question boils down to: Is China Oceanwide a better option for policyholders than what they have currently? I do not believe inserting Genworth's weak structure into an opaque, overseas conglomerate that itself is levered to the hilt is in the best interest of policyholders. It seems poised to just create a bigger mess.

5. You discuss ring-fencing and bankruptcy remoteness, but I implore you to provide an example of an insurance carrier bankruptcy/receivership where the carrier was truly ring-fenced from the HoldCo. If that were the case, holding companies would simply abandon their troubled carriers rather than bolstering them with reserves. The states have many more levers to pull here than you suggest; they can and do withhold dividends from other carriers and can seek recourse in bankruptcy/insolvency situations. If the LTC liabilities were something Genworth could have just abandoned they clearly would have done so already. To suggest that this problem is isolated and won't have an effect on the holdco is way off base.

6. Given the liquidity pressures on China Oceanwide we fully expect they will attempt to avail themselves of all options to extract capital out of Genworth and its carriers. That is capital that could instead be going to support these weak carriers rather than propping up China Oceanwide's existing obligations. We think the deal is a disaster for policyholders.

02 Nov 2018, 03:37 PM

Allen Cooke, Contributor

Hindenburg, #5

Review the Reliance co insolvency. PA regulators had no recourse against the \$170 million in Reliance Holdings.

03 Nov 2018, 08:22 AM

Hindenburg Investment Research, Contributor

So the example you've cited is from 2000, and that was phase 1 of a bankruptcy that resulted in PA regulators seizing the holding company's assets:

6/17/2001

"Reliance Group Holdings Inc. has filed for bankruptcy protection only days after Pennsylvania insurance regulators placed its Reliance Insurance Co. operating unit in rehabilitation and sued for control of the parent company's cash assets."

[www.businessinsurance.com/...](http://www.businessinsurance.com/)

Again, "ring-fencing" in the context of insurance insolvencies where state DOL's have multiple levers has never resulted in a clean break for a holdco as far as I can tell. If this were the case why wouldn't Genworth have abandoned GLIC years ago?

03 Nov 2018, 12:06 PM

Rick39

Hindenburg

Your link to the Reliance insolvency proves an excellent point. It is not clear how any type of "ring fencing" will apply and in this case, if there is an insolvency of GLIC, it will be a huge industry issue.

It should be noted that Fitch ratings service believes that the LTC insurance industry will strengthen reserves this year by another 10%. Genworth took such a big plunge in LTC, that it is the most exposed with GLIC carrying a statutory reserve of ---I believe---about \$24 B. If Genworth needs to set up even one-half of another \$2.4B in 2019, the insolvency of GLIC is imminent. Not hard to imagine the battle that will occur when insolvency starts and other insurers are assessed who will put pressure via the NAIC and NOLHGA on States to access resources of holdco through any possible means.

Quoting Fitch report on LTC industry, October 2018:

//////////

While it is important to consider the baseline level of morbidity assumed in reserves, Fitch views future morbidity improvement as an aggressive assumption inconsistent with statutory reserve standards. 'As performance deteriorates among these legacy blocks of business, many life insurers will need to strengthen reserves by at least 10% through 2019,' said Fitch Director Anthony Beato.

Reserve strengthening is certainly a likelihood across the industry, though Fitch does not expect it anywhere near the magnitude of the \$15 billion announcement by General Electric Co. (GE) earlier this year. In fact, Fitch believes GE's reserve strengthening actions are driven by its exposure to aggressively priced LTC reinsurance exposures. As such, 'GE's long-term care woes are a relative bellwether amongst industry participants,' said Beato.

Fitch has seen a limited number of reinsurance transactions by life insurers looking to dispose or reduce LTC exposures. However, that is likely to change over the intermediate term with reinsurance activity to increase.

Fitch's ratings appropriately reflect the risks tied to insurers' LTC exposure. That said, this business remains highly unpredictable.

[www.fitchratings.com/...](http://www.fitchratings.com/)

03 Nov 2018, 12:39 PM

Allen Cooke, Contributor

PA did not get any of the hold co assets. They were distributed to the bondholders. The motion was denied.

03 Nov 2018, 05:34 PM

Allen Cooke, Contributor

hold co assets were not seized

03 Nov 2018, 05:39 PM

Allen Cooke, Contributor

Rick this is ludicrous, great now we got 2 guys who think they know something about LTC and are spreading wrong facts to support their thesis. Rick, the statutory reserve of LTC is about 33 b, the surplus is around 6. There is no surprise morbidity factor that would cause glic to go insolvent. Completely ridiculous. More vs

03 Nov 2018, 06:03 PM

dragontigerdou

"2. China Oceanwide has consistently generated negative operating and investment cash flow, which has been bridged by spiking debt levels. " This is totally untrue. It shows Hindenburg is either ignorant or simply fabricating false facts in a desperate try to drive down GNW price. Oceanwide Group is a private company that has several subsidiaries listed in China, Hong Kong and Singapore. Oceanwide Holding, one of its main subsidiaries listed in China A shares, in its recent filing, reported 48.7% jump in earnings despite slowdown in property business. [m.leju.com/...](http://m.leju.com/)

Other than stakes in public companies, Oceanwide Group which is behind the entity acquiring GNW, has many private investments in China and overseas as well. So to say it consistently losing money is totally without any basis.

05 Nov 2018, 08:14 AM

Seven Corners Capital Management, Contributor

Author's reply » Just FYI as a PSA for shorts - it's pretty dangerous to try to interfere with a merger involving a highly-regulated entity like an insurance company, especially if you disseminate lies and distortions to try to influence the regulators. Ackman almost had his career destroyed after he shorted MBIA and the company got Spitzer and the SEC to launch investigations against him and Gotham.

So please be advised that you are playing with fire if you do this stuff. Of course, some shorts are desperate and will stop at nothing, figuring they have little to lose at this point (their reputations already being in the garbage), but this is just not smart. Things can always get worse (imagine the legal bills if you get hit the way Ackman got hit)...

27 Nov 2018, 11:50 AM

Hindenburg Investment Research, Contributor

I understand that you're trying to push a narrative (one which is almost entirely divorced from facts and predicated on slandering me personally) but you can literally just read the cash flow statements and see that China Oceanwide has generated negative operating/investing cash flow.

If you are trying to confuse people by insinuating that net income at a subsidiary and overall annual cash flows are the same thing then I'm pretty sure anyone can see through that.

27 Nov 2018, 12:35 PM

Seven Corners Capital Management, Contributor

Author's reply » "predicated on slandering me personally"

Nobody even mentioned you in the post you responded to, Mr Hindenburg aka Nate Anderson aka ClaritySpring. Please stop making wild accusations like this in the future.

As stated in the post, it was addressed as a public service announcement (PSA) to all shorts (current or potential), not anybody in particular.

27 Nov 2018, 02:20 PM

Seven Corners Capital Management, Contributor

Author's reply » BTW, since you appear to be best buddies with QTR (who broadcast your original GNW short thesis on Twitter and is also named as a defendant in the Eros lawsuit), you might also be a fan of Edgar Allan Poe. If that is the case, a reading (or re-reading, as the case may be) of "The Tell-Tale Heart" might come in useful as a way of coming to grips with, and understanding the sources of, one's paranoia. Here is a link:

xroads.virginia.edu/...

27 Nov 2018, 02:27 PM

Seven Corners Capital Management, Contributor

Author's reply » Re points #1 & #5: You are obviously wrong about the "potential for abuse" / "extract capital out of GNW" issue. It's not even a close call on this one. Even if Oceanwide wanted to illegally extract & siphon off GNW's assets, (A) no insurance regulator would permit it and (B) there would be no way to get them into China, given that country's extremely tight capital controls. Sorry, but your argument here is a complete non-starter.

As to the rest, agree to disagree.

02 Nov 2018, 03:50 PM

Hindenburg Investment Research, Contributor

Any offshore captive entity would do the trick.

Right on--appreciate the debate. Have a nice weekend

02 Nov 2018, 03:54 PM

FoxyXI

Seven Corners - thanks for taking the time to dig into this and provide real information.

02 Nov 2018, 03:54 PM

Seven Corners Capital Management, Contributor

Author's reply » "Any offshore captive entity would do the trick"

Um, no.

02 Nov 2018, 04:04 PM

Seven Corners Capital Management, Contributor

Author's reply » Have a good weekend also, Nate aka Hindenburg aka ClaritySpring. Best of luck with the Eros lawsuit, hope it works out for you (always hard to tell how litigation might go, could be a total financial disaster for you, but maybe it will get dismissed down the road)...

[www.goodetrades.com/...](http://www.goodetrades.com/)

02 Nov 2018, 07:33 PM

Seven Corners Capital Management, Contributor

Author's reply » The following is from the Eros complaint [note the reference to "ever-tightening liquidity issues with no clear solution on hand" - sound familiar??? Here we are well over a year later and apparently these so-called "liquidity issues" haven't sunk that company]:

319. Hindenburg published its first short report on Twitter on July 31, 2017, titled "Eros Earnings Review: An Abundance of Red Flags" (the "July 31 Article"), republished on Seeking Alpha the next day. Hindenburg's short report which regurgitates many of Defendants' themes throughout their conspiracy, attacking Eros' liquidity, refinancing negotiations, accounting, Eros' movie library and Eros Now.

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93 of 115

INDEX NO. 653096/2017

NYSCEF DOC. NO. 3 RECEIVED NYSCEF: 09/29/2017

FILED: NEW YORK COUNTY CLERK 09/29/2017 05:14 PM

320. Echoing its co-conspirators, Hindenburg opens its false article by touting the alarmist claim that Eros' "asset sales" and potential shelf offering "spell" "ever-tightening liquidity issues with no clear solution on hand." This accusation was false when GeoInvesting introduced it; when Unemon parroted it; when Alpha Exposure (Mangrove) repackaged it; and it remains false now. Hindenburg tries to bolster its indefensible falsehood by baselessly claiming, in part, that Eros is "short on time and short on options" in negotiating its refinancing options, and that Eros is "rapid[ly] selling [] shares" in EIML. But Eros' credit facility maturity date was extended to September 30, 2017. And, as the Company stressed on its earnings call on July 28, 2017, it has and intends to keep a controlling stake in EIML.

321. Hindenburg, taking a cue from ClaritySpring's July 21, 2017 tweets, then claims that Eros self-deals through its alleged "related party," Eros Energy Singapore. This is not so. Eros Energy, as Eros' most recent annual report underscores, is not a part of Eros' corporate structure. Nor is Eros TV. Rather, both entities are promoter group entities outside of Eros' group organizational structure. And, other than a single loan from Eros TV to Eros, Eros has zero business connection with either entity.

322. Next, Hindenburg directs its contrived ire at Eros' revenues, repeating GeoInvesting's false refrain that a relative increase in Eros' "Rest of the World" revenues undermines the Company's financial disclosures. Hindenburg is entirely wrong. It is not only credible, but entirely expected, that Eros has a high RoW revenue, because its films are enjoyed by consumers in countries all across the non-Western world – including in other South Asian countries such as Bangladesh, Sri Lanka and Pakistan, and in new markets that are increasingly consuming a higher number of Bollywood film content in local languages.

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94 of 115

INDEX NO. 653096/2017

NYSCEF DOC. NO. 3 RECEIVED NYSCEF: 09/29/2017

FILED: NEW YORK COUNTY CLERK 09/29/2017 05:14 PM

323. Hindenburg, previewing Alpha Exposure's (Mangrove) August 14 Article, then attacks Eros' increase in receivables. Hindenburg proceeds to falsely attack Eros' film library and releases, as well as Eros Now, again echoing Mangrove's claims. These attacks are false, as demonstrated above in ¶¶ 109-110 & 316.

324. Hindenburg concludes its short report on Eros by spewing the lie that the Company's alleged accounting issues, financing shortages, asset sales and "tarnished story" render it a "ticking time bomb for investors." This is a far cry from truth. It is Defendants, through their relentless chicanery, who are decimating Eros' reputation and business.

03 Nov 2018, 01:19 PM

Jerbear

Thank you 7 Corners for your eloquent rebuttal.

02 Nov 2018, 04:00 PM

csparksrmc

How will the Oceanwide deal likely effect holders of Genworth bonds, should the deal be approved?

02 Nov 2018, 04:34 PM

angarsk53

Thank you for sharing your well thought out opinion. I do think you are on the correct side of this debate.

02 Nov 2018, 04:39 PM

walterleen111@gmail.com

Thanks Seven Corners and other contributors but as a 23 year LTC polcyholder (not a stockholder or trader) my audit experience tells me that the Reserves are still unfunded (as in the Penn Treaty case) and I will continue to see high Premuin increases after the deal is approved .

The state regulator system is broken and is seems al the regulators have uinofficially declared GNW as TOO BIG TO FAIL are are therefore granting high premuium

increases to GNW (and other carries) to avoid a Black Swan event now in hiding from the American public in the LTC shadows. Lastly I understand the motivation for the Hindenburg article but as a non-trader do not understand the passion of Seven Corners to spent the time and effort on this topic. If &C is locked into their long position what do they have to gain---- the deal price is set and the Hindenburg can't change that.

02 Nov 2018, 04:49 PM

zahari.zahariev

Hello Seven Corners and thank you very much! I have a question: If there is no deal, what will happen with GNW in the next 5-10 years? What do you think?

02 Nov 2018, 05:00 PM

walterleen111@gmail.com

See my reply -deep below ,posted on Sat afternoon.

You need to research the 2016 PENN TREATY Liquidation case to appreciate why GNW is TOO BIG TO FAIL .

03 Nov 2018, 05:01 PM

hrener

As a long time GE/Genworth LTC policy holder I find what Genworth is doing is why so many people think capitalism is BAD. Genworth knows they are significantly underfunded, the funds Oceanwide has committed is ridiculously low - even if they actually make the payments.

Tell me why do we nonchalantly accept Chinese accounting since anyone who had done business in China (I have) knows not to trust any numbers generated by a Chinese company.

This is a classic example of "Surgery went well, patient dead." Too many payoffs for me. I know if this deal goes through the policy holders should expect a premium increase(s) of +25% over then next 24 months.

Seven Corners - if you held a LTC contract with Genworth would you approve this deal?

02 Nov 2018, 05:15 PM

kenberthiaume

if the premium increases are actuarially justified, they'll go through. Has nothing to do with who owns the holding company.

02 Nov 2018, 05:26 PM

Rick39

ken

Please give everyone a illustration of what is "actuarially justified" and what is not.

How about if Genworth did a bad job of underwriting the risks in the first place, such as they failed to screen out applicants with high heath risk. Can their management ineptness be an excuse to raise rates, for example???

Please tell us more.

02 Nov 2018, 08:16 PM

kenberthiaume

define "bad job" screening out health risks on a pool of 45 year olds and how that would affect incidence rates 40 years later.

02 Nov 2018, 08:48 PM

Seven Corners Capital Management, Contributor

Author's reply » Ken - just FYI, "Rick39" has no clue about any of this stuff. He's been consistently wrong about GNW for nearly 2 years now (and no doubt will continue to be). His motto appears to be "always wrong, never in doubt" (watch, he'll prove it yet again).

02 Nov 2018, 08:53 PM

Rick39

ken

Genworth aggressively pursued LTC business for years as McInerny strived to be the number one LTC seller in the USA. (At the time, some of the largest and smartest insurers decided to get out.) McInerny did not care about the quality of business that Genworth was getting, he just wanted more sales of LTC. They likely did not underwrite the business fairly nor soundly at the time of sale and today the result is that these flawed policies, which were supposedly priced to have stable premiums, have been part of GNW filings asking for 50% premium increases or more.

Is that actuarially justified? If not, please tell us what is. You are the expert.

02 Nov 2018, 09:21 PM

kenberthiaume

i never said i was the expert. The morbidity many years later is most likely not due to flawed underwriting. The whole industry experienced higher morbidity, lower interest and lapse. States allow re-rates, take it up with them.

02 Nov 2018, 09:24 PM

Rick39

ken

Thanks for explanation. Still doesn't tell us what " actuarially justified" means.

I suppose you have at least read the NAIC guidelines for LTC carriers requesting premium increase from state regulators. Perhaps you haven't.

And maybe your comment was largely off the cuff without much insurance pricing knowledge (which I am assuming is a possibility here.)

The following paragraph from the NAIC guidelines gets more to the point. Insurers submit many hundreds of rate increase requests to individual states each year. I would guess that 50% of those requests are denied. (In Massachusetts, that is probably closer to 90%).

The States have plenty of data from multiple companies to compare and if one like Genworth is out of line, it will stick out like a sore thumb. If the other insurers did solid underwriting and Genworth did not, it will be obvious. The states are quite aware of what is called "gaming".

"GAMING" IS NOT ACTUARILY JUSTIFIED. Nor is bad management. You can explain the rest.

>>>>>..

Quoting the NAIC LTC Ratings Guidance model regulation manual (see link at bottom)

//////////

In using judgment, a major concern is "gaming," that is, complying with the letter of the law, but pushing the limits and definitions beyond common sense. The possibility of gaming should be avoided by insurers and actuaries. They should apply good judgment in complying with a state's requirements. The regulator should also use judgement in determining whether gaming is taking place.

[www.naic.org/...](http://www.naic.org/)

02 Nov 2018, 11:37 PM

Allen Cooke, Contributor

Rick they are getting the increases just like Aetna and Humana

03 Nov 2018, 08:27 AM

Allen Cooke, Contributor

the rbc ratios of Glic and glaic are fine

03 Nov 2018, 09:23 AM

Rick39

Allen

Humana in LTC? The following link illustrates your lack of knowledge

www.healthcarefinancenews.com/...

03 Nov 2018, 12:47 PM

walterleen111@gmail.com

See my reply -deep below ,posted on Sat afternoon.

You need to research the 2016 PENN TREATY Liquidation case to appreciate why GNW is TOO BIG TO FAIL .

Your question on the state regulators approving the premium increase remind me of the dry joke about a couple on their first hot air balloon trip over a rural area who got lost and asked for help from a person on the ground by yelling down , "where are we?" '

The person was an a regulator type (unable to see the big picture) so with dead accuracy told them, "you are 150 ft off the ground."

See my comments deeper below which address the approval process faults .

03 Nov 2018, 05:11 PM

walterleen111@gmail.com

Rick39 _you make some valid points and ask some valid questions --so I disagree wih negative comments against you. Not sure your business experience level, mine is very broad but not so deep but included a world of expererience including assignemnts in CHINA. See my reply -deep below ,posted on Sat afternoon. You need to research the 2016 PENN TREATY Liquidation case to appreciate why GNW is TOO BIG TO FAIL Your question on the state regulators approving the premuium increase remind me of the dry joke about a couple on their first hot air ballon trip over a rural area who got lost and asked for help from a person on the ground by yelling down , "where are we?" ' The person was an a regulator type (unable to see the big picture) so with dead accuracy told them, "you are 150 ft off the ground." See my comments deeper below which address the approval process faults .

03 Nov 2018, 05:19 PM

walterleen111@gmail.com

View from a retired 76 year old highly skilled career auditor (& a FORTUNE 500 DEPUTY CFO) with a 20+ year old GNW policy who is neither a GNW stockholder or trader (but a solid investor). My extensive research (from a policyholder emphasis) is that the GNW deal will get approved because GNW has been unofficially declared TOO BIG TOO FAIL and needs this deal.

Clearly you have a lot of knowlege on the topic as does SEVEN CORNERS but mostly from a trader's view (which is appropriate , this is a traders website). I have done an extensive amount of research from my policyholder seat and while I agree with you that the deal will get approved, the US LTC industry problem still continues as illustrated by the PENN Treaty Liquidation.

I understand that that is not your mission as a trader, and that is ok. Retired , I have the time to look at the bigger picture including following the discuss on GNW. See my other comment deeper below posted on Sat afternoon.

Travel safe.

03 Nov 2018, 05:36 PM

Allen Cooke, Contributor

I did not say they are in ltc I said they are health care insurers that are getting raises to pay members benifits and remain profitable just as gnw is entitled to do

04 Nov 2018, 07:31 AM

Rick39

Walter,

You can assume that I have very deep, high level, and relevant financial experience in insurance managment functions and know the LTC product industry quite well.

I happen to know a lot about Penn Treaty....so you don't need to preach to the choir. If you have direct experience in dealing with state regulators on insurance insolvencies or LTC rate increase applications, it might be helpful to SA readers.

Not impressed with your comments that you were first to spot Enron and AIG fiascoes. Hardly anybody who worked at AIG, except Greenberg and the London based subsidiary had knowledge they were issuing credit default swaps without reserves and booking all premium as current revenue. The auditors had no clue.

04 Nov 2018, 02:11 PM

dragontigerdou

"Tell me why do we nonchalantly accept Chinese accounting since anyone who had done business in China (I have) knows not to trust any numbers generated by a Chinese company."

Hi old man, You still live in an era of 1970s when you couldn't imagine one day the TV you watch the phone you use the shoes you wear the toys you bought for your kids are All Made In China! Why? Is it all because China was a not trustworthy theft communist country as you heard from your clown president? The reality is China is the only great civilization survived for over three thousand years. Chinese are smart and hardworking people. Imagine 1.3 billion "Jews" come out of communism and poverty, start working hard to pursue a better life. That's what has changed this world for better, whether you like it or not.

05 Nov 2018, 11:20 PM

Tom W Dorsey

I have some experience dealing with Chinese companies and their accounting policies. They have three sets of books: the set of books used for disclosure, the set of books shown to the local communist leader and the actual set of books used by management for planning purposes and internal review. Only one is actual results.

From my dealings with Chinese business, I only came across one I kind of trusted and even he would step over 10 dead bodies for a profit. They reminded me of the US during the industrial revolution, human lives are cheap and to be exploited. Lie, cheat and steal as long as profit is the outcome. Just my experience.

06 Nov 2018, 10:41 AM

Randyrags

Well formulated rebuttal to the obvious attempt to manipulate stock price. Hindy should go ahead and sell more stock if it truly believes it's analysis. I'm sure, though, Hindy is hoping to fool investors with it's "Big Lie" approach.

Thank you Seven Corners and other truthful knowledgeable posters.

02 Nov 2018, 05:17 PM

Seven Corners Capital Management, Contributor

Author's reply » "obvious attempt to manipulate stock price"

Yep, looks like the ole "short and distort" crowd decided to pay us all a visit.

02 Nov 2018, 08:56 PM

User 48118743

Rick, Hindenburg Allen and Seven,

Rick mentioned that upstreaming of dividends from US Mi may get political if LTC is in receivership.

So if State regulators can block/delay US MI dividends because LTC is in receivership how would one value US MI based on earnings multiples or DCF? Does it mean US MI can only reach its value potential only if sold by GNW? Will the state regulators approve such a sale easily when LTC is in receivership?

Further, As OW has a low S&P rating of CCC+, how can the operating subsidiaries be rated higher given S&P group rating methodologies limiting subsidiaries having a credit rating more than 3 notches above the parent rating? And if the rating uplift is not available because of the OW credit rating, what is the rationale of the merger? In other words, what is the effect on S&P ratings of US MI and LTC when being owned by a low rated parent? The \$1.5b IOU may do little by way of credit ratings uplift anyway as it is a left pocket right pocket transfer under S&P methodology for group companies.

02 Nov 2018, 06:08 PM

kenberthiaume

Not sure who regulates mortgage insurance but they would be sued and lose if they played politics.

In his example the acquirer buying gnw is the holding company (like brk), not a subsidiary of it (burlington northern). The ratings of a sub of the holding company aren't relevant.

02 Nov 2018, 09:27 PM

User 48118743

Ken

Who is going to sue? Is USMI going to sue its state regulator to force it to exercise its discretion and allow USMI to upstream dividends whilst LTC is in state receivership? What would "Trump-style" governor do??? GNW sued the state regulator for not allowing LTC premium increases. Guess who lost. Besides suing takes time what is the effect of the delay on valuation!

If ratings are irrelevant, why does the ratings rationale get mentioned by the company repeatedly as a rationale for merger. Would you take a long term insurance policy from a CCC rated insurer ?? Ratings are relevant if you want to write new business !

02 Nov 2018, 10:20 PM

kenberthiaume

ratings of a sub of an acquirer are irrelevant. If brk is AA and Sees candy is c, and brk wants to acquire a company what difference does sees candy's ratings matter? It doesn't. Get it?

Not sure states regulate MI, but if a company meets capital requirements, i don't think there's much leeway to deny dividends.

02 Nov 2018, 10:35 PM

Rick39

ken

Try reading up on how MI companies have to be approved by each state and, even though the GSEs have a lot to say about US MI companies, the states have to approve a MI company dividend to parent.

MI has dual regulation.

Life and insurance are only State regulated.

Genworth's MI company---I think--- deals with North Carolina as primary state regulator

03 Nov 2018, 12:00 AM

Allen Cooke, Contributor

seekingalpha.com/...

User here is our last report with usmi values based on radian and mgic

03 Nov 2018, 08:35 AM

User 48118743

Do you know anything about credit ratings? The ratings of the acquirer post merger affect the ratings of the acquired. OW is saying post acquisition it seeks to achieve a ratings uplift for GNW operating subs so they can grow and write new business. It is part of there argument to Delaware. Is this simple enough for you to comprehend?

03 Nov 2018, 10:42 AM

kenberthiaume

still you fail to read! ow is not the one with a low credit rating. He pointed to a subsidiary of ow with a low credit rating. Do you know what subsidiary means? OW does not have a c+ rating. An example was given to you TWICE. It is the ratings of the acquirer that matter, get it? Why can you not comprehend that? "but ow's ratings will affect gnw". NO KIDDING! I DIDN'T SAY OTHERWISE.

03 Nov 2018, 12:33 PM

User 48118743

So what is the effect on S&P credit rating methodology with an unrated parent? Why do you think S&P's three-notch rule only applies to the Parent, it seems to apply to subsidiaries as well. YOU JUST DO NOT LIKE THE QUESTION. WHY?

03 Nov 2018, 09:23 PM

Rick39

User 481

I am not qualified to answer your above question about rating uplifts.

The rationale for the merger is that GNW holdco was in such dire condition earlier this year it barely could raise new funding to pay off existing debt without the help of Oceanwide. If GNW had been totally on its own, they might have defaulted a few months ago.

02 Nov 2018, 09:35 PM

HoopsAlpha

In such dire condition? really? So dire, that they have made over 1 billion in earnings since the buyout was announced? Wow, talk about an axe to grind...

02 Nov 2018, 10:21 PM

User 48118743

Hoops,

The point I am making if the state regulators lock the box on USMI so that it is prevented from upstreaming dividends, what value do you ascribe to USMI earnings?. Your earnings are effectively useless, earnings multiples and DCF are irrelevant if shareholders debtors cannot get their paws on the money.

02 Nov 2018, 10:36 PM

Rick39

Hoops

Consolidated GAAP earnings are not the same as holding company cash flow. You need to understand the complex financial structure of Genworth before making more comments.

Also look at GE, which has a similar flawed holding company structure and see what happened to them when LTC surprised GE CAP with a \$15B loss and is bringing GE to its knees. GE CAP cannot pay upstream dividends to GE holdco. Its the same or similar situation GNW holdco will be facing if the Oceanwide deal blows up.

03 Nov 2018, 12:01 AM

Allen Cooke, Contributor

Thanks Hoops

also the div capability for usmi in 2019 is 200-400 mm

03 Nov 2018, 08:37 AM

kenberthiaume

All insurance companies have that structure. hold co owns operating company. hold co issues debt.

03 Nov 2018, 12:34 PM

Rick39

ken

Please name some insurers where the holding company has over \$3B of debt and the only source of cash flow is from subsidiaries that must get State level permission to upstream dividends? There are holding companies, but not necessarily dependent on the actions of state level bureaucrats to pay off debt service.

The key is whether or not the operating company is tightly regulated or not.

Some of the holding company structures have investments in administrative or service subsidiaries that are not regulated.

Please give us a comparable example of the GNW holdco structure as I am not aware of one, but you seem so sure it is the norm.

(GNW also made a big mistake in overcommitting itself to LTC without other insurance lines to spread the risk. GNW is unbalanced. Most of companies in LTC, have varied insurance lines of bigger significance.....from what I can tell.) Conseco ---of course---was an exception.

03 Nov 2018, 03:10 PM

User 48118743

Rick,

It did have a Life and annuity business which it could not unstack from LTC.

03 Nov 2018, 09:26 PM

Rick39

User 481

You are right that GNW did have a little bit of life insurance in GLIC as a buffer, but they are not a major player as compared to being the number one LTC issuer. Genworth could have been in LTC with a few hundred thousand policies in force and been ok with enough risk spread around.

The fatal mistake McInerney made was to become the market leader in LTC and sell policies that no well-managed insurer would take on. He apparently excels at selling stuff and probably would do well on as a car dealer too, but the LTC mess was caused by rabid pursuit of LTC sales.

If you do some research into GNW, you will find that all of the competent leadership left the firm and McInerney has hung around. They hired some good execs at senior levels who left within a year voluntarily without another job. The top actuary, Martin Glass, quit. It all points to the current CEO being just another sales guy and no comprehension of risk management.

04 Nov 2018, 02:12 PM

User 48118743

Rick,

Thanks Rick I understand the cashflow rationale in servicing and repaying maturing debt, is the primary driver so as to avoid insolvency. I should have made it more clear that credit ratings are a secondary driver to enable Genworth to trade out of its hopeless position.

02 Nov 2018, 10:31 PM

User 48118743

In all my time looking at this, the one thing that no person disputes in the 1000's of posts and comments is the incompetence of GNW management. Why oh why do the shareholders persist with them. AGM coming time for action.

02 Nov 2018, 10:43 PM

Allen Cooke, Contributor

certain big holders are ready to replace them

03 Nov 2018, 08:39 AM

Seven Corners Capital Management, Contributor

Author's reply » If they don't close the deal by the end of the year, there may indeed be a shareholder uprising. People can only wait so long to get paid. That's probably why they scheduled the AGM for 12/13, to get it out of the way without any threat of being replaced. So if they want to cash out, they'd better get their act together and close the Oceanwide deal ASAP.

03 Nov 2018, 08:58 AM

hrenner

To Seven Corners - You never answered my question: if you held a LTC contract with Genworth would you approve this deal?

02 Nov 2018, 11:39 PM

bj2016

Hrener, why not? LTC is receiving \$375 M in funds if deal goes through (\$175 M plus \$200 M bond being bought). If deal does not go through that is \$375 M less as Genworth has said they will put no more funds in to the LTC sub...

03 Nov 2018, 01:58 AM

walterleen111@gmail.com

View from a retired 76 year old auditor with a 20+ year old GNW policy who is neither a GNW stockholder or trader (but a solid investor). My extensive research (from a policyholder emphasis) is that the GNW deal will get approved because GNW has been unofficially declared TOO BIG TOO FAIL and needs this deal. You need to research the 2016 PENN TREATY Liquidation case to understand there is no Plan B.

See my comments posted at end of thread on Sat afternoon.

03 Nov 2018, 05:41 PM

diente

thanks seven for teh article

03 Nov 2018, 08:00 AM

jrc50

As LTC policyholders my wife and I are simply concerned with the merit of continuing to pay increasing Genworth premiums with this dismal future ahead for the company-either have Genworth continue with present management who is all too willing to abandon (for some unknown personal financial incentive) their company and management control and responsibility to people like us who have financially supported them for years OR surrender to Chinese control in the middle of a trade war that has graphically illustrated the Chinese government control of any Chinese company efforts to suck the US dry of financial resources with a trade imbalance of criminal proportions. There is certainly something wrong with this picture and the weak regulation of LTC in this situation is an illustrative of the near complete lack of concern by the current US government regime in anything to do with the Senior population, with at this point in time perhaps only 3% of the population being able to afford nursing home care at life's end.

It would appear perhaps the next business "opportunity" in Senior care will be suicide parlors such as now being offered in several states as opposed to living out what time they have left on this earth in peace.....

03 Nov 2018, 08:09 AM

Allen Cooke, Contributor

good point jrc but the policy holders will be fine. We have an extensive ltc pool analysis in our 2016 Nov report on broxton capital.com

One thing: ltc policy holders had no increases for decades while most Aetna and Humana policies have doubled and tripled due to rising costs. Unlike normal health ins. ltc relies on normal interest rates that were assumed when written, since the costs are far in the future. Due to 0 interest rates or ZIRP the Gnw ltc pool has forgone 5 or 10 billion in interest in the last decade. We all have paid for these government policies. The pool has over \$40 billion in reserves and surplus and takes in \$4 billion per year in interest and premiums. the 2017 cash benifits were \$1.85 billion, less than 5% of the pool. It looks like raises in premiums will have to continue. Your policy is probably very valuable and could not be replaced at current costs. The payout max is most likely below your states guarantee funds max payout. So everything is should be ok.

03 Nov 2018, 08:59 AM

Allen Cooke, Contributor

GOOD job Hindenburg you got a ton of people worrying. I got phone calls over this.

03 Nov 2018, 09:03 AM

kenberthiaume

Chinese can't suck a penny from ltc unless there are actual profits and the states say they can.

03 Nov 2018, 09:48 AM

walterleen111@gmail.com

JRC 50 --I am also policyholder with same concerns .

See my post deep below at end posted on Sat afternoon.

Imperative you research the 2016 Penn Treaty LTC liquidation case and the then you email me directly at Walterleen111@gmail.com

03 Nov 2018, 05:47 PM

walterleen111@gmail.com

Please see my post deeper belowo at end posted on Sat afternoon.

My research indicated that most policy benefits exceed state Guarantee fund level of \$300,000 (NJ has no limit) but perhaps what you intended to say to JRC 50 was that most CLAIMS are below the Guarantee levels, which is true.

Both my grandmother and mother were in Nursing homes for period that today would have exceeded the \$300,000 level. That was 50 and 20 year ago and neither has insurance but qualified for MEDCAID (with family contributing an extra amount as is more common in Canada) . However, I am in the "Catch 22" station in life, too financially sound to qualify for college financial aid for my children or Medcaid LTC but also not in the top 5% where I never have to ask the price and can self insure for LTC. I was that upper middle income person where it made sence to purchase a LTC policy from a soild evergreen giant named GE back before Y2K !!! Your are 100% coreect that my policy value and I will never drop it but instead lower the benefits level to keep premiums at the 7% of pre-tax income level.

03 Nov 2018, 06:05 PM

Allen Cooke, Contributor

2/3s of GNW LTC policies have a lifetime \$ limit. I think all have a daily limit.

03 Nov 2018, 06:43 PM

Jamjack

Interesting discussion. My statements are observations not facts or even opinions. i do welcome comments that will educate me. Genworth has a real history. I will not go into that, but as I recall they had problems during "Financial Crisis" and the problems seem to continue. It seem Genworth never seem to be able to get any footing. Looks like Oceanwide saw an opportunity. From what I understand there was concern about Oceanwide having access to customer/policyholder data. So an intermediary company will have that and Oceanwide can't get to that. That just seems real weird to me. Since trust is a big part of this business. It is a concern. I don't know much about Oceanwide. Disclosure: I have no investment in any of these companies. I do have a 20 year term life policy which has just a few years left. This policy was purchased by way of Genworth buy out many years ago. I think my company has or had Genworth for LTC and they pay all premium so I don't see any of the concerns about premiums that are mentioned. if they are increasing.

03 Nov 2018, 08:45 AM

Yun Hao Lo

Regarding the data issue, they already got approval from CFIUS in June. If Trump administration approved it despite the tension between China and US, it seems to me that the solution they came up with must be totally ok.

03 Nov 2018, 03:05 PM

walterleen111@gmail.com

Jamjack--not clear of you have 20 year LTC policy (perhaps group coverage) or a 20 year term life (perhaps with LTC rider) .

See my late Sat posted deep below.

03 Nov 2018, 06:08 PM

Jamjack

walterleen,

sorry for confusion, 20 year life insurance term policy purchased through broker I think 3 years left to expires so to speak. LTC policy separate and provided by employer separate and apart company from my 20 yr. life policy, company pays premium no clue what they pay. Just so that is cleared up.

03 Nov 2018, 07:40 PM

Jamjack

- both policies through Genworth but on the life policy, Genworth bought the Life Insurance company I purchased the policy from.

03 Nov 2018, 07:44 PM

jason757

Does anyone want to make a trip to Dover for the DE hearing and report us what happened at the hearing ... I'm willing to contribute \$25 for a fund?

03 Nov 2018, 09:06 AM

User 48118743

All,

Is it possible Delaware is scheduling a hearing because GNW management (with \$42m reasons) can't get the hint but need to hold a hearing to move to a final decision of NO to merger with OW ?

03 Nov 2018, 10:05 AM

Seven Corners Capital Management, Contributor

Author's reply » User 48118743 = Rick39

Quite obvious. Not fooling anyone.

03 Nov 2018, 11:39 AM

User 48118743

Hi but I am not Rick. Clearly you do not like anyone suggesting your merger arbitrage is not in the bag. I guess Rick is anyone who disagrees with your superior analytical skills. You still have not answered the question would you go out and buy an LTC policy from GNW today knowing all you know?

03 Nov 2018, 05:45 PM

Allen Cooke, Contributor

Sure

03 Nov 2018, 06:08 PM

walterleen111@gmail.com

Regarding Purchasing of an LTC policy today---- NO because there is a better option to purchase a Life insurance policy with a LTC rider. This somewhat new "product" was not available 20+ years ago when I purchased my GNW LTC policy and is the new normal. My 8 year younger brother has this new type coverage which will have a payout sooner or later. IF he does not use the LTC benefits (which have low but reasonable caps that are in line with the length of stay data that is now available) then his family will get the life insurance benefit when he dies. With a typical LTC policy, if you never have a claim (perhaps 80% of policyholders) you get zero payout. The major downside of the new Life policy with a LTC rider is that it is very costly and that premium money is not available for stock market investing.

04 Nov 2018, 12:44 AM

Prof Sim

You are right -- the newer LTC policies are a hybrid Life Ins./LTC policy.

My husband and I have GNW LTC policies -- very concerned about this potential acquisition. I called Genworth -- that was of no help. Of course, I spoke to the Customer Service person who answers the telephone. I was assured that Genworth is not being acquired, but will become a private company with Oceanwide simply loaning or giving some cash infusion to GNW. Clearly this person was reading what she was told or is confused.

As I think about this potential transaction, I wonder if we need to find a new LTC insurer. Our health hasn't changed much since we took our policies out, but we are older. It would probably not be easy or low cost to move to another carrier. Also, our only option would be one of the new hybrid policies.

A Chinese company in charge of my LTC care leaves me feeling very uneasy. Where does this leave shareholders?

To be fair, we have not had a premium increase in the 5 or so years we've had our policies. My parents had GNW LTC (and used it) before they died. They did have premium increases, but once on claim, went on premium waiver.

The agent we used said that the old policies (my parents) were underwritten using actuarial assumptions that, 50 years ago, could not have accurately predicted life span, health care/drug advances, and health care costs 50 years later. Also, the low interest rate environment was a killer for the insurers. I am not defending the proposed merger, but sharing information.

The other issue with the old policies is that the underwriters built in many features to those old plans never knowing that we would have low interest rates so long, run away drug and health care prices, etc. Once a few big premium increases came along in the great recession, many policy holders dropped their policies. This further eroded the pool from an underwriting and cash flow perspective.

Our agent told us that we should expect our premiums to remain relatively level for quite a while. So far, this has been true. I would be more confident if Oceanwide was not a China-based company. In fact, it makes me sick to think about the implications long term - no pun intended.

09 Nov 2018, 12:40 PM

Rick39

@Prof Sim

If you bought a LTC policy in 2013, most actuaries believe your policy will be much more rate stable than those that were issued in the period before about 2003, more or less.

Chances are your agent is still collecting a commission on each premium you pay, so ask the agent about alternatives and what it would cost you to buy another LTC policy from a more stable insurer. There probably is not going to be an alternative, but ask.

Good explanation of your parents experience with "premium waiver". As premium rates go higher for some LTC policyholders, the sickest insureds will invoke this waiver and collect benefits and do have to pay the premium increase. Its anti-selection for the insurer if they raise rates. Works the same if your auto insurer jacks up your premiums and the good risks leave the pool while the bad risks stay because they can't get coverage elsewhere.

Your Genworth policy benefits will likely be paid, but it is very likely that it will be from a state guaranty association backstop. Your agent should be able to explain it and if the agent is still collecting a commission---they should be provided service for that payment.

09 Nov 2018, 01:03 PM

Prof Sim

Hi Rick39,

Thanks for the reply. I attempted to contact the agent before I saw your reply. But good advice. I can no longer locate the agent; I believe he retired. I called Genworth and didn't get anyway in terms of finding the agent. Any other suggestions on that front? I'm thinking locating another Genworth agent who is active and who may represent another insurer and/or other similar products such as a hybrid policy. I understand the plan design and underwriting involved because of my private sector background before going into academia, but the LTC market has shrunk and become murkier in my estimation. The traditional type of LTC policies are becoming or have become a thing of the past.

I worry about a government or state guarantee on the LTC in the event of paying out cents on the dollar.

Yes, when we bought the policy, it is true that we were told that our rates should be more stable.

Thanks again.

26 Nov 2018, 02:09 PM

Rick39

@Prof Sim

You can find an insurance agent or financial advisor in your area that specializes in LTC insurance. They still exist even if the business is not as good as it was. Ask them about what is possible to obtain as a replacement policy. Northwestern Mutual apparently still issues new policies and is well managed.

My guess--however--- is that it probably would be uneconomic to replace your existing policy, but it depends on when it was issued.

Don't worry about politicians messing up your benefits. State governments do not pay for the failure of insolvent insurance companies---all they do is assess the remaining healthy insurers to honor those promised by the failed company.

. If you have questions how this might work if Genworth fails, you can ask your state guaranty fund administrators about benefit limits in case of insolvency.

26 Nov 2018, 04:16 PM

User 48118743

Alan and Seven

Does Radian and Magic have an LTC Albatros ? If not why do they give the appropriate multiple /benchmark.

How do yo explain two years of large merger arbitrage? Shorts ? Stupidity ?

Is there enough supply of GNW shares to borrow to facilitate the so called long term shorts ? Who is stock lending the GNW shares to these mythical long term shorts. Being short for two years is not cheap.

03 Nov 2018, 10:13 AM

Seven Corners Capital Management, Contributor

Author's reply » Hi Rick!

03 Nov 2018, 11:39 AM

User 48118743

I am not Rick but if helps with your analysis call me Susan too.

03 Nov 2018, 05:37 PM

Allen Cooke, Contributor

Its just borrowable, like any other share. If there is a shortage there may be additional fees from your custodian.

03 Nov 2018, 06:33 PM

User 48118743

It is only borrowable from the Longs. So what is the borrow fee for GNW? Why not do an analysis of the supply and the borrower fee to determine what the institutions and prime brokers think? If the supply is limited and borrow fee is expensive then may I suggest that the substantial merger arbitrage for over 2 years is due to longs selling not short selling.

03 Nov 2018, 09:35 PM

User 48118743

Allen

\$500m on Pluto is not worth \$500m to you or me. The degree of difficulty is very relevant.

03 Nov 2018, 10:47 AM

Allen Cooke, Contributor

I think as of sep 30 2018 there is 250 mm + available for div at usmi. This would increase with profitability over the next 15 months

03 Nov 2018, 06:36 PM

jimmy1970

Thanks for the powerful rebuttal to the shorts. Seven Corners is clearly on the correct side of the debate. My theory is simple: This deal has been processed for more than 2 years. What does it mean? It mainly means that the related parties from CFIUS to various regulators have been doing serious reviews and also improving the deal. What we saw now are solid progresses: US CFIUS approved, China NDRC approved, Delaware hearing scheduled, some state regulators already approved, detailed financial and structural arrangements in place (see various PDF files in the DE hearing site). Those arrangements were not just from GNW/OW, they were through discussions with regulators and they are comfortable with it). As Deputy Commissioner Merced stated on June 5th, 2018: "If the Department deems the Amended Application complete and finds the contemplated transaction is in the best interests of policyholders, we will schedule a public hearing.". Now the healing is scheduled! What does it mean? It means that they believed the whole deal is financially and structurally sound. I would think GNW stock price could go above \$4.8 or at least \$4.5 next week based on the past reactions after CFIUS approval with current new concrete progresses. Short has almost 0 chance to win.

03 Nov 2018, 12:20 PM

walterleen111@gmail.com

View from a retired 76 year old auditor with a 20+ year old GNW policy who is neither a GNW stockholder or trader (but a solid investor). My extensive research (from a policyholder emphasis) is that the GNW deal will get approved because GNW has been unofficially declared TOO BIG FAIL and needs this deal.

Note to all contributor ---is is clear that a lot of you have extensive knowledge or experience in one aspect or more of the many complex issues in play but all have illustrated some lacking of key indepth comprehensive knowlege that weakens there case with Hinderburg by far the weakest,although I agree with them that the reserve are underfunded.

I am a retired high skilled auditor like in the recent movie THE ACCOUNTANT and a Fortune 500 Deputy CFO & have performed assignments all over the world including CHINA.

I agree that the books of Chinese organizations are very questionable (meanwhiile the books in Spain are the best). Some of you have false confidence in US federal and State regulators. Remember the federal regulators failed us in the 2007-2009 CDS mess . As a senior age investor about to retire I was in fact investigatiing AIG at the time and saw that mess coming and got out of the market and never lost a penny. Why should we trust the federal regulators now??.

The splintered 50 state LTC regulations system is a GREY SWAN event waiting to happen. There is a California insurances dept website that tracks all the premium increase granted in the US and on a sample basis , I have reviewed the 70 to 150 page GNW (and other) filing for various states. Genworth and others present virtually the same numbers to each state (a set of state numbers and a comparison set of national number) and get approved for 90% In Illinois and 10% in Mass which is as someone above mentioned is the hardest to get a premium approval --my GNW policy was written in Mass ,so my pain has not been so bad. Regarding Guarantee pools held in 50 different state the common ceiling is \$300,000 with only New Jersey having a much higher level-NONE. There is also too little discussed about the Penn Treaty LTC liquidation disaster which factors into the approval of GNW deal as GNW has been unofficially declared as TOO BIG TO FAIL. The Oceanwide deal buys time until perhaps GNW can earn some real returns on its investment. The State Regulators premium increase request /evaluation does a poor job of holding LTC companies for under-performance in investment activies.

However all of the information that has been contributed on this and Hindenburg's original short concept post can be digest to allow a more informed decision to be made as to buy/sell/hold both the stock and/or your GNW policy. I have leaned some stuff but still believe the deal will be approved and I will still get a premium increase but I am not going to trade the stock. Lastly,for policyholders , there is an unofficial guideline that policyholder should not spend more than 7% of pre-tax annual income on annual LTC premiums. I have an expensive LTC policy with no (90 day) deductible and lifetime coverage, but when the premium increases comes i will drop to 10 years and subsequently on other premium cut other benefits to avoid paying a higher premium.

Back in 2003 we split our risk as my wife's policy is with John Hancock policy.

Policyholders that want to discuss policy aspect can email me separately at

walterleen111@gmail.com

03 Nov 2018, 04:50 PM

Jamjack

Thanks for the comments walterleen. I agree trust in regulators alone is a poor way to buy financial contract where security and fiduciary trust is concerned. it helps but one should go beyond that. Let me put it this way as well. I am glad I only have 3 years left on my 20 term life (before the big premium jump when I drop it). Obviously the LTC provided and premium paid by my company I have no say in. Finally loved that The Accountant. (:

03 Nov 2018, 07:57 PM

User 48118743

OWs implied investment thesis is simple:

1. Pay market for State Regulated MI Business net of Holdco debt
2. Get a free/cheap Call Option over LTC
3. Setup a free Put Option over LTC to the State Regulators
4. Take GNW private
5. Play hardball with State Regulators over LTC premium increases without listed company scrutiny and disclosures

6. Expect State regulators to allow the upstream MI dividends
7. Influence Investment portfolio decisions
8. Provide an IOU for capital contributions to repay the Holdco debt if necessary in 2020

They have no business or turnaround plan for LTC. Credit rating uplifts are very unlikely so they will not drive a purported turnaround.

This audacious plan in my humble opinion is going to end badly, which is the basis of my view that to protect policyholders US State regulators will not ultimately approve.

Whilst I cannot comment on China approvals, the thesis that OW wants to set up LTC in China has limited merit. Further financial companies such as GNW do not fit into the belts and roads policy favored by Chinese regulators for outbound investment. As for OW's financials, they are shaky (please read S&P credit rating analysis if you do not trust Hindenburg).

I do not have a dog in this fight but I have been watching this train wreck for over two years. I do not want to waste my time arguing or making contrarian arguments. But as investors, alternative views are very important in testing your own investment thesis. It is no use creating an echo chamber where you all nod and agree with each other.

Good luck realizing your merger arb ultimately my view is this merger will not close this year.

PS Feel free to persist with GNW management team at the upcoming AGM, rather than running a difficult business they are looking for a golden parachutes at least we can all agree with this.

Susan

03 Nov 2018, 10:31 PM

walterleen111@gmail.com

Susan

See my other post on topic .

However regarding your comment about a LTC turnaround plan-- please realize that traditional LTC as it once existed , is a dead industry.

Nobody is purchasing of an LTC policy today---- because there is a new better option to purchase a Life insurance policy with a LTC rider.

This somewhat new "product" was not available 20+ year ago when I purchased my GNW LTC policy and is the "new normal ". My 8 year younger brother has this new type coverage which will have a payout sooner or later. IF he does not use the LTC benefits (which have low but reasonable caps that are in line with the length of stay data that is now available) then his family will get the life insurance benefit when he dies. With a typical LTC policy , if you never have a claim (perhaps 80 % of policyholders) you get zero payout. The major downside of the new Life policy with a LTC rider is that it is very costly and that premium money is not available for stock market investing. Unfortunately at 76 I am locked into my GNW Policy investment and actively attempting to determine how to best manage on the ongoing premium cost. More info on my other post.

04 Nov 2018, 01:03 AM

User 48118743

Walter,

Thanks. The striking thing about OW's bid is that there is no LTC Business or Turnaround plan. I understand one problem for GNW LTC/Life business is that its financial strength is so low (S&P B-) that they cannot sell much Life or LTC. Why should a regulator agree to a change in ownership if they bring nothing to the party? The new argument is post-merger OW will contribute \$175m to LTC, the problem is GNW already committed to this in 3Q 2016 (s2.q4cdn.com/...) See page 15.

04 Nov 2018, 09:55 PM

torridgrowth

User, that \$175m commitment was part of the unstacking that was not approved. The \$175m injection will not happen without the OW transaction.

06 Nov 2018, 11:15 AM

PrinceB4now

Lots of good and valid points being made. I believe OW is buying GNW on the cheap and GNW management is complicit in attempting to feather their own nest. The shareholder interests are not being represented. Two years ago when the deal was announced, there may have been more basis for the deal at roughly 25% of book, but not now. Even then it was very suspicious. Having had a fair bit of experience with issues of LTC Gaap and Stat reserving, I think it is very likely, given the numbers I have seen, that the existing reserves plus future premium increases will prove adequate. However it is almost certain that GNW will take another LTC hit in the 4th Q to further justify the deal and to provide regulators with the excuse to approve the transaction. It is so easy to manipulate the assumptions on which the reserves are built. Small innocuous changes make big differences on long tail business. It is likely the regulators will want to see the results of their "review" before approving. A shareholder law suit is needed to stop this deal.

One further real world risk relates to the \$17 billion dollar reinsurance receivable on GNW's balance sheet. The vast majority of that receivable is from GE. I tried, unsuccessfully, to get GNW to comment on the credit exposure of that receivable right after the deal was announced. The lack of "mirror reserving" by GE is now well known, and I believe has been known by GNW management for a long time.

04 Nov 2018, 08:00 AM

Rick39
@PrinceB4now

I have never heard of anybody before doubting the ability of GE to honor any counterparty or reinsurance obligations.

Where in the world did you come up with the possibility that GNW can't collect from GE?

As far as LTC reserving, the policies written in more recent years by GNW might be priced for better stability, but it is virtually impossible to know the limit of exposure that older legacy policies have where, in some cases, the benefits paid out might be more than 50 times what was expected when policies were sold. The whole industry may be under-reserved.

To get a perspective on loss exposure in LTC, use the following examples.

Humana just sold off its LTC business. It booked \$780M loss on about 29000 policies.

Penn Treaty has a shortfall of about \$2.4 billion on just 70000 policies.

Genworth has 1.2 million LTC policies outstanding. If Genworth shortfalls are just a fraction of the Humana or PennTreaty experience per policy, the result is not hard to understand.

04 Nov 2018, 03:19 PM

User 48118743
Seven Allen Walter

Further to my earlier posts, the one thing we all agree on is the management is feathering its nest.

The logical thing for management to do given, Seven's and Allen's valuation analysis would be to:

- (a) demerge the LTC businesses and distribute the stock (perhaps listed) to its shareholders.
- (b) sell Can MI and/or Aus MI to repay maturing debt

That way all MI businesses and LTC business would trade on the basis of their respective prospects and realize their SOP valuations as proposed. PROVIDED they are or can be structurally separated.

I strongly suspect the path management has chosen (sell to OW) is the path that maximizes their payout (and coincidentally banker fees). The partial IPO of the Aus MI and Can MI businesses well below book value did not make sense unless viewed from the lens of entrenching the incumbent management. A full IPO or sale of those businesses would have meant less pay for management. Similarly, a proposed 20% IPO of US MI also entrenches the management and maximizes their remuneration. (Imagine having a non-investment fund listed company with 3 partially listed subsidiaries it defies corporate finance logic.)

However, I also suspect structural separation within the same Holdco structure is not that straightforward. For example, even if state regulators cannot compel GNW to further capitalize LTC, if the plan is to let LTC languish at the expense of policyholders (ie premium increases or exercise "put" to the state regulators) I suspect they will frustrate upstreaming of dividends from US MI. I also agree with Rick that LTC reserves are probably too low (GNW has a long history of under reserving in both LTC and MI)

Given Seven's and Allen's valuation thesis the only logical explanation for why GNW is trading below \$5.43 whether or not the OW merger is ratified, is therefore because the intrinsic value of GNW is discounted due to:

- (a) incompetent management; and/or
- (b) the uncertainty of structural separation between LTC and MI (either due to incompetent management's poor communication or because in fact it is not so clear at law). It has little to do with "shorts" or people (Hindenburg, or Rick etc) talking down the stock.

The beauty of what McInerney, Scheider, and Co have done is to give Shareholders only one exit strategy which entrenches their position amongst both suffering long-term investors and frenzied merger arb seekers. That is why they never talk about plan B. Ultimately this will end bad for both policyholders and shareholders. OW does nothing for policyholders. Creating a GNW LTC "bad bank" with a Chinese property developer that is financially weak and inexperienced (OW) is not the regulator's answer. Ultimately turfing the management and frankly discussing alternatives beneficial to both policyholders and shareholders is. Unfortunately, this is not in the interests of management. Good Luck

Susan

05 Nov 2018, 12:05 AM

torridgrowth

Those IPOs were necessary to raise cash when markets were still in turmoil. McInerney has only been with the company 5 years and is not responsible for the problems, only responsible for not doing more to fix them and for opening his mouth too much and then having to pay out in the lawsuits. Schneider was only in charge of USMI until recent years, and USMI is the company's crown jewel and outperformed every other MI company during the financial crisis. PMI and Triad failed, Radian and MTG would have failed without capital injections. And you know what happened to AIG.

06 Nov 2018, 11:36 AM

jason757

I just realized 5.43 is three numbers in descending order!

05 Nov 2018, 07:47 AM

Allen Cooke, Contributor

Rick & Hindi + anyone else we can set up a call w gnw management to go over some of these questions. Let me know.

05 Nov 2018, 10:02 AM

Rick39

Anybody who thinks they could learn something from talking directly with GNW is delusional. McInerny is at good as spinning the truth as they come plus he is an extraordinary salesman that is why GNW got into LTC when everyone else was getting out of the product.

This also might apply to folks who are predicting THEY KNOW how a myriad of State level bureaucrats and politicians, along with insurance industry interests, and other organizations such as NAIC and NOLGHA are going to act on this deal. If Genworth LTC blows up because it is not possible to raise premiums fast enough due to anti-selection consequences, the biggest health insurers like UNH, which never sold LTC, are stuck with the shortfall---and nobody here knows what or who they might pressure for action. On top of that NY is a maverick state for insurance regulation and acts on its own because it has more actuarial talent than all of the other states. Anyone who thinks they can predict all of this varied behavior is misleading others and deluding themselves....in my opinion.

Go and do some research how Conseco bailed from LTC in PA by setting up a liquidation trust with a company now called SHIP. No regulator wants to see a repeat of this mess and Conseco did it with a fraction of the policies that Genworth has in force.

[www.lawyersandsettlements.com/...](http://www.lawyersandsettlements.com/)

05 Nov 2018, 12:27 PM

Seven Corners Capital Management, Contributor

Author's reply » "This also might apply to folks who are predicting THEY KNOW how a myriad of State level bureaucrats [sic] and politicians, along with insurance industry interests, and other organizations such as NAIC and NOLGHA are going to act on this deal...Anyone who thinks they can predict all of this varied behavior is misleading others and deluding themselves"

Thank you for confirming you have no confidence whatsoever in Hindenburg's analysis.

07 Nov 2018, 05:52 PM

jimreno47

Hello Readers ,anyone know what happens to the GNW bonds if the China Overseas deal goes through ? Are the bonds called ? Or who's responsible for paying them off---Thanks , John

05 Nov 2018, 01:46 PM

Allen Cooke, Contributor

nothing changes but I would think that the risk would increase

05 Nov 2018, 03:19 PM

Allen Cooke, Contributor

You're avoiding the reality. Cash benefits are 4.7% of the pool and the pool is adding 2 B in reserves after cash payments annually, it has \$40 b in reserves & surplus now. Keep in mind that we can raise premiums forever....So how does this blow up?

05 Nov 2018, 01:52 PM

Shea20

Thanks for the well researched rebuttal. May I ask why you used a multiple of 12 when valuing the US mortgage insurance business? Regardless even at a more conservative value, ocean Wide may be getting a good deal.

06 Nov 2018, 01:42 AM

jason757

breakout in stock price today!!!

06 Nov 2018, 11:03 AM

neroden

I've never seen a deal fail which had this much support by both the acquirer's management and the acquiree's management, except on national security or antitrust grounds. National security has approved the deal. There's no antitrust case. The insurance regulators have a strong incentive to approve the deal as it refinances the LTC business. Genworth management has a strong incentive to do the deal, as they probably get fired if the deal doesn't go through. China Oceanwide is not kidding when

1/21/2019 Genworth: Stakeholder Incentives And Facts On The Ground Point To Ultimate Approval Of China Oceanwide Merger - Genworth Financial, Inc. (NY...
they say they want to bring LTC insurance to China, and they believe that Genworth is the only company which has figured out how to do it on a breakeven basis going forward, despite the loss-making legacy policies.

13 Nov 2018, 07:12 AM

Allen Cooke, Contributor

Rick39 I greenlighted your purchase of shares at 2.72 so your doing good.....Hindenberg you are short shares..but who knows what the will bring!

28 Nov 2018, 11:52 AM

Frankenstone

Appears DL has approved!!!

28 Nov 2018, 12:55 PM

haschultz

@Hindenburg Investment Research

Are you covering here? Are you adding to your short here? Or, are you just maintaining your short position?

Who would you say is buying here; individual investors or perhaps some funds?

28 Nov 2018, 01:44 PM

smartinvestor

Delaware has not approved the transaction yet, but indications are pointing in that direction. This brief analyst report summarizes what happened at the hearing. Anderson aka Hindenberg appears to have been unsuccessful in swaying the outcome.

[www.btigresearch.com/...](http://www.btigresearch.com/)

28 Nov 2018, 02:58 PM

Yun Hao Lo

Could you tell us a little bit about what this report says? I can't register to see it. Thanks!

29 Nov 2018, 04:33 AM

Randyragz

This was posted on Fidelity yesterday:

Genworth Clears Crucial Hurdle For Acquisition -- Market Talk

BY Dow Jones & Company, Inc. — 4:15 PM ET 11/28/2018 16:15 ET

Genworth Financial (GNW) shares surge 6% as analysts report good news from a Delaware Department of Insurance hearing on the company's long-stalled acquisition by China Oceanwide. Evercore ISI says it attended today's hearing, and, at the conclusion, the Delaware department said it would recommend "that the acquisition be approved as China Oceanwide met all of the department's standards when considering whether or not they are a reliable acquirer of the insurance entity." The \$2.7B takeover was announced back in October 2016 and ran into long delays before a US national security panel. To win federal approval in June, the companies agreed to extraordinary steps to secure Americans' personal data. Evercore says the merger process could be wrapped up in 60 days "or potentially sooner." (leslie.scism@ wsj.com)

Surprised there has not been an official announcement, but this is more than an indication.

Hindy, another valiant effort down the drain for you.

29 Nov 2018, 03:06 PM

Frankenstone

[insurance.delaware.gov/...](http://insurance.delaware.gov/)

30 Nov 2018, 03:50 PM

smartinvestor

The exhibit list packet at that site, particularly starting about page 52, has particular relevance at this time.

30 Nov 2018, 05:05 PM

Rick39

Exhibit 7. Item 15 and 17 CEO openly discloses that future of Genworth is dire if acquisition not approved. Does not believe a receiver for GLIC is better solution. Basically putting a gun to head of bureaucrats.

Finally, some honesty.

30 Nov 2018, 07:02 PM

Frankenstein

Whoa, that was... relevant, in deed!!!



30 Nov 2018, 07:07 PM

Yun Hao Lo

Thanks. It's helpful

30 Nov 2018, 08:37 PM

Seven Corners Capital Management, Contributor

Author's reply » Testimony of David Lonchar, Director of the Bureau of Examination, Rehabilitation and Guaranty, Delaware Department Of Insurance
Page 18 of 22:

Q: Has this been a thorough review?

A: The level of review and analysis of this Application was unprecedented for the Department. In addition to the specific and detailed analysis and review completed by the Department and its experts with respect to the statutory criteria, the Department also considered the affect of the transaction as a whole on the insurance buying public.

In particular, the Department considers the \$375 million increased liquidity to the Domestic Insurer as an immediate, direct and significant benefit to the Domestic Insurer and its policy holders.

China Oceanwide's capital infusion of \$1.5 billion into the Genworth companies will also benefit the Domestic Insurer by providing a financially stronger parent company.

Q: Based upon the Department's analysis of the Application under this criteria does the Department have a finding whether this standard has been met?

A: It does.

Q: Please explain the Department's finding.

A: There is no evidence that the proposed acquisition would be hazardous or prejudicial to the insurance buying public. The Department finds no violation of this standard.

So...Hindenburg was totally wrong that the acquisition by OC would harm policyholders - what a shocker.

01 Dec 2018, 01:42 PM

Frankenstein

Lonchars testimony throughout Exhibit 6, Exhibit List Packet, left no doubt where DE stands.

Their approval is imminent and then when other State regulators see what diligent work was done by DE, other states will surely fall in line.

Never been more confident this deal will be closing, and I'd say 3-4 weeks.

Great work Seven Corners, you called it from way back!!!

02 Dec 2018, 09:13 AM

Shea20

"The level of review and analysis of this Application was unprecedented for the Department."

That's a very strong statement from Delaware. Today's sell off enabled me to get back in this one. Would love an approval announcement soon.

06 Dec 2018, 12:02 PM

Randyrags

Posted on 7 pm on Fidelity. Read it and weep Hindy

BY Reuters — 7:00 PM ET 12/21/2018

Dec 21 (Reuters) - Genworth Financial Inc (GNW):

* DELAWARE REGULATOR AND FANNIE MAE AND FREDDIE MAC APPROVE PROPOSED OCEANWIDE ACQUISITION OF GENWORTH SUBSIDIARIES

* APPROVAL FROM REGULATORS IN AUSTRALIA AND NEW ZEALAND WAS ALSO RECENTLY RECEIVED FOR PROPOSED TRANSACTION

* FANNIE MAE AND FREDDIE MAC'S APPROVALS INCLUDE CERTAIN CONDITIONS, WHICH ARE SUBJECT TO CONFIDENTIALITY OBLIGATIONS

* PARTIES ANTICIPATE BEING ABLE TO MEET CONDITIONS OF FANNIE MAE AND FREDDIE MAC APPROVALS Source text for Eikon: Further company coverage:

21 Dec 2018, 07:18 PM

smartinvestor

Excerpts from PROPOSED ORDER AND RECOMMENDATIONS OF HEARING OFFICER, STEPHEN P. LAMB

1. The following seven public comments regarding the Proposed Acquisition were received by the Department and presented to the Hearing Officer for review:

...

d. An email from Michael Rohricht, dated November 1, 2018 (the "First Email"), addressed to Leslie Ledogar, Regulatory Specialist for the Department.

e. An email from Mr. Rohricht, dated November 2, 2018 (the "Second Email"), addressed to Ms. Ledogar.

f. An email from Steve Joseph, dated November 14, 2018 (the "Third Email"), addressed to Ms. Ledogar.

g. A letter from Hindenburg Research, LLC ("Hindenburg"), dated November 20, 2018 (the "Hindenburg Letter"), addressed to the Commissioner.

(p. 33-34)

...

8. The First Email, the Second Email and the Third Email all relate to articles published by Hindenburg Investment Research. Those articles and the Hindenburg Letter purport to raise concerns primarily related to the financial stability of the Applicants and, to a lesser degree, the financial stability of Genworth and the Domestic Insurer.

9. Regarding the financial stability of the Applicants, the conclusions drawn by Hindenburg are inconsistent with the results of the due diligence conducted by Genworth and its outside financial advisors, the review conducted by the Department and its outside financial advisors, and the sworn testimony of Mr. Zhao on behalf of the Applicants. See Tr. 41:6-48:10, 107:15-109:1; Ex. 6, Pre-Filed Testimony of Mr. Lonchar, p. 14; Ex. 8, Pre-Filed Testimony of Mr. Zhao, Question 41, pp. 19-20.

10. Given the analysis conducted by Genworth, the Department and their experts, there is sufficient evidence that the concerns raised by Hindenburg, insofar as such concerns relate to Section 5003(d)(l)(c) regarding the financial condition of any acquiring party being such as might jeopardize the financial stability of the insurer, or prejudice the interests of its policyholders, have been sufficiently addressed. See Tr. 41:6-48:10, 107:15-109:1; Ex. 6, PreFiled Testimony of Mr. Lonchar, p. 14.

(p. 36)

...

17. Hindenburg states that it has a short position on shares of Genworth, essentially betting against the success of Genworth and the Proposed Acquisition. Hindenburg Letter, p. 13. Based on this conflicting financial interest, the statements made by Hindenburg in its articles and the Hindenburg Letter should be viewed with skepticism.

(p. 38)

22 Dec 2018, 09:08 AM

mdwrcan

Why if the fairvalue is \$8.50 is the company selling to Oceanwide for 5.43

24 Dec 2018, 07:42 AM

Anthony H. Steinmetz, Contributor

What's the status of the DFSNY review? It appears to be causing the current arb spread.

10 Jan 2019, 12:36 PM

Rick39

@Anthony H. Steinmetz

Sorry, don't have any info on NY. I got slapped around on SA for mentioned NY approval would be difficult.

Deal seems to be clouded in lack of information. GNW is keeping lips sealed

. Hard to know why Oceanwide wants to get money out of China so badly and not considering better quality US investments.

10 Jan 2019, 01:47 PM

haschultz

@Rick39 @Anthony H. Steinmetz

Seems we have approval from many states including Virginia, North Carolina, South Carolina & Vermont on Friday (1/11/2019 after market close) as per: finance.yahoo.com/...

Today (Monday 1/14/2019 after market close) we got New York approval as per: finance.yahoo.com/...

Would be interesting to see how much money was left on the table by naysayers who spent much time posting here...mostly trying to scare others off.

14 Jan 2019, 07:47 PM

Rick39
@haschultz

Apparently NY gave approval but, as expected, it was more difficult than other States.

Did you know that GNW still hasn't obtained approval from FINRA? Comes as surprise to me why they didn't have FINRA sign off months ago. Do you know what is the hang up on FINRA?

China could have approved this months ago too, but apparently have not....for some unknown reason.

14 Jan 2019, 08:38 PM

haschultz
@Rick39

Various states and agencies like to follow others rather than lead.

16 Jan 2019, 02:55 PM

Rick39
@haschultz

Perhaps what you say is true for most states other than New York. Apparently, you are not familiar with NY insurance regulators.

Quoting below a Financial Advisors website summarizing the NY approval

//////////

Getting approval from the New York state regulators was particularly noteworthy, because New York state regulators have been quicker to object to insurance deals than regulators in some other states.

In the fall, for example, New York state regulators objected to efforts by CVS Health Corp. to acquire the New York-based operations of Aetna Inc. New York regulators made CVS agree to a list of commitments before giving the CVS-Aetna deal their blessing.

Genworth said New York regulators have required it and China Oceanwide to enter into a letter agreement with the New York Department of Financial Services.

The letter agreement lists requirements related to cybersecurity matters and the protection of customer personally identifiable information, Genworth said.

[www.thinkadvisor.com/...](http://www.thinkadvisor.com/)

16 Jan 2019, 03:08 PM