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## Investors not applauding Genworth sale to China Oceanwide

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By Editorial Staff      Thu, Oct 27, 2016

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China Oceanwide Holdings Group Co., Ltd., a Chinese company, has agreed to buy all of the outstanding shares of Genworth Financial for about \$2.7 billion, or \$5.43 per share, according to a release this week. The acquisition will be completed through Asia Pacific Global Capital Co. Ltd., a China Oceanwide's investment platform.

Genworth shares sold for as much as \$36 in mid-2007 and for less than \$1 in early 2009, at the post-crash market bottom. The share price recovered to over \$18 by May 2014 but fell steadily to as little as \$1.70 last February.

Shareholders, who have been [stewing](#) for months over Genworth's debt load, reacted to the deal by selling Genworth stock. The share price fell almost 4%, to \$4.26, in early trading on October 27.

Beijing-based China Oceanwide is a privately held, family-owned holding company founded by Lu Zhiqiang. It has operations in financial services, energy, culture and media, and real estate assets globally, including the U.S., with about 10,000 employees.

The transaction is subject to approval by Genworth's stockholders as well as other closing conditions, including the receipt of required regulatory approvals.

China Oceanwide will also give Genworth \$600 million to settle debt maturing in 2018, on or before its maturity, and provide \$525 million of cash to the U.S. life insurance businesses. This contribution is in addition to \$175 million of cash previously committed by Genworth Holdings, Inc. to the U.S. life insurance businesses.

Separately, Genworth also announced preliminary charges unrelated to this transaction of \$535 million to \$625 million after-tax associated with long term care insurance (LTC) claim reserves and taxes.

The announcement of those intended charges, along with the acquisition by China Oceanwide as well as Genworth's risky concentration in the uncertain long-term care insurance market, caused A.M. Best to downgrade several of Genworth's ratings and place

the company and its subsidiaries under review with “negative implications.”

Genworth needed to restructure its U.S. life insurance businesses by “unstacking” Genworth Life and Annuity Insurance Company (GLAIC) from under Genworth Life Insurance Company (GLIC) and to address its 2018 debt maturity. The \$1.1 billion infusion from China Oceanwide will help it do that, the release said.

A Genworth spokesperson shed light on what “unstacking” means in this context. “Separating GLAIC from GLIC is one of the steps Genworth is taking to isolate the LTC downside risk that is pressuring its holding company and subsidiary ratings. It also will allow any future dividends from the Life and Annuity company to be paid directly to the holding company, which currently is impeded by the legal entity organization,” she told *RIJ*.

A.M. Best has downgraded the Long-Term Issuer Credit Rating (Long-Term ICR) to “bbb” from “bbb+” and affirmed the Financial Strength Rating (FSR) of B++ (Good) of Genworth Life and Annuity Insurance Company. A.M. Best also downgraded the FSR to B (Fair) from B++ (Good) and the Long-Term ICRs to “bb+” from “bbb” of Genworth Life Insurance Company and Genworth Life Insurance Company of New York. Additionally, A.M. Best downgraded the Long-Term ICRs to “bb-” from “bb+” of Genworth Financial, Inc. and Genworth Holdings, Inc., as well as their existing Long-Term Issue Credit Ratings by two notches. A.M. Best has placed all Credit Ratings under review with negative implications.

In another development, a Louisiana law firm is investigating the Genworth sale on behalf of its shareholders to determine if the China Oceanwide’s \$5.43 per share offer undervalues the company or not. The firm, Kahn Swick & Foti, includes former Louisiana attorney general Charles C. Foti, Jr.

Genworth, once part of GE Capital, would be a standalone subsidiary of China Oceanwide. Genworth’s day-to-day operations are not expected to change. Its senior management team will continue to lead the business from its Richmond, Va., headquarters. The insurer will maintain its existing businesses, including its MI businesses in Australia and Canada.

“Genworth will also continue to focus on its key operational priorities, most notably executing its multi-year LTC rate action plan, which is essential to stabilizing the financial position of the legacy LTC business. China Oceanwide has no current intention or future obligation to contribute additional capital to support Genworth’s legacy LTC business,” the release said.

The transaction, which both companies' boards have approved, is expected to close by the middle of 2017, subject to approval by Genworth's stockholders and closing conditions, including regulatory approvals. Goldman, Sachs & Co. and Lazard are advising Genworth. Citi and Willis Capital Markets & Advisory are advising China Oceanwide.

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