



## **Genworth (GNW): Arbitrage With A 26% IRR**

### **Target Price Analysis**

**Expected Return from \$4.28 PPS (as of 11/30/16) = \$4.93**

**26% IRR for 7-month hold period**

*(See Section I.B herein for calculations)*

Genworth Financial, Inc. ([GNW](#)) represents an attractive arbitrage opportunity. On October 21, 2016, China Oceanwide Holdings Group ("China Oceanwide") agreed to acquire all of the outstanding shares of GNW for \$5.43 per share. The merger is currently expected to close by the end of the second quarter of 2017. Genworth's management has already previewed the transaction with its applicable United States insurance regulators, thus increasing the likelihood that these regulators will sign off on the transaction. We currently estimate that the transaction has a 75% probability of completion at \$5.43 and a 25% probability of failing, in which case we believe the shares would be worth \$3.42<sup>1</sup>. Thus, GNW currently has an expected value of \$4.93, representing a 26% IRR over a seven-month hold period.

The key risks to the deal closing are (i) that China Oceanwide's regulators (located in the PRC, Hong Kong, Macau and Taiwan) could block the deal, (ii) the occurrence of a Company Ratings Event with respect to GNW and (iii) a material adverse event (MAE) occurring with respect to GNW's business. These risks are somewhat counterbalanced by the fact that if the deal were to fail due to (i) occurring, then GNW would receive a \$210 million break-up fee (worth approximately \$0.42/share). China Oceanwide has already placed this break-up fee into escrow with Citibank.

We believe that GNW represents an attractive takeout candidate for China Oceanwide for the following reasons: (1) Chinese companies currently desire to move renminbi abroad as the Chinese currency continues to weaken, (2) rising interest rates in the United States are bullish for insurance and financial companies like GNW and (3) upon the unstacking of GNW's insurance subsidiaries, GNW will be able to more freely dividend cash to the holding company.

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<sup>1</sup> This represents just under 18% of GNW's book value per common share at the end of Q3 2016, excluding accumulated other comprehensive income (loss), but including the \$210 million merger termination fee.



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## **I. Investment Highlights**

### **A. Introduction to GNW**

As per the company's [2015 10-K](#) (page 4):

[Genworth is] dedicated to helping meet the homeownership and long-term care needs of our customers. We are headquartered in Richmond, Virginia. We facilitate homeownership in the United States and internationally by providing mortgage insurance products that allow people to purchase homes with low down payments while protecting lenders against the risk of default. Through our homeownership education and assistance programs, we also help people keep their homes when they experience financial difficulties. We offer individual and group long-term care insurance products to meet consumer needs for long-term care. On February 4, 2016, we announced our decision to suspend sales of our traditional life insurance and fixed annuity products.

### **B. Analysis of Arbitrage Opportunity**

On October 21, 2016, GNW entered into a definitive agreement with China Oceanwide, under which China Oceanwide agreed to acquire all of GNW's outstanding common stock for a total transaction value of approximately \$2.7 billion. As part of the transaction, China Oceanwide additionally committed to contribute \$600 million of cash to allow GNW to address its debt maturing in 2018, on or before its maturity, as well as \$525 million of cash to be contributed to its U.S. life insurance businesses to pursue this entity's restructuring. The transaction is expected to close by the end of Q2 2017, but has an outside closing date of August 31, 2017.

Since the transaction was specifically structured to gain approval by, and in consultation with, GNW's regulators, we estimate that the merger has a 75% chance of closing successfully. If the merger closes, GNW shareholders will receive \$5.43 in cash per GNW share.<sup>2</sup> Conversely, GNW would receive a breakup fee worth about \$0.42 per share if the August 31, 2017 end date is reached and either (x) the merger has been blocked by China Oceanwide's regulators or (y) China Oceanwide were to default under its merger agreement covenants or representations, which should further cushion the blow from any cancellation of the merger. Thus, if the merger fails, GNW shares will likely fall back to an amount equal to (i) their pre-merger announcement level of approximately \$3.00 per share (see stock chart below) plus (ii) \$0.42 per share for the break-up fee.

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<sup>2</sup> See Section 3.1(a) of the merger agreement: "Each share of [GNW] common stock...shall be converted into the right to receive \$5.43 per Share in cash, without interest."



## Genworth Financial-A

NYSE: GNW - Nov 30, 3:28 PM EST

4.32 USD ↑0.07 (1.76%)



To obtain our \$4.93 expected value for GNW shares, we simply perform the following calculation (note that we have not added any value to the expected value for the potential emergence of a 3<sup>rd</sup> party bidder):

	Amount Rec'd	Weighting	Expected Value
Merger Closes	5.43	0.75	4.07
Merger Blocked	3.42	0.25	0.86
<b>Total</b>			<b>4.93</b>

GNW's share price declined over 20% in the five trading days immediately following the announcement of the merger, from approximately \$5.20 per share to just under \$4 per share, before rebounding recently to \$4.28 per share:

Date	Open	High	Low	Close	Adj Close*	Volume
Oct 28, 2016	4.33	4.33	3.94	3.98	3.98	19,341,000
Oct 27, 2016	4.48	4.48	4.13	4.31	4.31	26,570,200
Oct 26, 2016	4.51	4.65	4.34	4.44	4.44	28,310,600
Oct 25, 2016	4.72	4.85	4.55	4.57	4.57	30,025,600
Oct 24, 2016	4.95	4.99	4.64	4.79	4.79	83,388,600
Oct 21, 2016	5.12	5.21	5.07	5.21	5.21	5,195,000

In our view, this drop in the share price occurred for several reasons. First, the obvious regulatory issues involved in having a Chinese acquirer; second, the anemic 4% premium agreed to by GNW's management, which is much lower than seen in most merger transactions with non-affiliated acquirers; and third, the expectation that the deal will not close until mid-2017. On the regulatory front, Chinese companies have in some instances encountered difficulties in getting their regulators to approve overseas acquisitions due to foreign exchange issues (for example, see [here](#) and [here](#)); also, it appears that the Chinese authorities will be



issuing additional cross-border merger regulations shortly<sup>3</sup>. In addition, it is possible that arbitrageurs had accumulated shares prior to (and in anticipation of) the buyout announcement and decided to dump their holdings *en masse* once they discovered there was minimal further upside from the then \$5.20 trading level. Finally, as the closing of the merger appears from today's vantage point to be a long way off, day traders often decide to abandon "dead money" situations and move on to better opportunities. Combined, these factors appear to have caused the current 27% deal spread between the \$5.43 deal price and the \$4.28 trading price.

Should anyone suggest that the buyout of GNW is destined to fail, that China Oceanwide just wanted a cheap option on GNW's assets (to be acted upon if advantageous but discarded with impunity), several things should be borne in mind. First, it would cost China Oceanwide \$210 million to walk away from the merger, provided (x) there has not occurred a Company Material Adverse Event or Company Ratings Event and (y) GNW has not defaulted under the merger agreement (also note that the termination fee would not be payable in the unlikely event the merger were blocked by GNW's regulators). Importantly, there is no credit risk for GNW in collecting the termination fee, since this amount has already been deposited into escrow. Moreover, China Oceanwide is not acquiring GNW as an act of charity. In essence, they are paying approximately \$3.825 billion to acquire approximately \$9.661 billion in net asset value (mainly comprised of bonds) excluding accumulated other comprehensive income<sup>4</sup>. This means that, disregarding any potential depreciation in net asset value between the end of Q3 2016 and the closing date, China Oceanwide would make an immediate \$5.836 billion profit on a \$3.825 billion investment upon the consummation of the transaction. In addition, when these assets mature, China Oceanwide will be reinvest the proceeds at better rates, now that both short- and long-term interest rates are climbing. Not too shabby.

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<sup>3</sup> [According to press reports](#), "[t]he draft rules on very large acquisitions...would mandate that prior approval be obtained for deals exceeding \$1 billion in real estate or in industries outside the Chinese company's main area of business. Any acquisition would also require prior approval if it exceeded \$10 billion."

<sup>4</sup> China Oceanwide is paying (i) \$2.7 billion for the equity of GNW (\$5.43 multiplied by 498.3 million shares outstanding) plus (ii) \$1.125 billion in capital contributions and debt redemptions, or \$3.825 billion in total. In return, China Oceanwide will acquire approximately \$19.40 per share of book value, or approximately \$9.661 billion in total, excluding AOCI.



## II. Merger Particulars

### A. Mutual Conditions Precedent to Closing

The following are the mutual conditions precedent to the closing of the merger (see Section 7.1 of [the merger agreement](#)):

(a) Stockholder Approval. This Agreement shall have been duly adopted by holders of Shares constituting the Requisite Company Vote (i.e., the holders of a majority of the outstanding Shares entitled to vote on such matter at a stockholders' meeting duly called and held for such purpose).

(b) Non-PRC Regulatory Approvals. The parties shall have obtained the Parent Approvals referred to in Section 7.1(b) of the Parent Disclosure Letter, the Company Approvals referred to in Section 7.1(b) of the Company Disclosure Letter<sup>5</sup> and any other approvals from any Governmental Entity with competent jurisdiction for which the failure to obtain such approval would subject the Company, Parent, or their respective Affiliates, or any of their respective directors, officers, other employees or Representatives to any criminal liability.

(c) PRC Regulatory Approvals. Parent shall have obtained the PRC Regulatory Approvals.

(d) Termination of HSR Waiting Period. The waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been earlier terminated.

(e) No Injunction. No court or other Governmental Entity of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law or Order (whether temporary, preliminary or permanent) that is in effect and restrains, enjoins or otherwise prohibits consummation of the Merger or the other transactions contemplated by this Agreement.

The "PRC Regulatory Approvals" referenced in paragraph (c) means the filings and approvals with or by PRC Governmental Entities with respect to the merger, including (i) the filings with, confirmation from and/or approvals of National Development and Reform Commission of the PRC or its competent local counterparts with respect to and/or in connection with the transactions contemplated by this Agreement and relevant application report relating to such transactions, (ii) the filings with and overseas investment certificate/filing forms issued by Ministry of Commerce of the PRC or its competent local counterparts with respect to and/or in connection with the transactions contemplated by this Agreement, and (iii) State Administration of Foreign Exchange of the PRC's or its competent local counterparts' registration and/or approvals in connection with the transactions contemplated by this Agreement, including registration and/or approvals for conversion of RMB funds into U.S. dollar funds and transfer out of the PRC of U.S. dollar funds to Merger Sub, to the Paying Agent's account or to the holders of Shares or other interests, or to GNW.

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<sup>5</sup> These appear to be from Fannie Mae and Freddie Mac (as may be applicable), the Financial Industry Regulatory Authority, the Committee on Foreign Investment in the United States, certain U.S. insurance regulators in Delaware, New York, North Carolina, South Carolina, Vermont and Virginia, as well as approvals from certain Canadian, Australian and New Zealand regulators.

As referenced above, Chinese regulators may be approving new regulations shortly requiring prior approval for deals exceeding \$1 billion in real estate or in industries outside of the Chinese company's main area of business. With respect to these regulations, it should be noted that, [according to its website](#), China Oceanwide already owns a majority interest in an insurance business in China, Asia-Pacific Property and Casualty Insurance Co., Ltd:

Group Industry	Finance Business	Home > Group Industry > Finance Business
<ul style="list-style-type: none"> <li>» Finance Business &gt;</li> <li>• Minsheng S...</li> <li>• China Mins...</li> <li>• China Mins...</li> <li>• Guangxi Be...</li> <li>• Minsheng F...</li> <li>• Beijing Mi...</li> <li>• Minsheng I...</li> <li>• Asia-Pacif...</li> <li>» Real Estate Projects</li> <li>» Energy &gt;</li> <li>» Cultural &amp; Media &gt;</li> <li>» Strategic Investment</li> </ul>	<p>Asia-Pacific Property and Casualty Insurance Co., Ltd , established in 2005 and headquartered in Shenzhen PRC, is a nationwide comprehensive property and casualty insurance company approved by CIRC. With a registered capital of 2,001 million yuan, Asia-Pacific Property and Casualty Insurance is engaged in offering property damage insurance, liability insurance, credit insurance, guarantee insurance, short-term health insurance, accident insurance, etc. With nearly 300 different kinds of products, the company provides integrated risk protection for both enterprises and individuals. At present, Asia-Pacific Property and Casualty Insurance has substantially completed distribution in major cities in Eastern China, including 21 provincial branches and central branches (Secondary agencies), 98 tertiary agencies and 56 fourth agencies, 175 agencies in total.</p> <p>Asia-Pacific Property and Casualty Insurance will increase its registered capital to RMB 10 billion yuan, providing stronger support for its further development.</p> <p>China Oceanwide Holdings Group holds 51% shares of Asia-Pacific Property and Casualty Insurance through one of its subsidiary companies.</p>	

In addition, [a March 2016 press report](#) added the following information on China Oceanwide's insurance operations:

Apart from boosting Asia Pacific P&C's capital, [China Oceanwide] plans to set up a reinsurance company with several partners. It made an announcement regarding this last August. The group has submitted its application to set up Asia Pacific Re to CIRC. Last December, China Oceanwide also announced that it intended to form an online life insurance company.

## B. Conditions Precedent to China Oceanwide's Closing

The following are additional conditions precedent necessary for China Oceanwide to close the merger (see Section 7.2 of the merger agreement):

(a) Representations and Warranties. (i) Each of the representations and warranties of the Company set forth in Section 4.2(a) [Capital Structure] shall be true and correct as of the Closing Date as though made on such date (in each case except (A) to the extent any of such representations and warranties speak as of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date and (B) so as long as the sum of all inaccuracies with respect to the issued and outstanding Shares does not increase the aggregate amount of the Per Share Merger Consideration by more than \$250,000), (ii) each of the representations and warranties of the Company set forth in Section 4.1 [Organization, Good Standing and Qualification], Section 4.3(a) [Corporate Authority;

Approval], Section 4.3(b) [Corporate Authority; Approval], Section 4.12 [Takeover Statutes] and Section 4.18 [Brokers and Finders] shall be true and correct in all material respects (disregarding all qualifications or limitations as to “material,” “Company Material Adverse Effect” and words of similar import set forth therein) as of the Closing Date as though made on such date (in each case except to the extent any of such representations and warranties speak as of an earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date) and (iii) each of the other representations and warranties of the Company set forth in this Agreement shall be true and correct (disregarding all qualifications or limitations as to “material,” “Company Material Adverse Effect” and words of similar import set forth therein) as of the Closing Date as though made on such date (except to the extent any of such representations and warranties speak as of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date), except, solely in the case of this clause (iii), where the failure of such representations and warranties to be so true and correct would not, individually or in the aggregate, reasonably be expected to have, a Company Material Adverse Effect.

(b) Performance of Obligations of the Company. The Company shall have performed in all material respects all obligations required to be performed by it under this Agreement at or prior to the Closing Date.

(c) No Burdensome Condition. (i) The Parent Approvals referred to in Section 7.1(b) of the Parent Disclosure Letter and the Company Approvals referred to in Section 7.1(b) of the Company Disclosure Letter shall have been obtained, (ii) PRC Regulatory Approvals shall have been obtained by Parent and (iii) the waiting period applicable to the consummation of the Merger under the HSR Act shall have expired or been earlier terminated, in each case of the foregoing clauses (i), (ii) and (iii), without the imposition of any Burdensome Condition.

(d) Unstacking Approvals. The Company Approvals referred to in Section 7.2(d) of the Company Disclosure Letter shall have been obtained.

(e) No Company Material Adverse Effect. Since the date of this Agreement, there shall not have occurred any change, event, circumstance or development that, individually or in the aggregate, has had, or would reasonably likely to have, a Company Material Adverse Effect.

(f) Officers’ Certificate. Parent shall have received a certificate signed on behalf of the Company by an executive officer of the Company as to the satisfaction of the conditions in Section 7.2(a), Section 7.2(b) and Section 7.2(d).

(g) Specified Entities. The conditions set forth in Section 7.2(g) of the Company Disclosure Letter shall have been satisfied.

(h) No Company Ratings Event. No Company Ratings Event shall have occurred and be continuing.

Subsections (a), (b) and (f) of Section 7.2 should be formalities. Subsections (c) and (d) of Section 7.2 should be satisfied in light of the fact that Genworth previewed the China Oceanwide transaction with its regulators and presumably obtained at least a preliminary “OK sign” for the deal<sup>6</sup>. Subsection (e) of Section 7.2 is likely to be

<sup>6</sup> See the following remarks from GNW’s CEO McInerney from the [conference call announcing the transaction](#): “As I outlined at the time of the announcement, the transaction has been structured with the intention of increasing the likelihood of obtaining regulatory approvals. Before we announced the transaction, we engaged with the key regulators, in some cases on several occasions in order to both convey our strategic rationale for and financial implications of the deal as well as to preview Genworth’s preliminary third quarter charges. During these discussions, we solicited feedback from certain of our regulators, including Delaware, on the terms and structure of the transaction. Our board and China Oceanwide considered these regulators’ perspectives, which resulted in China Oceanwide’s commitment to contribute \$1.1 billion of cash to Genworth, in addition to the purchase price paid to stockholders. This investment is intended to address the 2018 debt at or before its

satisfied; however one needs to closely review the definition of Company Material Adverse Effect. This full text of this definition is as follows:

"Company Material Adverse Effect" means (x) any material adverse effect on the financial condition; properties, assets and liabilities (considered together); business; or results of operations of the Company and its Subsidiaries, taken as a whole, or (y) any Effect that prevents or materially delays or impairs the ability of the Company to perform its obligations under this Agreement and to consummate the transactions contemplated by this Agreement; *provided, however*, that, in the case of clause (x) above, none of the following, and no facts, events, changes, developments, circumstances or effects (each, an "Effect") arising out of the following, shall constitute or be taken into account in determining whether there has been a "Company Material Adverse Effect":

(A) changes in conditions in the economy generally or credit, securities, financial or other capital markets generally in the United States or elsewhere;

(B) geopolitical conditions, the outbreak of any acts of war (whether or not declared), armed hostilities, sabotage or terrorism, or any escalation or worsening of any such acts of war (whether or not declared), armed hostilities, sabotage or terrorism;

(C) any volcano, tsunami, pandemic, epidemic, hurricane, tornado, windstorm, flood, earthquake or other natural disaster;

(D) changes that are the result of factors generally affecting the industries in which the Company and its Subsidiaries operate;

(E) changes in any applicable accounting principles (including changes in GAAP, SAP, accounting principles applicable to any of the Specified Entities and accounting pronouncements by the SEC, the National Association of Insurance Commissioners and the Financial Accounting Standards Board) or any statute, rule, regulation or other Law, or the rules and requirements of the National Association of Insurance Commissioners, or the enforcement or interpretation of any of the foregoing, after the date of this Agreement;

(F) any change or announcement of a potential change in the credit, financial strength or claims paying ratings of the Company or any of its Subsidiaries or any of their respective businesses; provided that the exception in this clause shall not prevent or otherwise affect a determination that any Effect (not otherwise excepted under this definition) underlying such failure has resulted in, or contributed to, a Company Material Adverse Effect;

(G) any failure by the Company to meet any forecasts, estimates or representations of revenues, premiums, expenses, earnings or other financial performance or results of operations for any period prior to the Closing; provided that the exception in this clause shall not prevent or otherwise affect a determination that any Effect (not otherwise excepted under this definition) underlying such failure has resulted in, or contributed to, a Company Material Adverse Effect;

(H) the announcement of the transactions contemplated by this Agreement or the identity of or facts relating to Parent or any of its Affiliates, including any loss of, or adverse change in, the relationship, contractual or otherwise, of the Company or any of the Company's Subsidiaries with its customers, policyholders, reinsurers, producers, lenders, employees, agents or suppliers (provided that this clause (H) shall not apply if any representation or warranty set forth in Section 4.4 is not true and correct, and such representation and warranty relates to the consequences arising out of the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby);

(I) any action expressly required to be taken pursuant to this Agreement (other than the obligation of the Company to conduct its operations in the Ordinary Course of Business pursuant to Section 6.1(a)), or taken or omitted to be taken at Parent's written request or with Parent's written consent; and

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maturity, support the U.S. life insurance businesses by facilitating the unstacking of GLAIC, and improve Genworth's overall financial strength and flexibility."

(J) the suspension of trading in securities of the Company on NYSE or any publicly traded securities of the Specified Entities on the Toronto Stock Exchange or the Australian Securities Exchange, as applicable, or a decline in the price, or change in the trading volume, of any such securities; provided that the exception in this clause shall not prevent or otherwise affect a determination that any Effect (not otherwise excepted under this definition) underlying such suspension or decline has resulted in, or contributed to, a Company Material Adverse Effect;

(K) any item set forth on Section 10.2 of the Company Disclosure Letter<sup>7</sup>;

*provided, further*, in the cases of clauses (A)-(E), that such Effect does not disproportionately adversely affect the Company and its Subsidiaries compared to other companies engaged in the industries in which the Company and its Subsidiaries operate (in which case only the incremental disproportionate adverse impact or impacts may be taken into account in determining whether there has been a Company Material Adverse Effect).

It is unclear whether the condition precedent in Section 7.2 regarding “Specified Entities”<sup>8</sup> is likely to be satisfied, since GNW did not file a copy of the Company Disclosure Letter with the SEC.

Subsection (h) of Section 7.2 refers to the occurrence of a Company Ratings Event. This full text of this definition is as follows:

“Company Ratings Event” means the change or the public announcement of a change in the financial strength rating assigned to Genworth Mortgage Insurance Corporation (GMICO) to below “BB (negative outlook)” by Standard & Poor’s Corporation that is primarily and directly attributable to (x) the actions or inactions of the Company, its Affiliates or their respective Representatives that does not relate to an Excluded Effect, or (y) an adverse change in the condition (financial or otherwise) of Genworth Mortgage Insurance Corporation and its businesses not resulting from or arising out of an Excluded Effect; *provided, however*, no downgrade arising out of or resulting primarily from the following clauses (A) through (H) below (each, an “Excluded Effect”) shall constitute or be taken into account in determining whether there has been a “Company Ratings Event”:

(A) changes in conditions in the economy generally or credit, securities, financial or other capital markets generally in the United States or elsewhere;

(B) geopolitical conditions, the outbreak of any acts of war (whether or not declared), armed hostilities, sabotage or terrorism, or any escalation or worsening of any such acts of war (whether or not declared), armed hostilities, sabotage or terrorism;

(C) any volcano, tsunami, pandemic, epidemic, hurricane, tornado, windstorm, flood, earthquake or other natural disaster;

(D) changes that are the result of factors generally affecting the industries in which Genworth Mortgage Insurance Corporation operates;

(E) changes in any applicable accounting principles (including changes in GAAP, SAP, accounting principles applicable to any of the Specified Entities and accounting pronouncements by the SEC, the National Association of Insurance Commissioners and the Financial Accounting Standards Board) or any statute, rule, regulation or other Law, or the rules and requirements of the National Association of Insurance Commissioners, or the enforcement or interpretation of any of the foregoing, after the date of this Agreement;

(F) the identity of or facts relating to Parent or any of its Affiliates, including any loss of, or adverse change in, the relationship, contractual or otherwise, of the Company or any of the Company’s Subsidiaries with its customers, policyholders, reinsurers, producers, lenders,

<sup>7</sup> It is unclear what these additional items are, since GNW has not filed the Company Disclosure Letter with the SEC. However, it should be noted that all of these would be items that do *not* constitute an MAE.

<sup>8</sup> “Specified Entities” means, collectively, Genworth Australia and its Subsidiaries and Genworth Canada and its Subsidiaries.

employees, agents or suppliers (provided that this clause (F) shall not apply if any representation or warranty set forth in Section 4.4 is not true and correct, and such representation and warranty relates to the consequences arising out of the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby);

(G) the suspension of trading in securities of the Company on NYSE or any publicly traded securities of the Specified Entities on the Toronto Stock Exchange or the Australian Securities Exchange, as applicable, or a decline in the price, or change in the trading volume, of any such securities; provided that the exception in this clause shall not prevent or otherwise affect a determination that any effect (not otherwise excepted under this definition) underlying such suspension or decline has resulted in, or contributed to, a Company Ratings Event; and

(H) any item disclosed in any publicly available Company Reports filed since December 31, 2014 (and publicly filed at least two days prior to the date hereof), excluding any disclosures set forth in the section titled "risk factors" or in any other section to the extent they are forward-looking statements or cautionary, predictive or forward-looking in nature;

provided, further, in the case of clauses (A)-(E), that such event does not disproportionately adversely affect Genworth Mortgage Insurance Corporation compared to other companies engaged in the industries in which Genworth Mortgage Insurance Corporation operates (in the case where such event does disproportionately adversely affect Genworth Mortgage Insurance Corporation, only the downgrade arising out of or resulting from the incremental disproportionate adverse impact or impacts may be taken into account in determining whether there has been a Company Ratings Event).

GNW's insurance subsidiary GMICO (which is the subsidiary that is the subject of the Company Ratings Event test) [currently maintains a "BB+" IFS rating from S&P, which rating was placed by S&P on CreditWatch with developing implications](#) on October 24<sup>th</sup> (i.e., following the announcement of the China Oceanwide transaction):

**S&P Places Genworth Financial (GNW) Ratings on CreditWatch Developing Amid Merger Agreement**

October 24, 2016 2:05 PM

S&P Global Ratings said it placed its ratings on Genworth Financial Inc. (NYSE: GNW), as well as the ratings on its U.S.-based mortgage insurance and life subsidiaries, Genworth Mortgage Insurance Inc. [sic] and Genworth Life and Annuity Insurance Co. (GLAIC), on CreditWatch with developing implications.

At the same time, S&P Global Ratings placed its ratings on the company's subsidiaries primarily in the long-term care business, namely Genworth Life Insurance Co. (GLIC) and Genworth Life Insurance Co. of New York (GLIC-NY), on CreditWatch with negative implications.

The CreditWatch placement reflects recent news that Genworth Financial has entered into a definitive agreement to be purchased by China-based China Oceanwide Holdings Group (Oceanwide) as well as other developments. We do not rate the legal entity and potential acquirer, Oceanwide, though we do maintain a 'B' counterparty credit rating on a portion of Oceanwide through its subsidiary Oceanwide Holdings Co., Ltd. (Shenzhen listed).

Based on statements made by Genworth management, Genworth would benefit post-close in 2017 from a capital infusion in the U.S. life division, and by specifically addressing its \$600 million senior debt maturing in May 2018.

"Beyond the capital outlay and debt pay-down, we don't have sufficient information on the acquirer, its resources, its intent, potential influence, and return expectations, all of which could affect our view of the current operations' creditworthiness with varying magnitudes, potentially positively or negatively," said S&P Global Ratings credit analyst Hardeep Manku.

While we view favorably the capital outlay by the new owner and deleveraging initiatives, the announced reserves charges and potential for additional reserve strengthening offset the benefit and could be a drag on our stand-alone view of the life/long-term care business. And

although interest in Genworth's long-term care business has been cited as one of the reasons for the transaction, the company has been striving to isolate its legacy long-term care exposure from ongoing operations and has publicly stated it doesn't plan to provide support beyond a certain point. Furthermore, the effort to isolate long-term care business can have a varying impact on individual legal entities involved, which is reflected in the negative CreditWatch placement on GLIC and GLIC-NY.

We continue to view both the Australian and Canadian mortgage insurance entities as relatively insulated at the respective current rating levels given local regulatory oversight, external minority ownership, and restriction on capital fungibility. We have not de-linked the ratings on Genworth's ongoing Australian and Canadian entities from the group credit profile.

The CreditWatch developing reflects the uncertainty related to the new ownership that may affect our view either due to, or in combination with, the stand-alone or group-wide considerations. The potential impact on the current operations may be of varying magnitudes and could potentially be either positive or negative. The CreditWatch negative on GLIC and GLIC-NY reflects the potential for further deterioration of their stand-alone creditworthiness due to ongoing reserve issues and in consideration of efforts to isolate these subsidiaries from the group, which could result in a downgrade of one or more notches. We expect to update the CreditWatch within the next 90 days.

### C. Termination Fees and Specific Performance

Section 8.5(c) of the merger agreement describes the \$210 million termination fee payable to GNW in the event China Oceanwide cancels the merger due to regulatory reasons:

(c) Parent shall, at the applicable time specified in this Section 8.5(c), pay to the Company a fee equal to \$210,000,000 (the "Parent Termination Fee") if this Agreement is terminated pursuant to:

(i) Section 8.2(a) [merger end date reached] by either the Company or Parent if, at the time of such termination, all of the conditions set forth in Section 7.1 and Section 7.2 have been satisfied or waived (other than those conditions that by their nature are to be satisfied at the Closing, provided that each of such conditions is capable of being satisfied at the Closing), except for any one or more of the conditions set forth in Section 7.1(c), Section 7.1(e) (solely with respect to an applicable Law or Order from a PRC Governmental Entity or any other Governmental Entity in the PRC, Hong Kong, Macau or Taiwan) or Section 7.2(c) (solely with respect to any PRC Regulatory Approvals);

(ii) Section 8.2(c) [government enjoins the merger] (solely with respect to an applicable Law or Order from a PRC Governmental Entity or any other Governmental Entity in the PRC, Hong Kong, Macau or Taiwan) by either the Company or Parent; or

(iii) Section 8.3(a) [GNW terminates the merger due to a breach of covenants or representations by China Oceanwide].

Furthermore, in the event that China Oceanwide were to unreasonably refuse to close the transaction, the merger agreement contains a section regarding specific performance, as follows:

SECTION 9.5(c): The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement and to enforce specifically the performance of the terms and provisions of this Agreement (including that the Company

shall be entitled to cause Parent to enforce its rights under the Equity Commitment Letter<sup>9</sup> pursuant to the terms thereof), without proof of actual damages (and each party hereby waives any requirement for the securing or posting of any bond in connection with such remedy), this being in addition to any other remedy to which such party is entitled at law or in equity; provided that, after any termination of this Agreement, the provisions of this Section 9.5(c) shall survive only with respect to those provisions of this Agreement which survive the termination of this Agreement pursuant to the provisions of the second sentence of Section 9.1. If, prior to the End Date, any party hereto brings any Proceeding in accordance with this Section 9.5 to enforce specifically the performance of the terms and provisions hereof by any other party, the End Date shall be automatically extended (x) for the period during which such Proceeding is pending, plus 10 Business Days or (y) by such other time period established by the Tribunal or court presiding over such action, as the case may be.

## D. GNW Long Term Care Reserves Increases

Also on October 23, 2016, GNW announced that it would incur special long-term care (LTC) charges with respect its Q3 FY 2016 earnings (source [here](#)):

### Genworth Financial Announces Preliminary Charges For The Third Quarter

\$400 To \$450 Million Pre-Tax Increase To Long Term Care Insurance (LTC) Claim Reserves  
Under U.S. GAAP

\$275 To \$325 Million Non-Cash Tax Charges

Richmond, VA (October 23, 2016) – Genworth Financial, Inc. (NYSE: GNW) today announced preliminary charges for the third quarter of 2016. During the quarter, the company completed its annual review of assumptions and methodologies related to its LTC claim reserves. Based on this review, which included an additional year of claims experience since the last annual review in the third quarter of 2015, the company updated several assumptions and methodologies related to LTC claim reserves. The updates included the following:

- Reflected differences in claim termination rate assumptions between product types and daily benefit amounts;
- Reduced claim termination rate assumptions for longer duration claims for certain product types;
- Modestly refined utilization rate assumptions; and
- Refined methodology primarily related to the calculation of incurred but not reported reserves to better reflect the aging of the block.

As a result of this review, the company expects to increase LTC claim reserves by approximately \$400 to \$450 million pre-tax resulting in an after-tax charge to earnings of \$260 to \$300 million for the third quarter. These results are currently being reviewed both internally and by a third party actuarial firm. The final results will be released in conjunction with the company's release of its third quarter results.

Additionally, the company anticipates the updated claim reserves assumptions will impact our margins. The company expects that future rate action plans and other management actions will help mitigate the anticipated impact. The net impact on margins is not known at this time, as the analysis and work will be completed in the fourth quarter.

<sup>9</sup> The Equity Commitment Letter, which creates a binding commitment of China Oceanwide to advance the funds necessary to complete the GNW acquisition, is among (i) GNW, (ii) the legal acquirer of GNW under the merger agreement, Asia Pacific Global Capital Co., Ltd., a limited liability company incorporated in the PRC, and (iii) each of China Oceanwide Holdings Group Co., Ltd., a limited liability company incorporated in the PRC, Oceanwide Capital Investment Management Group Co. Ltd., a limited liability company incorporated in the PRC, and Wuhan CBD Development & Investment Co., Ltd., a joint stock company incorporate in the PRC, as the investors.

In light of the company's latest financial projections, including the projected impact to current and future earnings associated with higher expected claim costs in LTC and sustained low interest rates, the company also expects to record a non-cash charge of \$275 to \$325 million primarily related to deferred tax assets that are not expected to be utilized before their expiration.

While any unexpected increase in loss reserves by an insurance company (euphemistically referred to in the industry as "reserve strengthening"<sup>10</sup>) is unsettling, reading between the lines it appears that GNW's regulators, perhaps out of an abundance of caution, required the company to increase its LTC reserves as a *quid pro quo* for provisionally allowing the unstacking of GNW's insurance subsidiaries in connection with the China Oceanwide merger. In other words, in order to get something from the regulators, GNW needed to give them something in return, so that the regulators could not be blamed down the line for failing to protect GNW's LTC policyholders in a change-of-control scenario.

### E. Rationale for the Acquisition From China Oceanwide's Perspective

GNW represents an attractive takeout candidate for China Oceanwide for the following reasons:

- (1) Chinese companies currently desire to move renminbi abroad as the Chinese currency continues to weaken. They recent, seemingly inexorable, decline in the renminbi has been much commented on in the press. Chinese companies obviously have been watching anxiously and appear to be increasingly desirous of getting their money into greenbacks before the yuan completely collapses. Logically a good way to do this is by buying American companies, preferably undervalued ones, thereby exchanging overvalued renminbi for undervalued dollar-denominated assets. The purchase of GNW fits the bill perfectly for a company like China Oceanwide.<sup>11</sup>
- (2) Rising interest rates in the United States are bullish for insurance and financial companies like GNW. China Oceanwide is also no doubt keenly aware that the Federal Reserve has entered into a rate-tightening phase. This bodes well for life insurance companies such as GNW, since they will be able to

<sup>10</sup> In [Berkshire Hathaway's 2001 shareholder letter](#), Warren Buffett had the following choice words regarding this euphemism: "We recommend scrapping the term "loss development" and its equally ugly twin, "reserve strengthening." (Can you imagine an insurer, upon finding its reserves excessive, describing the reduction that follows as "reserve weakening"?) "Loss development" suggests to investors that some natural, uncontrollable event has occurred in the current year, and "reserve strengthening" implies that adequate amounts have been further buttressed. The truth, however, is that management made an error in estimation that in turn produced an error in the earnings previously reported. The losses didn't "develop"—they were there all along. What developed was management's understanding of the losses (or, in the instances of chicanery, management's willingness to finally fess up). A more forthright label for the phenomenon at issue would be "loss costs we failed to recognize when they occurred" (or maybe just "oops")."

<sup>11</sup> Note that it is also possible that China Oceanwide already has significant funds located outside of China that it wishes to remain invested outside of its home market. The financial statements of China Oceanwide are not available, so it is currently impossible to tell whether this is the case or not.



redeploy their available investment funds into higher returning assets as rates rise. This view was [summarized by the Wall Street Journal](#) late last year:

Few companies are rooting for a sustained rise in interest rates as loudly as U.S. insurers are, and life insurers are leading the cheers. Most insurers earn substantial income from investing premiums, and they typically favor high-quality bonds, whose yields have plummeted in recent years amid the sustained low interest-rate environment. Life insurers depend more heavily on investment income than do car, home and some sorts of business insurers. That's because life insurers can collect premiums for decades before paying out a claim, and rely on that investment income to make a policy profitable. For many older policies on life insurers' books, the companies expected to earn far-higher yields than newly invested cash fetches today.

- (3) Upon the unstacking of GNW's insurance subsidiaries, GNW will be able to more freely dividend cash to the holding company. The unstacking of GNW's insurance subsidiaries in connection with the merger will prevent dividends from being bottlenecked prior to reaching the parent holding company, since each insurance subsidiary will be directly owned by the parent rather than indirectly via intermediate holding companies. Under the current corporate structure a dividend might be freely payable by one subsidiary, only to be trapped at another level in the corporate structure due to restrictions at that level regarding dividend payments. Upon consummation of the merger, China Oceanwide will therefore have an increased ability to upstream dividends and further grow GNW's overall business.

### III. Historical Financials

#### A. GNW's Historical Financial Data

For reference, below please find past [5-year financial data for GNW](#):

(Amounts in millions, except per share amounts)	Years ended December 31,				
	2015	2014	2013	2012	2011
<b>Consolidated Statements of Income Information</b>					
Revenues:					
Premiums	\$ 4,579	\$ 4,700	\$ 4,516	\$ 4,364	\$ 4,850
Net investment income	3,138	3,142	3,155	3,216	3,210
Net investment gains (losses)	(75)	(22)	(64)	22	(194)
Policy fees and other income	906	909	1,018	1,226	1,037
Total revenues	8,548	8,729	8,625	8,828	8,903
Benefits and expenses:					
Benefits and operating expenses	8,144	9,595	7,182	7,752	8,445
Interest expense	419	433	450	431	468
Total benefits and expenses	8,563	10,028	7,632	8,183	8,913
Income (loss) from continuing operations before income taxes	(15)	(1,299)	993	645	(10)
Provision (benefit) for income taxes	(9)	(94)	313	131	(45)
Income (loss) from continuing operations	(6)	(1,205)	680	514	35
Income (loss) from discontinued operations, net of taxes (1)	(407)	157	34	11	142
Net income (loss)	(413)	(1,048)	714	525	177
Less: net income attributable to noncontrolling interests (2)	202	196	154	200	139
Net income (loss) available to Genworth Financial, Inc.'s common stockholders	\$ (615)	\$ (1,244)	\$ 560	\$ 325	\$ 38
Income (loss) from continuing operations available to Genworth Financial, Inc.'s common stockholders per common share:					
Basic	\$ (0.42)	\$ (2.82)	\$ 1.07	\$ 0.64	\$ (0.21)
Diluted (3)	\$ (0.42)	\$ (2.82)	\$ 1.05	\$ 0.63	\$ (0.21)
Income (loss) from discontinued operations, net of taxes, available to Genworth Financial, Inc.'s common stockholders per common share:					
Basic (1)	\$ (0.82)	\$ 0.32	\$ 0.07	\$ 0.02	\$ 0.29
Diluted (1)	\$ (0.82)	\$ 0.32	\$ 0.07	\$ 0.02	\$ 0.29
Net income (loss) available to Genworth Financial, Inc.'s common stockholders per common share:					
Basic	\$ (1.24)	\$ (2.51)	\$ 1.13	\$ 0.66	\$ 0.08
Diluted (3)	\$ (1.24)	\$ (2.51)	\$ 1.12	\$ 0.66	\$ 0.08
<b>Consolidated Balance Sheet Information</b>					
Total investments	\$ 69,128	\$ 71,773	\$ 67,203	\$ 72,638	\$ 70,227
All other assets (5)	37,176	37,400	38,370	37,663	38,630
Assets held for sale (1)	127	2,143	2,425	2,964	3,265
Total assets	\$ 106,431	\$ 111,316	\$ 107,998	\$ 113,265	\$ 112,122
Policyholder liabilities	\$ 74,087	\$ 73,313	\$ 69,733	\$ 70,744	\$ 69,422
Non-recourse funding obligations	1,920	1,981	2,021	2,047	3,220
Long-term borrowings	4,570	4,612	5,131	4,748	4,697
All other liabilities	11,090	13,519	14,242	16,527	17,091
Liabilities held for sale (1)	127	1,094	1,251	1,418	1,560
Total liabilities	\$ 91,794	\$ 94,519	\$ 92,378	\$ 95,484	\$ 95,990
Accumulated other comprehensive income (loss)	\$ 3,010	\$ 4,446	\$ 2,542	\$ 5,202	\$ 4,047
Noncontrolling interests (2)	\$ 1,813	\$ 1,874	\$ 1,227	\$ 1,288	\$ 1,110
Total equity	\$ 14,637	\$ 16,797	\$ 15,620	\$ 17,781	\$ 16,132
<b>U.S. Statutory Financial Information (6)</b>					
Statutory capital and surplus (7)	\$ 4,941	\$ 5,409	\$ 5,104	\$ 4,489	\$ 4,604
Asset valuation reserve	\$ 339	\$ 311	\$ 272	\$ 218	\$ 149



For reference, below please find the [most recent 9-month financial data for GNW](#):

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Premiums	\$ 1,108	\$ 1,145	\$ 3,029	\$ 3,422
Net investment income	805	783	2,373	2,357
Net investment gains (losses)	20	(51)	31	(59)
Policy fees and other income	217	223	738	672
Total revenues	2,150	2,100	6,171	6,392
<b>Benefits and expenses:</b>				
Benefits and other changes in policy reserves	1,662	1,290	3,715	3,714
Interest credited	173	179	523	540
Acquisition and operating expenses, net of deferrals	269	314	990	876
Amortization of deferred acquisition costs and intangibles	94	563	305	759
Interest expense	77	105	262	315
Total benefits and expenses	2,275	2,451	5,795	6,204
Income (loss) from continuing operations before income taxes	(125)	(351)	376	188
Provision (benefit) for income taxes	222	(134)	355	27
Income (loss) from continuing operations	(347)	(217)	21	161
Income (loss) from discontinued operations, net of taxes	15	(21)	(25)	(334)
Net loss	(332)	(238)	(4)	(173)
Less: net income attributable to noncontrolling interests	48	46	151	150
Net loss available to Genworth Financial, Inc.'s common stockholders	\$ (380)	\$ (284)	\$ (155)	\$ (323)
<b>Income (loss) from continuing operations available to Genworth Financial, Inc.'s common stockholders per common share:</b>				
Basic	\$ (0.79)	\$ (0.53)	\$ (0.26)	\$ 0.02
Diluted	\$ (0.79)	\$ (0.53)	\$ (0.26)	\$ 0.02
<b>Net loss available to Genworth Financial, Inc.'s common stockholders per common share:</b>				
Basic	\$ (0.76)	\$ (0.57)	\$ (0.31)	\$ (0.65)
Diluted	\$ (0.76)	\$ (0.57)	\$ (0.31)	\$ (0.65)
<b>Weighted-average common shares outstanding:</b>				
Basic	498.3	497.4	498.3	497.3



	September 30, 2016 (Unaudited)	December 31, 2015
<b>Assets</b>		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 63,780	\$ 58,197
Equity securities available-for-sale, at fair value	590	310
Commercial mortgage loans	6,017	6,170
Restricted commercial mortgage loans related to securitization entities	134	161
Policy loans	1,751	1,568
Other invested assets	2,676	2,309
Restricted other invested assets related to securitization entities, at fair value	312	413
Total investments	75,260	69,128
Cash and cash equivalents	3,078	5,965
Accrued investment income	677	653
Deferred acquisition costs	3,982	4,398
Intangible assets and goodwill	258	357
Reinsurance recoverable	17,542	17,245
Other assets	570	520
Deferred tax asset	—	155
Separate account assets	7,485	7,883
Assets held for sale	—	127
Total assets	\$ 108,852	\$ 106,431
<b>Liabilities and equity</b>		
Liabilities:		
Future policy benefits	\$ 37,405	\$ 36,475
Policyholder account balances	25,867	26,209
Liability for policy and contract claims	8,869	8,095
Unearned premiums	3,464	3,308
Other liabilities (\$2 and \$46 of other liabilities are related to securitization entities)	3,280	3,004
Borrowings related to securitization entities (\$11 and \$81 are at fair value)	78	179
Non-recourse funding obligations	310	1,920
Long-term borrowings	4,194	4,570
Deferred tax liability	1,151	24
Separate account liabilities	7,485	7,883
Liabilities held for sale	—	127
Total liabilities	92,103	91,794
<b>Commitments and contingencies</b>		
<b>Equity:</b>		
Class A common stock, \$0.001 par value; 1.5 billion shares authorized; 587 million and 586 million shares issued as of September 30, 2016 and December 31, 2015, respectively; 498 million shares outstanding as of September 30, 2016 and December 31, 2015	1	1
Additional paid-in capital	11,959	11,949
Accumulated other comprehensive income (loss):		
Net unrealized investment gains (losses):		
Net unrealized gains (losses) on securities not other-than-temporarily impaired	2,836	1,236
Net unrealized gains (losses) on other-than-temporarily impaired securities	24	18
Net unrealized investment gains (losses)	2,860	1,254
Derivatives qualifying as hedges	2,493	2,045
Foreign currency translation and other adjustments	(151)	(289)
Total accumulated other comprehensive income (loss)	5,202	3,010
Retained earnings	409	564
Treasury stock, at cost (88 million shares as of September 30, 2016 and December 31, 2015)	(2,700)	(2,700)
Total Genworth Financial, Inc.'s stockholders' equity	14,871	12,824
Noncontrolling interests	1,878	1,813
Total equity	16,749	14,637
Total liabilities and equity	\$ 108,852	\$ 106,431



## B. GNW's Earnings Estimates

Below are [analyst estimates](#) for earnings for GNW for this fiscal year and next fiscal year:

EPS Trend	Current Qtr.	Next Qtr.	Current Year	Next Year
Current Estimate	0.19	N/A	-0.18	N/A
7 Days Ago	0.19	0.24	-0.18	0.92
30 Days Ago	0.21	0.25	0.89	0.94
60 Days Ago	0.21	0.24	0.88	0.93
90 Days Ago	0.21	0.24	0.88	0.93

Assuming GNW were to fall to \$3.42 per share following a termination of the merger agreement, this would represent a 26% forward earnings yield (0.92 / 3.42).

## IV. Risk Factors

Below are some key risk factors involved in an investment in GNW shares (investors should carefully review all of the risk factors set forth GNW's SEC filings, for example [here](#) and [here](#)):

### **Risks Related to the Merger**

- The proposed transaction with China Oceanwide may not be completed or may not be completed in the timeframe, terms or manner currently anticipated, which could have a material adverse effect on us and our stock price. The transaction is subject to approval by Genworth's stockholders as well as other closing conditions, including the receipt of required regulatory approvals. The required regulatory approvals include, in addition to certain Chinese approvals, certain requisite regulatory and other governmental approvals, non-disapprovals or confirmations, as applicable, from Fannie Mae and Freddie Mac (as may be applicable), the Financial Industry Regulatory Authority, the Committee on Foreign Investment in the United States, certain U.S. insurance regulators in Delaware, New York, North Carolina, South Carolina, Vermont and Virginia and certain Canadian, Australian and New Zealand regulators, and certain regulatory approvals necessary to consummate the transfer by GLIC of its ownership of GLAIC, in whole, to an intermediate holding company and certain other planned restructuring transactions to be consummated by us. In addition, the transaction is conditioned on there not having been a change or the public announcement of a change in the financial strength rating assigned to GMICO to below "BB (negative outlook)" by S&P that is primarily and directly attributable to the actions or inactions by Genworth, its affiliates or their respective representatives that do not relate to an "excluded effect" (as defined in the merger agreement), or an adverse change in the condition (financial or otherwise) of GMICO and its businesses not resulting from or arising out of an excluded effect. There is no assurance that the conditions to the transaction will be satisfied in a timely manner or at all. If the transaction is not completed, we may suffer a number of consequences that could adversely affect our stock price, business, results of operations and financial condition, including:
  - the potential inability to restructure our U.S. life insurance businesses, which we believe is essential to increasing the liquidity of the holding company and isolating long-term care insurance risks from the rest of our businesses;
  - increased pressure on and potential downgrades of our debt and financial strength ratings, particularly for our mortgage insurance businesses, which could have an adverse impact on our mortgage businesses;
  - a negative impact on our holding company liquidity and ability to service and/or refinance our holding company debt; and
  - we may be required to pursue strategic alternatives that would materially impact our business, including potential sales of our mortgage insurance businesses in Canada and Australia and/or a partial sale of our U.S. mortgage insurance business.
  - the risk that the parties will not be able to obtain stockholder or regulatory approvals, or the possibility that they may delay the transaction or that materially burdensome or adverse regulatory conditions may be imposed in connection with any such regulatory approvals;
  - potential legal proceedings may be instituted against us following announcement of the transaction;
  - the risk that the proposed transaction disrupts Genworth's current plans and operations as a result of the announcement and consummation of the transaction;
  - certain restrictions during the pendency of the transaction that may impact Genworth's ability to pursue certain business opportunities or strategic transactions;



- continued availability of capital and financing to Genworth before the consummation of the transaction;
- further rating agency actions and downgrades in Genworth's debt or financial strength ratings;
- changes in applicable laws or regulations;
- our ability to recognize the anticipated benefits of the transaction;
- the amount of the costs, fees, expenses and other charges related to the transaction;
- the risks related to diverting management's attention from our ongoing business operations;
- the merger agreement may be terminated in circumstances that would require us to pay China Oceanwide a fee;
- our ability to attract, recruit, retain and motivate current and prospective employees may be adversely affected; and
- disruptions and uncertainty relating to the transaction, whether or not it is completed, may harm our relationships with our employees, customers, distributors, vendors or other business partners, and may result in a negative impact on our business.



## V. Conclusion

For the reasons discussed herein, the GNW-China Oceanwide merger arbitrage opportunity is attractive because (i) the spread is relatively wide, even though the merger is likely to win antitrust approval, (ii) the downside scenario if the merger fails is not overly draconian, with GNW expected to fall to approximately \$3.42 per share, and (iii) the merger is likely to be consummated around the middle of 2017. Given the foregoing, if nothing upsets the apple cart and the merger closes as anticipated, today's GNW purchaser is expected to obtain a ~26% IRR on his investment (see top of 1<sup>st</sup> page of this writeup).



## **VI. Disclaimer**

As of the publication date of this report, Seven Corners Capital Management and its affiliates (collectively, "Seven Corners") have long positions in Genworth stock ("GNW"). In addition, others that contributed research to this report and others that we have shared our research with (collectively with Seven Corners, the "Authors") likewise may have long positions in, and/or own options on, GNW. The Authors stand to realize gains in the event that the price of the stock increases. Following publication of the report, the Authors may transact in the securities of the company covered herein. All content in this report represent the opinions of Seven Corners. The Authors have obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented "as is," without warranty of any kind—whether express or implied. The Authors make no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results obtained from its use. All expressions of opinion are subject to change without notice, and the Authors do not undertake to update or supplement this report or any information contained herein.

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