



Society of Actuaries in Ireland

Mergers & Acquisitions

A practitioner's perspective

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Agenda

- Introduction
- M&A trends and the external environment
- Focus on life back books
- Valuation metrics
- Approach to due diligence
- Strategic advice in sale process
- Conclusions
- Q&A



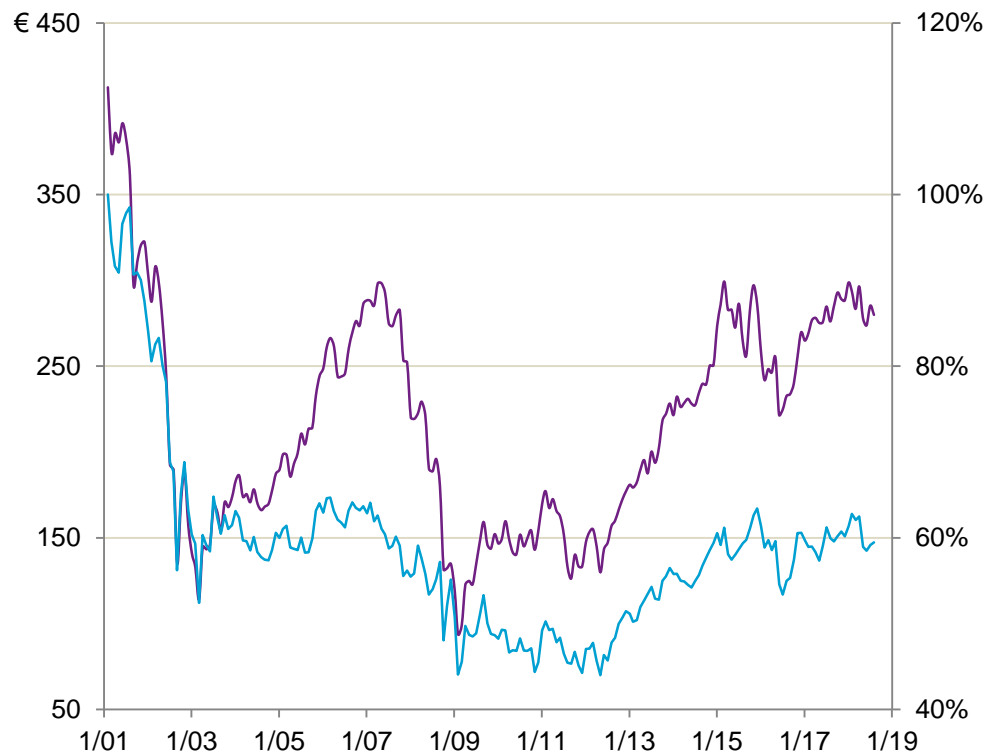
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M&A trends and the external environment



Why do Investors own the European Insurance Sector?

Sector has outperformed ...

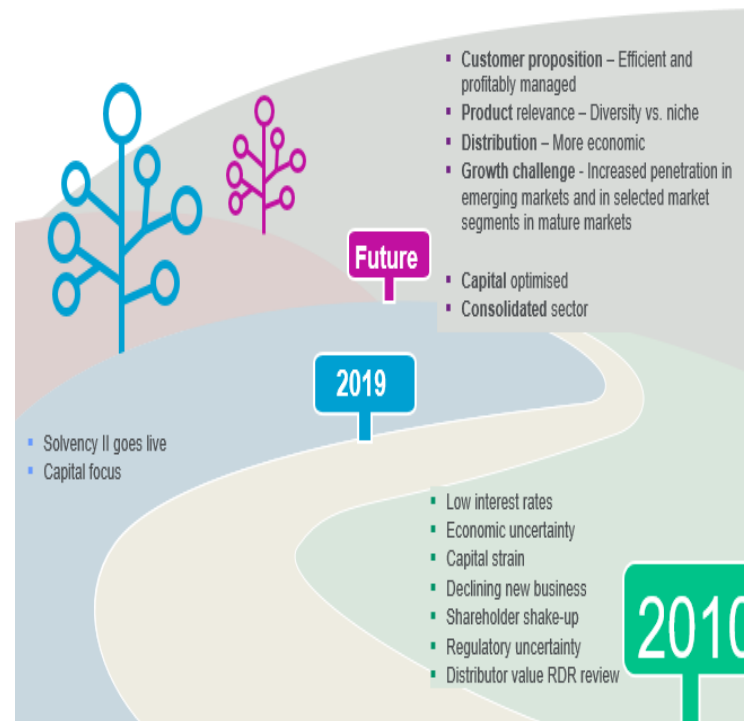


— STOXX Europe 600 Insurance – Price (€)
— STOXX Europe 600 Insurance – Relative Value to STOXX Europe 600 (%)

Source: FactSet.

... at a time when fundamentals are deteriorating

- Interest rates have declined to record lows
- Life growth has slowed
- Non-life pricing is under pressure

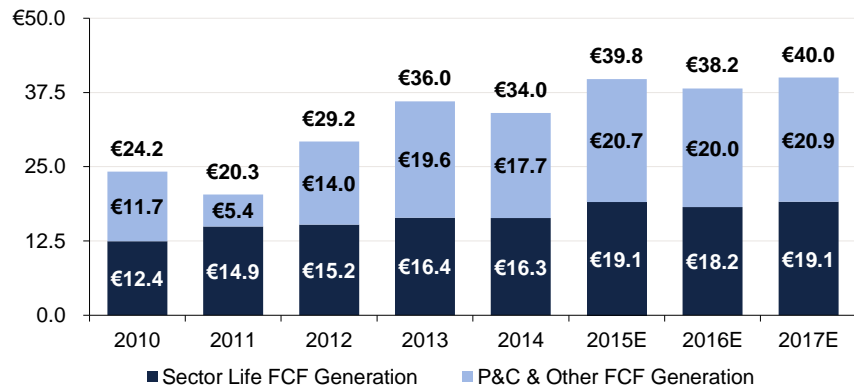




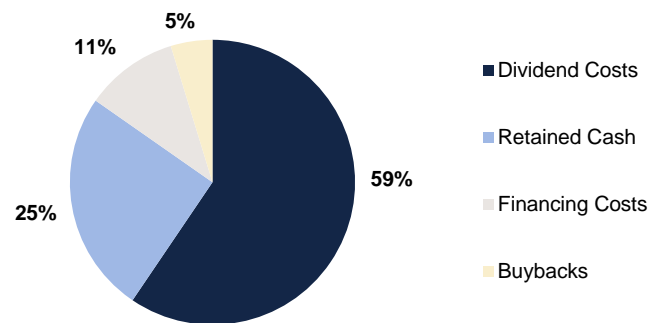
Investors own insurance for cashflow and dividends

(€ in billions)

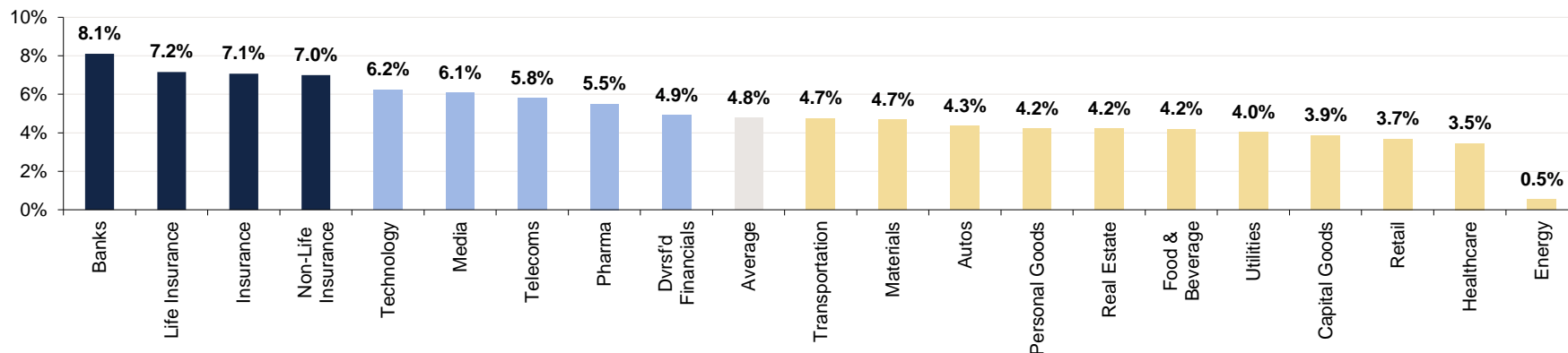
Group-wide FCF generation remains robust



2016E FCF usage well covers financing & dividend costs



Insurance Sector FCF Yield is among the most attractive in Europe

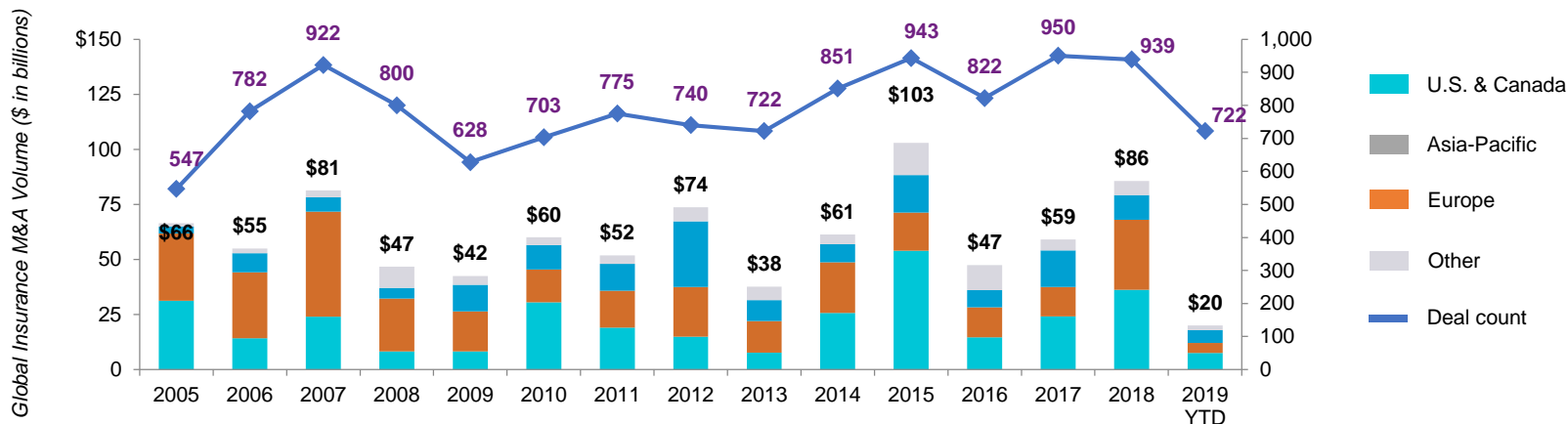


Source: BofA Merrill Lynch Global Research.

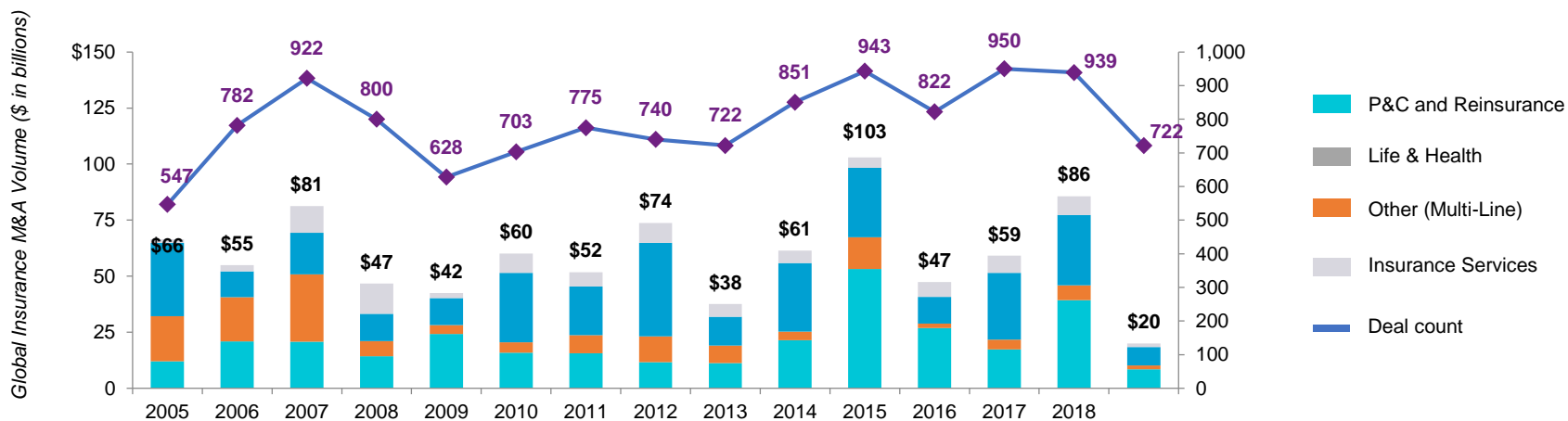


Global insurance M&A activity

Global activity by geography



Global activity by line of business



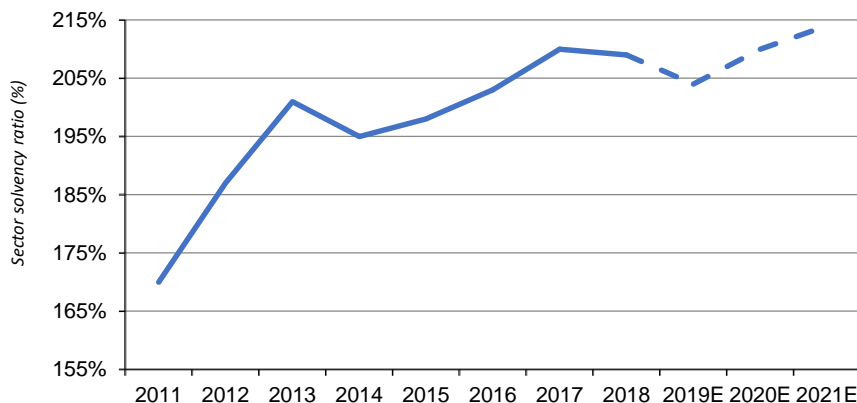


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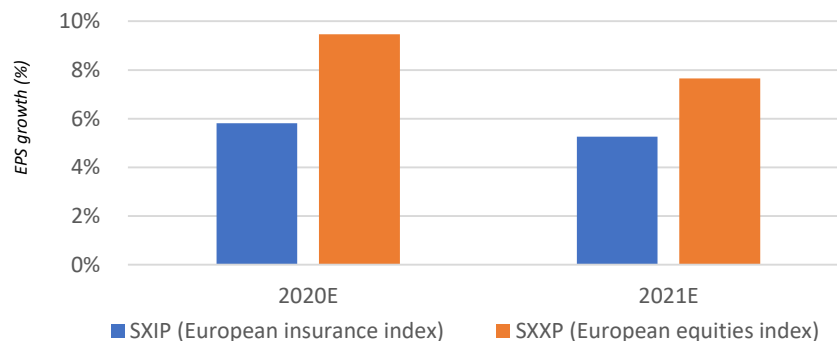
Healthy balance sheets + lack of growth = M&A appetite

The large European composites in particular are net buyers

The European insurance sector is throwing off cash, with strengthening solvency ratios

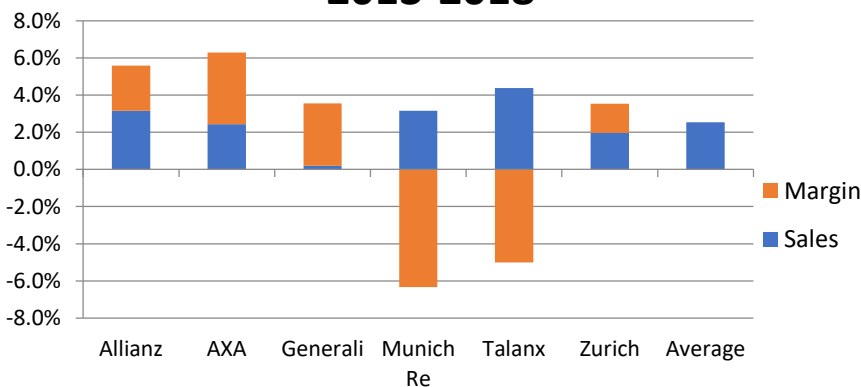


At the same time, its EPS growth lags the overall market

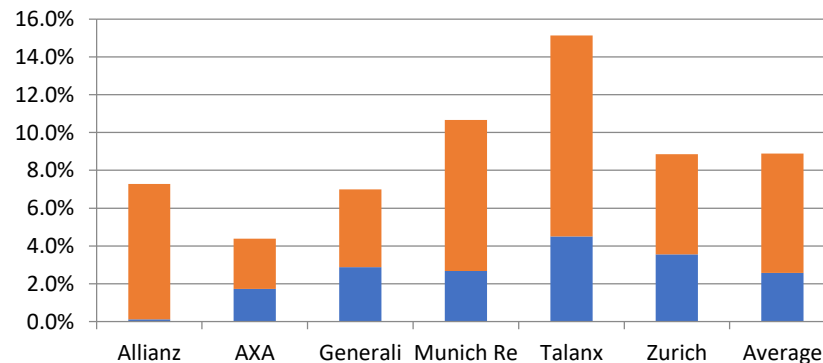


The EPS growth that *is* being achieved is coming more from margin than the top line

2013-2018



2018-2021E



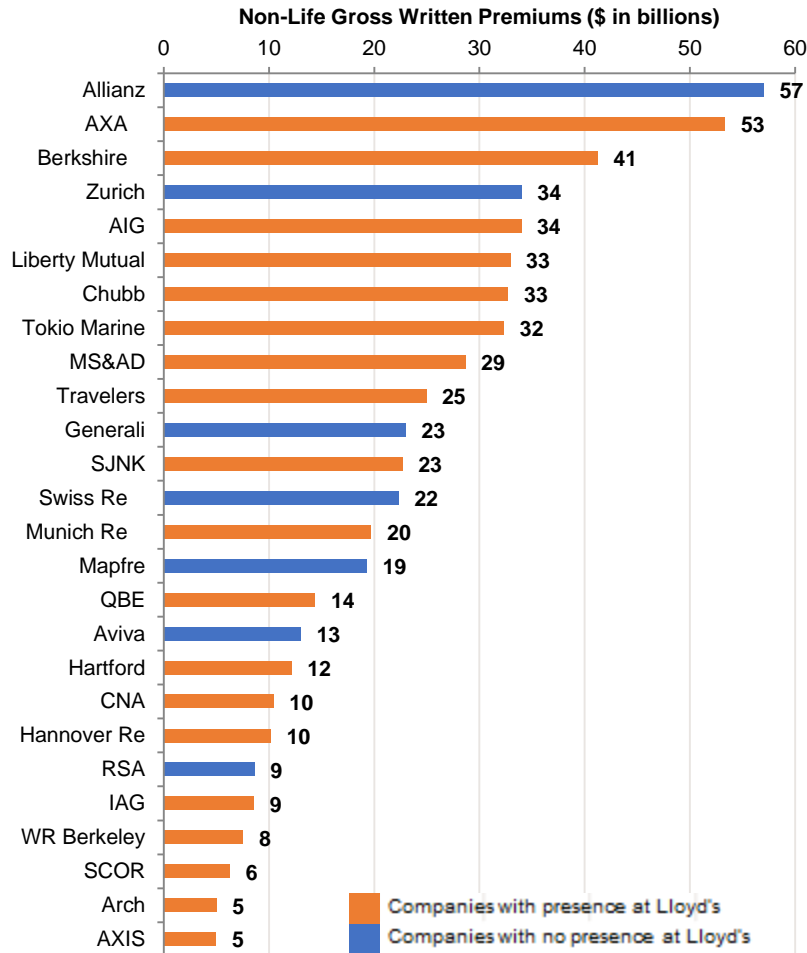


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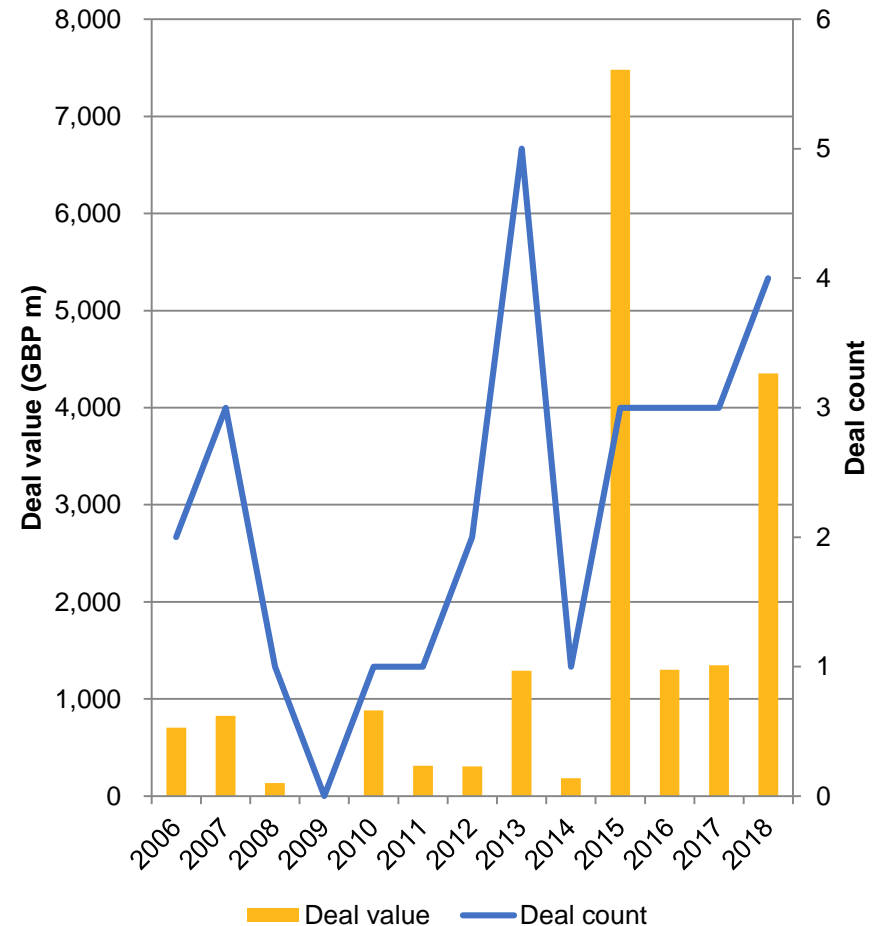
Desire to expand distribution and / or product mix

The attraction of Lloyd's

Lloyd's is an important part of many commercial lines insurers' shelf space...



...and this is a factor behind the heightened M&A activity in the Lloyd's market

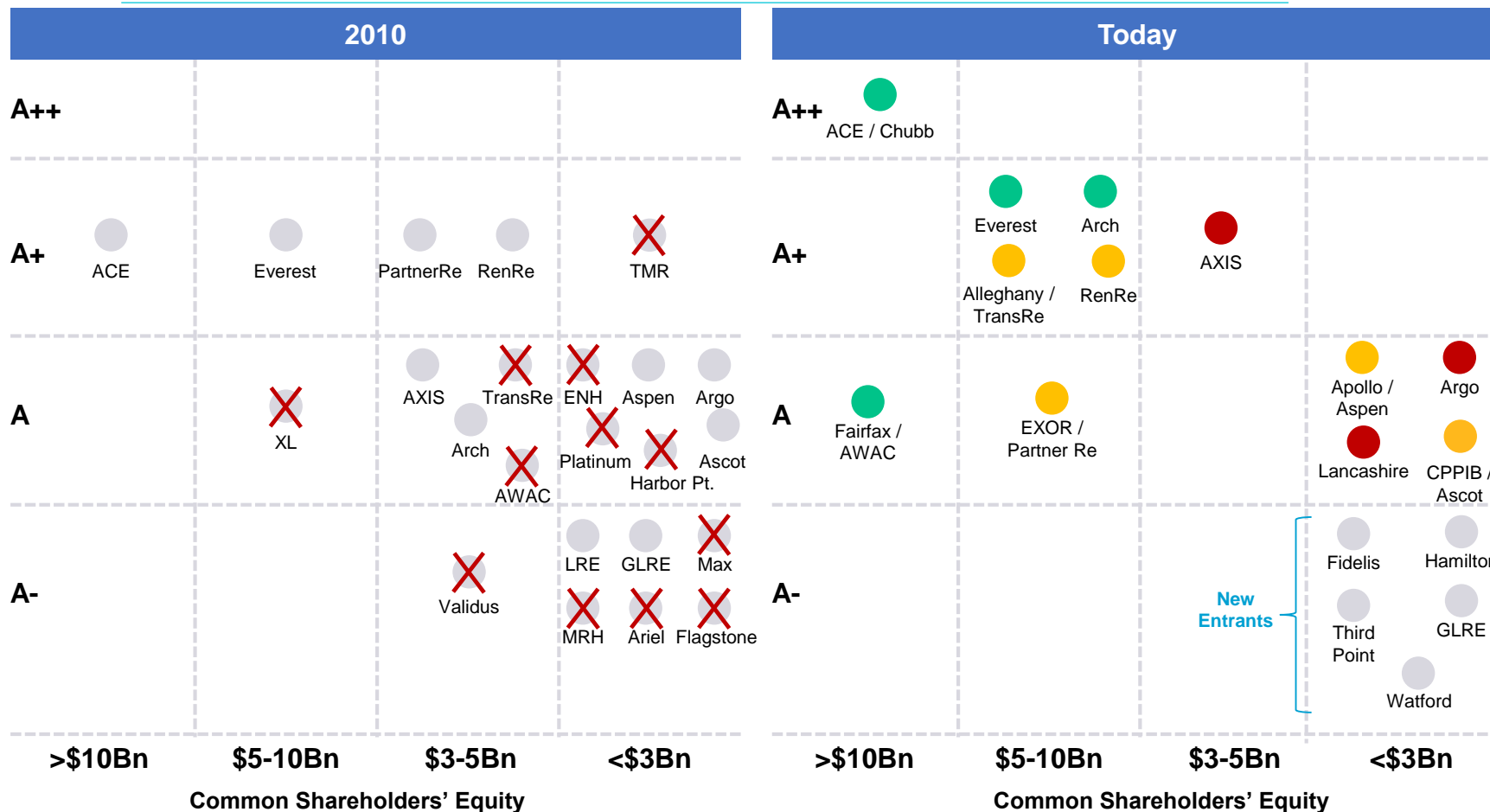




3

A hunt for scale

Example: The death of Bermuda (1)



(1) Ratings refer to AM Best

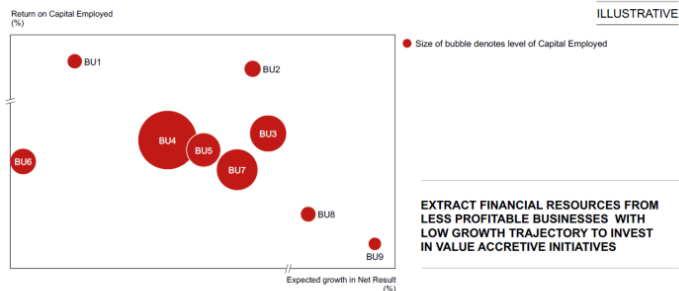


4

Focus on core activities and optimising capital

Optimisation programs are also producing sellers

Reallocate capital to BUs offering most attractive profitable growth, optimizing risk/return profile



Allianz

€1b of portfolio exits over past three years

Zurich

A net \$3.3b of capital freed up from M&A / capital actions over past 3 years

Generali

Approximately €3.5b of portfolio exits over past two years

Capital Markets Day 2018

Selective portfolio optimization

Transaction volume¹ (EUR)



¹ Not taken in case of disposals with negative P&L impact
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FINANCE UPDATE

We are focused on shareholder returns and a disciplined acquisition and disposal approach

ZURICH

DIVIDENDS AND OTHER SHAREHOLDER RETURNS (USDbn)

USD 9.0bn

Amount of dividends paid and shares repurchased in 2016, 2017 and 2018

M&A TRANSACTIONS AND DISPOSALS (USDbn)

USD 3.3bn

Net amount between purchase price of announced transactions and Z-ECM impact of dividends and other capital actions in 2016, 2017 and 2018

December 5, 2018

Investor Day

37

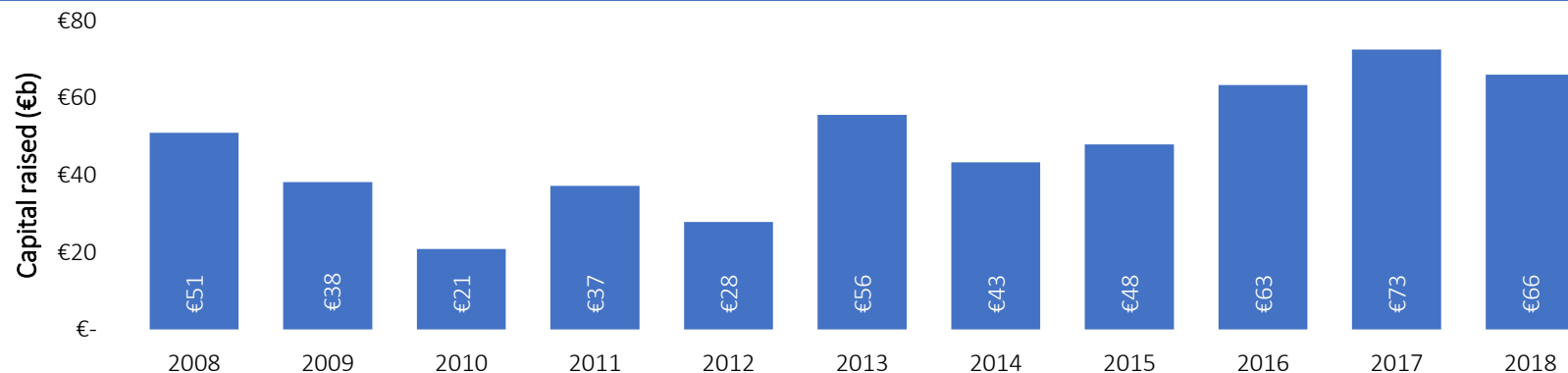


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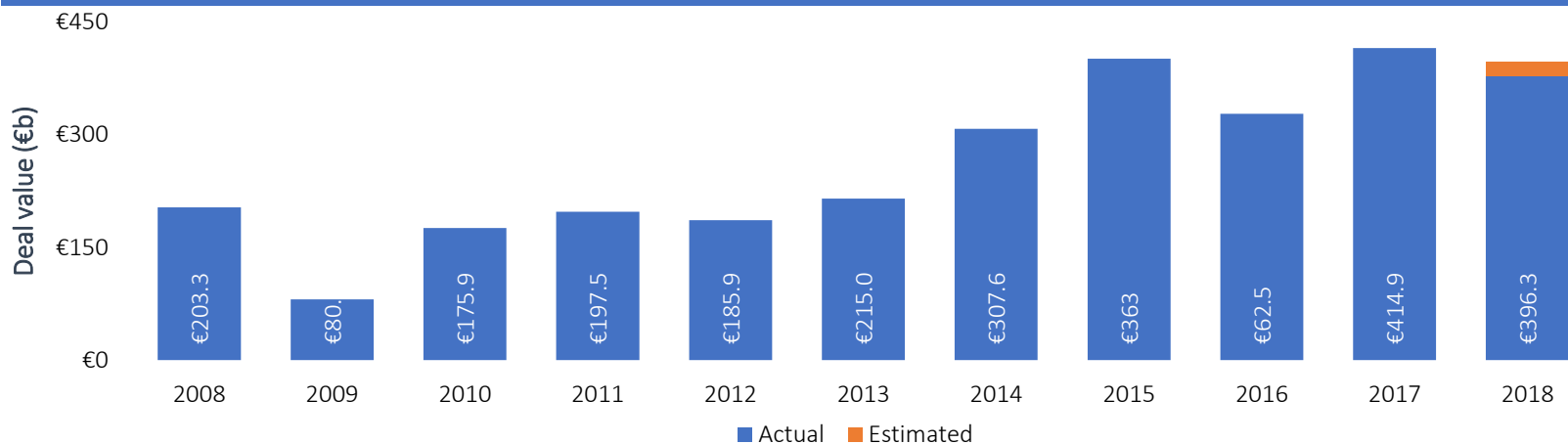
Strategic buyer demand supplemented by PE

PE, generally, has been increasingly active

European PE fundraising has been running at a high level . . .



. . . and this is accompanied by greater M&A activity





Global M&A drivers – summary

1

Healthy balance sheets + lack of growth

- *Example: Allianz's purchase of LV=*
- *Example: ASR's purchase of Generali Netherlands*

2

Desire to expand distribution and / or product mix

- *Example: AXA's purchase of XL Catlin*
- *Example: Many Lloyd's transactions, e.g. Cincinnati Financial's purchase of Beaufort*

3

A hunt for scale

- *Example: Ren Re's purchase of TMR*
- *Example: Hartford's purchase of Navigators*

4

Focus on core activities and optimising capital

- *Example: Generali's disposal of Generali Belgium*
- *Example: Standard Life Aberdeen's disposal of its life insurance activities*

5

Strategic buyer demand supplemented by PE

- *Example: Apollo's purchase of Aspen*
- *Example: Centrebridge's purchase of Canopus*



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Focus on life back books



Structural challenges across European life markets

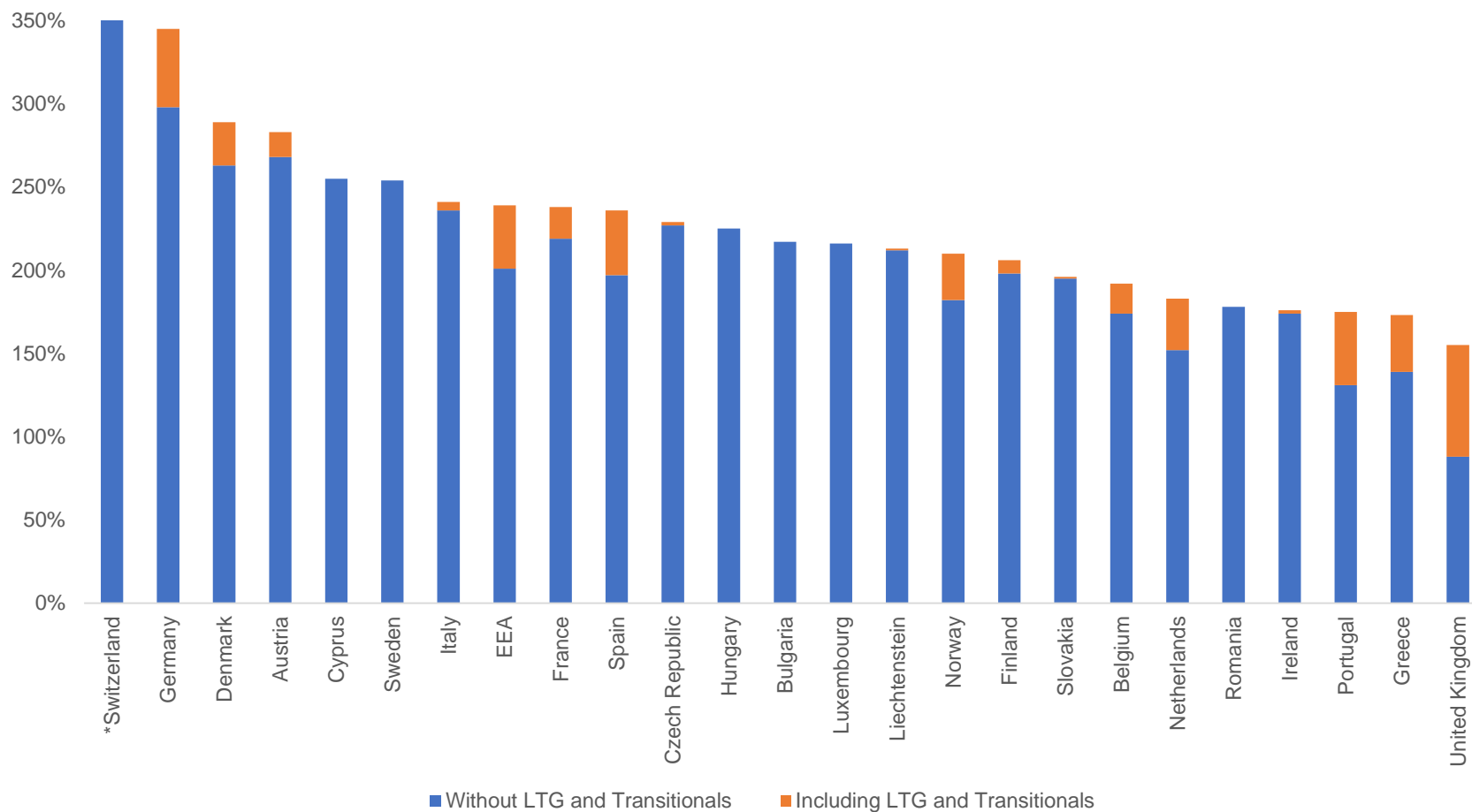
European insurers are motivated sellers

Country	Reserves (€bn)		Business mix (% of guaranteed business)	Average guarantee	Ability to lower credited rate	Duration gap (years)	Guarantee on new business	Profitability risk (Moody's)	Risk (S&P) Industry / Product / Profitability
	Non-linked	UL							
Germany	909	107	> 80%	2.5% – 3.0%	Low to medium	< 10	0.5%	Very high	Mod/Neg/Neg
Netherlands	254	110	60% – 80%	3.5%	Low	5 – 8	N/A	Very high	Mod/Neg/Neu
Italy	525	133	50% – 75%	1.0% – 1.5%	Medium	0 – 2	0.0%	Moderate	Int/Neu/Neu
Spain	184	18	> 80%	3.0%	Low	0 – 2	0.0% – 1.0%	Low	Int/Neu/Neu
Switzerland	59	15	> 80%	1.5% – 2.0%	Low	0 – 2	1.0% – 1.25%	High	N/A



Overview – Transitionals and LTG measures

Headline solvency ratios appear healthy but heavy use of transitionals in target countries



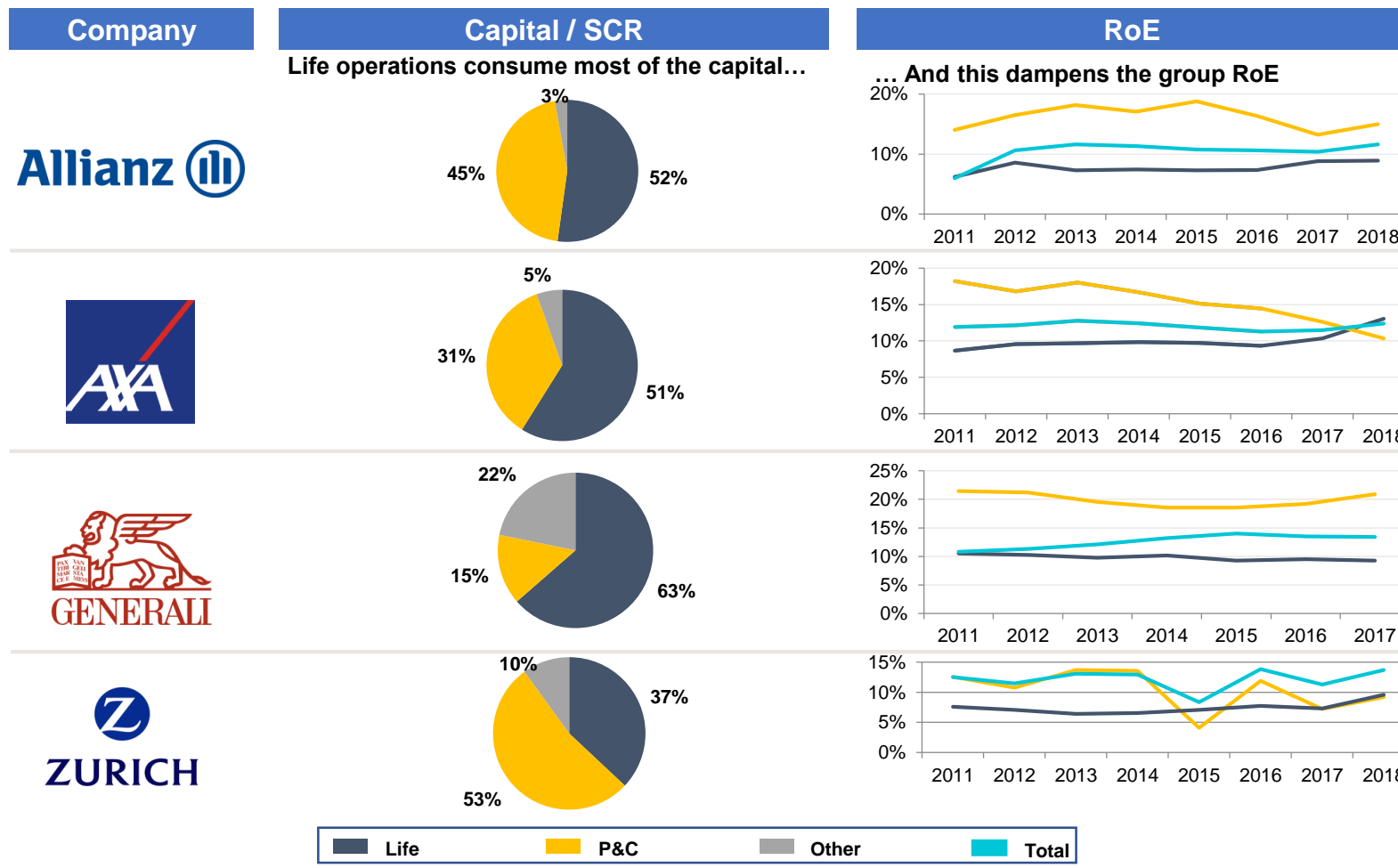
Note: Switzerland solvency coverage calculated under Swiss Solvency Test

LTG is long-term guarantee package

Source: EIOPA LTG Report 2018, FINMA

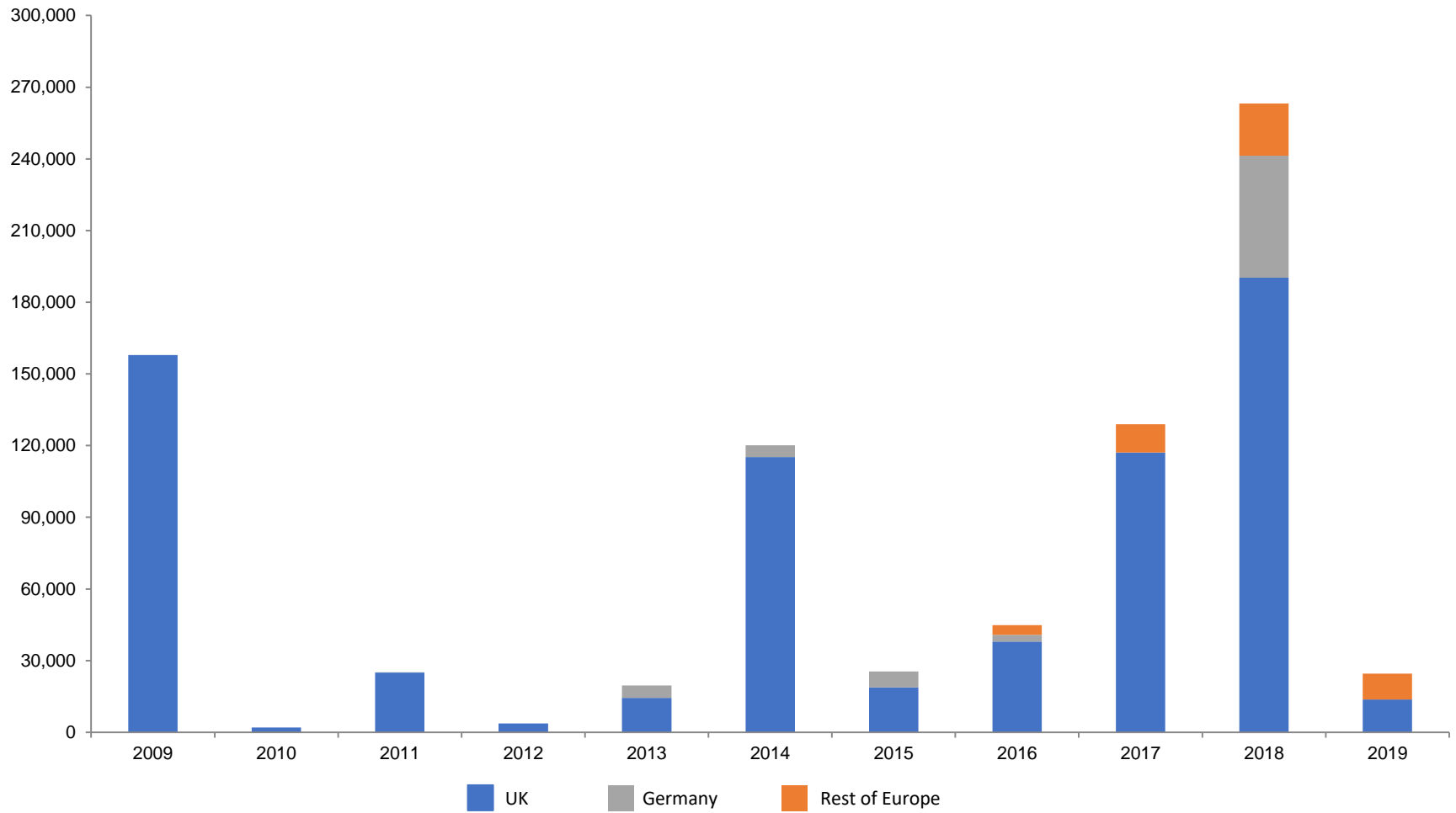


Solvency II has increased the capital intensity of life operations





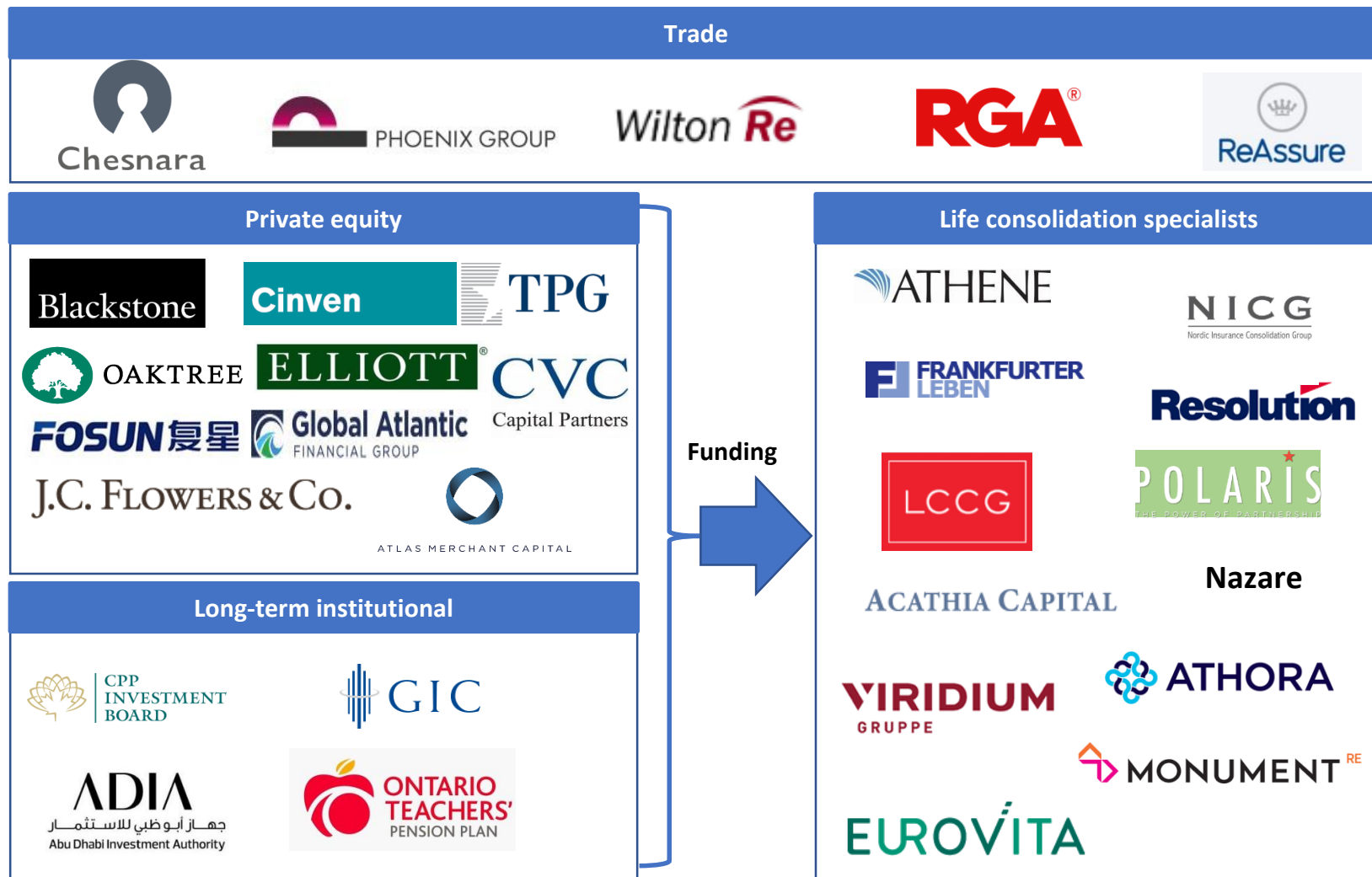
Interest in life back book transactions is picking up European announced deals



Source: Company disclosures, WTW analysis



A long and growing list of buyers





Three transaction forms

Each have relative advantages/disadvantages

Life back book transaction forms			
	Entity sale	Portfolio transfer	Reinsurance
Finality	✓	✓	
Conduct risk minimised			✓
Flexibility to carve out specific portfolios		✓	✓
Wide range of buyers	✓ ✓ ✓	✓	✓ ✓
Ability of buyer to add value	✓ ✓	✓ ✓	✓
Speed of execution			✓
Transaction confidentiality			✓



European closed life books - summary

- **European insurers are motivated sellers**
 - Old portfolios carry unwanted exposures
 - Solvency II penalises these exposures by pushing down the solvency ratio and making it more volatile
 - Bank dislocation is also producing opportunities
 - The stigma of selling below embedded value is easing; sellers recognise the benefit to capital
- **Transaction volume is growing across Europe, and we see a number of near-term concrete opportunities**
 - To date, roughly 80% of deal volume has been in the UK
 - This is now spreading to continental Europe
 - Still an active pipeline in the UK, and continental Europe remains a nascent opportunity
- **Transactions should be of interest to newer entrants**
 - Relatively few transactions in continental Europe to date, so first mover advantage has not been established
 - Sellers want an alternative to the 'obvious candidates'

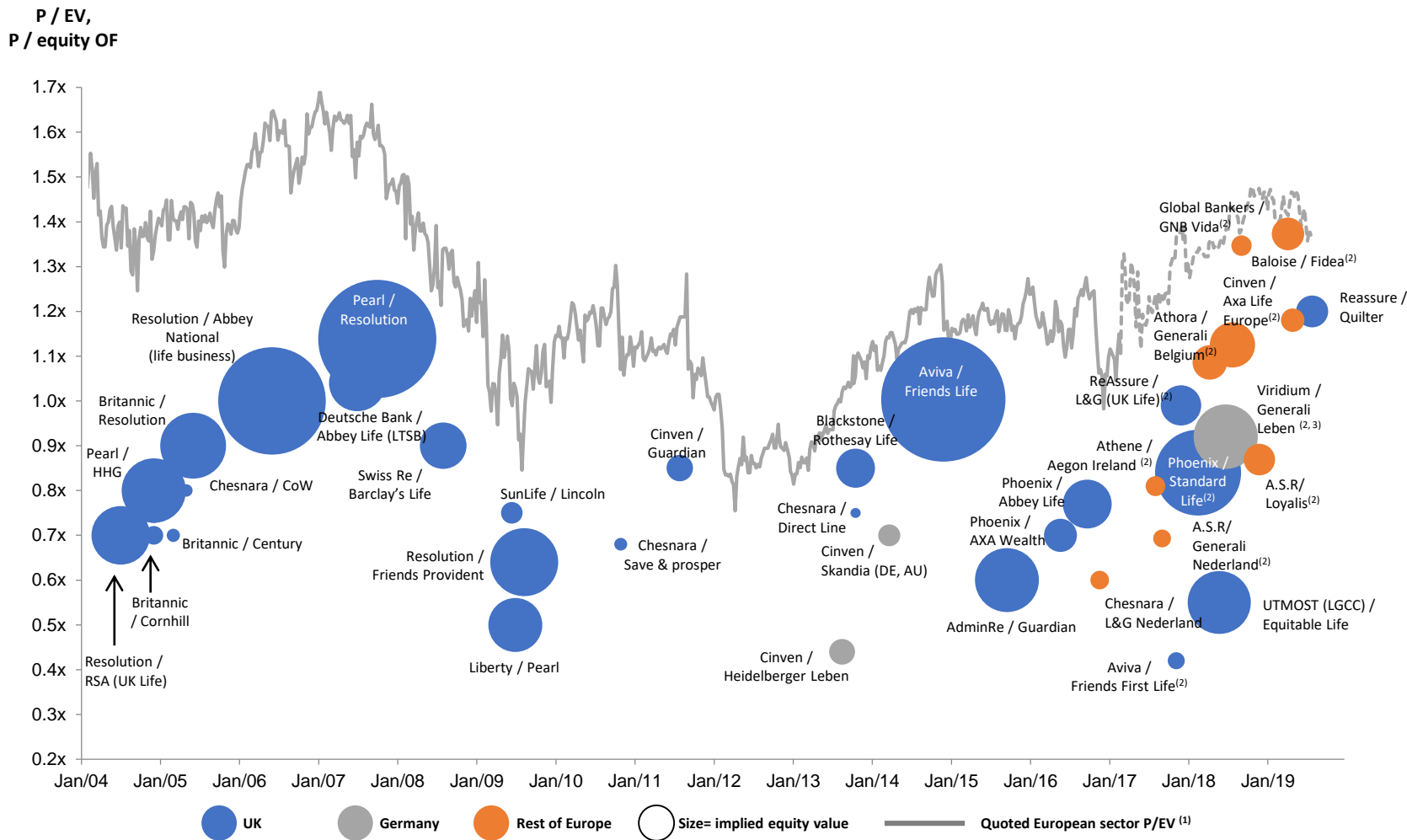


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Valuation metrics



Transaction multiples creeping up, but rarely exceed 1.0x equity OF





Share prices and analysts put most weight on capital impacts

Life run-off disposals typically accretive to capital & generate a positive reaction

1 "This should be sentiment positive for both: Aegon for disposing of non-core business; L&G for winning a bulk annuity deal in line with cost of capital hurdle rates." (Morgan Stanley analyst)

2 "AXA believe they have better opportunities to redeploy this capital elsewhere." (Barclays analyst)

3 "All in all this is a positive step forward for AEGON and the €630m of capital release should significantly reduce fears of a capital raise or dividend cut.... In fundamental terms we think this is supportive to the valuation by around 2-3%, but given fears of a capital raise the initial reaction could be stronger." (Autonomous analyst)

4 "While at a lower price than speculated, this does move Generali further to its target of generating at least €1bn of cash from its disposal / streamlining strategy." (Autonomous analyst)

Recent back book disposals

Company	Date	Transaction	IFRS impact		Capital impact		One-day share price performance	
			Local Δ (m) ⁽¹⁾	% of MCap	Local Δ (m) ⁽¹⁾	% of MCap	Absolute	Relative ⁽³⁾
1 Aegon	May-16	Sale of UK annuity portfolio to L&G	-268	(3%)	342	4%	(1%)	(1%)
2 AXA	May-16	Sale of UK investment,pensions and protection (Sunlife) bussiness	-400	(1%)	positive ⁽²⁾		1%	0%
3 Aegon	May-17	Sale of US run-off business	-270	(3%)	630	7%	6%	7%
4 Generali	Sep-17	Sale of Generali NL	-270	(1%)	344	1%	1%	(0%)
5 Legal & General	Dec-17	Sale of UK with-profit and unit-linked savings business	450	2%	156	1%	(1%)	(1%)
6 Standard Life	Feb-18	Sale of UK and European life insurance business	positive ⁽²⁾		positive ⁽²⁾		(2%)	(2%)
7 Generali	Apr-18	Sale of Generali Belgium	150	1%	577	2%	1%	0%
8 Generali	Jul-18	Sale of Generali Leben (Germany)	275	2%	577	2%	2%	2%
9 AXA	Aug-18	Sale of AXA Life Europe	0	0%	564	1%	0%	3%

5 "This will only boost the Shareholders' view of the SII ratio (1H17: 186%) by 2pp when it completes in mid-2019." (KBW analyst)

7 "We believe the market remains focused on Generali's potential to deliver dividend growth/capital repatriation and the progress on the disposals should be well received by the market." (Barclay analyst)

8 Generali materially reduces interest rate tail risk, accelerates the shift in business mix away from traditional life savings products, and receives EUR 1.8-1.9bn in cash while improving the group Solvency II ratio by 3%pts." (BofAML analyst)

9 "AXA's European VA book transaction accelerates business mix evolution and de-leveraging capacity." (BofAML analyst)

Source: Wall Street broker reports, WTW analysis

(1) In million EUR for all companies except Swiss Re which is shown in USD

(2) Not quantified, but analyst write-ups indicate a positive impact

(3) Relative to STOXX Europe 600 Insurance (SXIP)



7

Generali Belgium case study



ATHORA



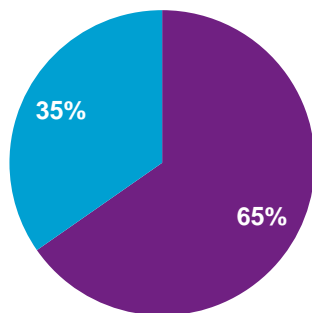
Transaction commentary

- Generali Belgium is the 11th-largest insurer in Belgium with approximately 420,000 customers.
- In April 2018, Generali entered into a binding agreement to sell its Belgium insurance unit to Athora for €540m in cash, equivalent to 1.1x Generali Belgium 'equity' own funds. The transaction closed in January 2019.
- On the assumption that Generali Belgium's life activities consume approximately 80% of SCR and own funds, and assuming that the non-life activities were valued at a premium, the implied multiple of life equity OF is slightly less than 1.0x.
- The transaction is expected to have a positive impact on Generali's Solvency II ratio of approximately 2.6 pct pts, and the company will book a capital gain of approximately €150m.

Transaction statistics

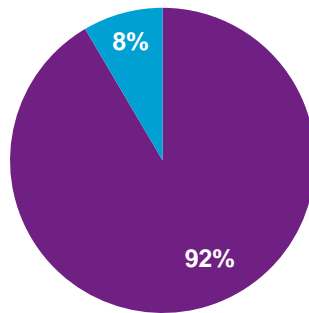
Total consideration	€540m
Total own funds	532
Less T1 capital (restricted)	0
Less Tier 2 capital	-35
Less Tier 3 capital	0
Equity own funds	€497m
Total assets ⁽¹⁾	€7,072m
Net result ⁽²⁾	€22m
<u>Purchase price /</u>	
Equity own funds	1.1x
Assets	0.08x
Net earnings	24.5x

Generali Belgium business mix (2017)



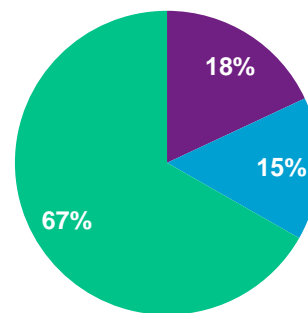
Total premiums: €748m

■ L&H ■ Non-life



Total technical provision: €6,170m

■ L&H ■ Non-life



Total gross SCR: €455m

■ L&H ■ Non-life ■ Market

"We believe the market remains focused on Generali's potential to deliver dividend growth/capital repatriation and the progress on the disposals should be well received by the market."
(Barclay analyst)

(3)

Source: Company filings, WTW analysis

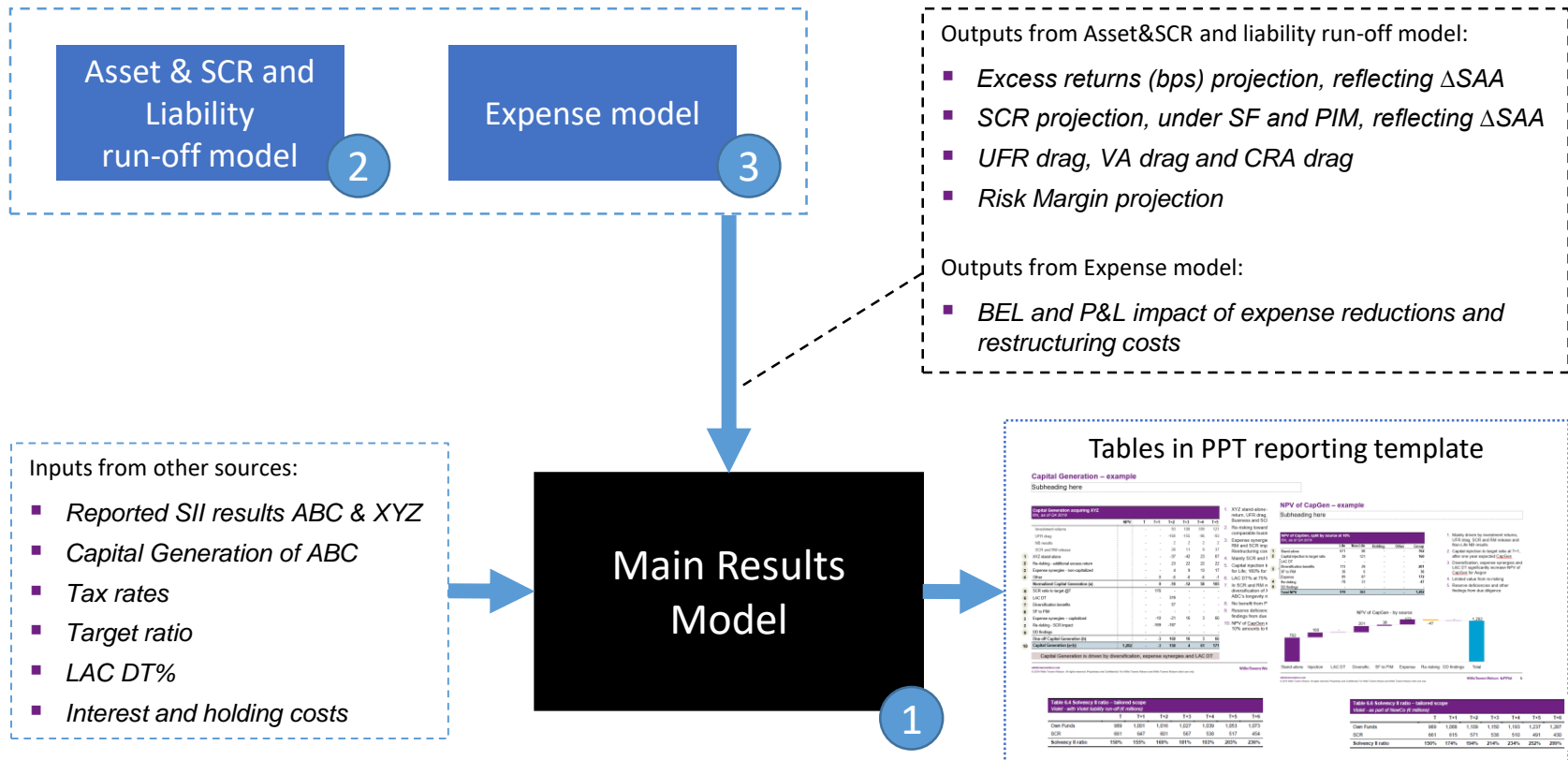
(1) On Solvency II valuation basis

(2) Earnings contribution to the Generali group in 2017

(3) Market and counterparty risk



Capital generation pricing model





Capital generation pricing model

Capital Generation acquiring XYZ €m, as of Q4 2019

	NPV	T	T+1	T+2	T+3	T+4	T+5
Investment returns		-	-	93	100	109	121
UFR drag		-	-	-160	-155	-96	-93
NB results		-	-	2	2	2	2
SCR and RM release		-	-		11	9	37
1 XYZ stand-alone		-			-42	23	67
2 Re-risking - additional excess return				23	22	22	22
3 Expense synergies - non-capitalized			-	4	9	13	17
4 Other		-	0	-0	-0	-0	-1
Normalized Capital Generation (a)		-	0	-10	-12	58	105
5 SCR ratio to target @T		-	176	-	-	-	-
6 LAC DT		-	-	319	-	-	-
7 Diversification benefits		-	-	57	-	-	-
8 SF to PIM		-	-	-	-	-	-
3 Expense synergies – capitalized		-	-10	-21	16	3	66
2 Re-risking - SCR impact		-	-169	-187	-	-	-
9 DD findings		-	-	-	-	-	-
One-off Capital Generation (b)		-	-3	168	16	3	66
10 Capital Generation (a+b)	1,282	-	-3	158	4	61	171

Fictitious example

1. XYZ stand-alone driven by investment return, UFR drag, Non-Life New Business and SCR and RM release
2. Re-risking towards the buyer's asset mix for comparable business
3. Expense synergies – including BEL, RM and SCR impacts and Restructuring costs
4. Mainly SCR and RM reversals
5. Capital injection to SCR ratio of 175% for Life; 160% for Non-Life
6. LAC DT% at 75% for Life and Non-Life
7. In SCR and RM mainly driven by diversification of XYZ's mortality with ABC's longevity risk
8. No benefit from PIM assumed
9. Reserve deficiencies and other findings from due diligence
10. NPV of CapGen in all future years at 10% amounts to € 1.3 billion

Capital Generation is driven by diversification, expense synergies and LAC DT



Capital generation pricing model

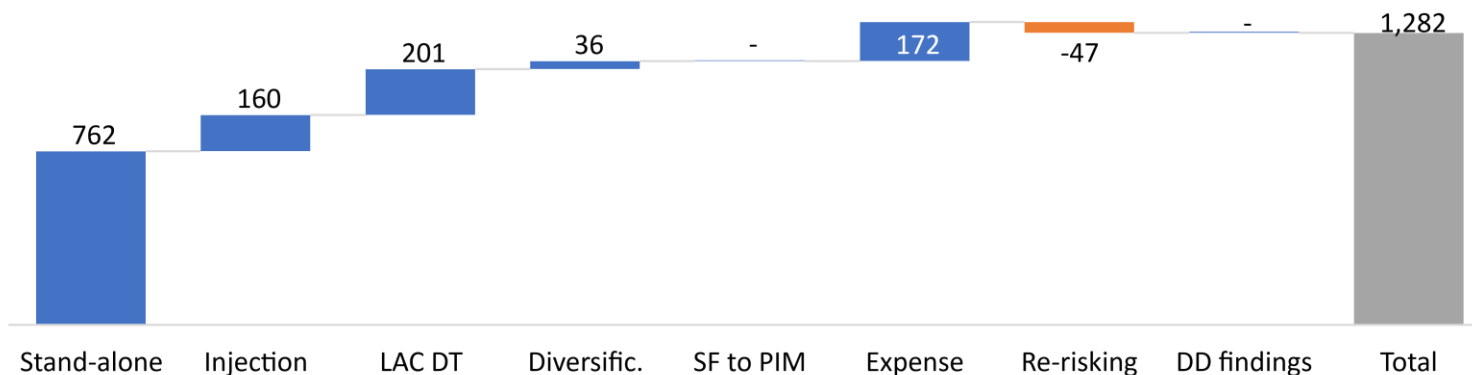
NPV of CapGen, split by source at 10%
€m, as of Q4 2019

	Life	Non-Life	Holding	Other	Group
1 Stand-alone	671	90	-	-	762
2 Capital injection to target ratio	39	121	-	-	160
LAC DT	172	29	-	-	201
3 Diversification benefits	30	6	-	-	36
SF to PIM	-	-	-	-	-
Expense	85	87	-	-	172
4 Re-risking	-78	31	-	-	-47
5 DD findings	-	-	-	-	-
Total NPV	919				1,282

Fictitious example

1. Mainly driven by investment returns, UFR drag, SCR and RM release and Non-Life NB results
2. Capital injection to target ratio at T+1, after one year expected CapGen
3. Diversification, expense synergies and LAC DT significantly increase NPV of CapGen for the buyer
4. Limited value from re-risking
5. Reserve deficiencies and other findings from due diligence

NPV of CapGen - by source





Buyers see a number of levers to add value

Potential value levers

- Unit cost efficiencies
- IT investment and rationalisation
- Enhanced asset management
- SCR management
- Less conservative capital policy
- *Possibly* liability management
- *Possibly* re-domicile opportunities



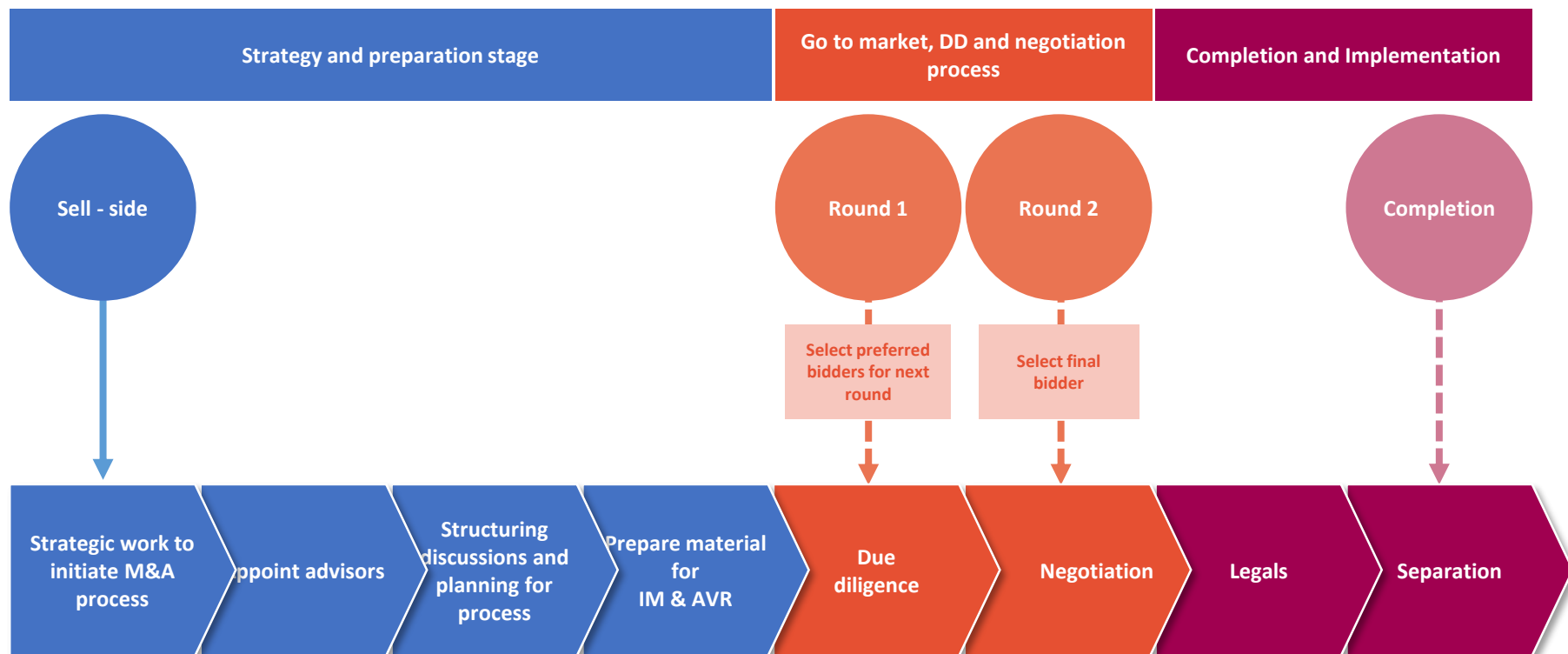
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Approach to due diligence



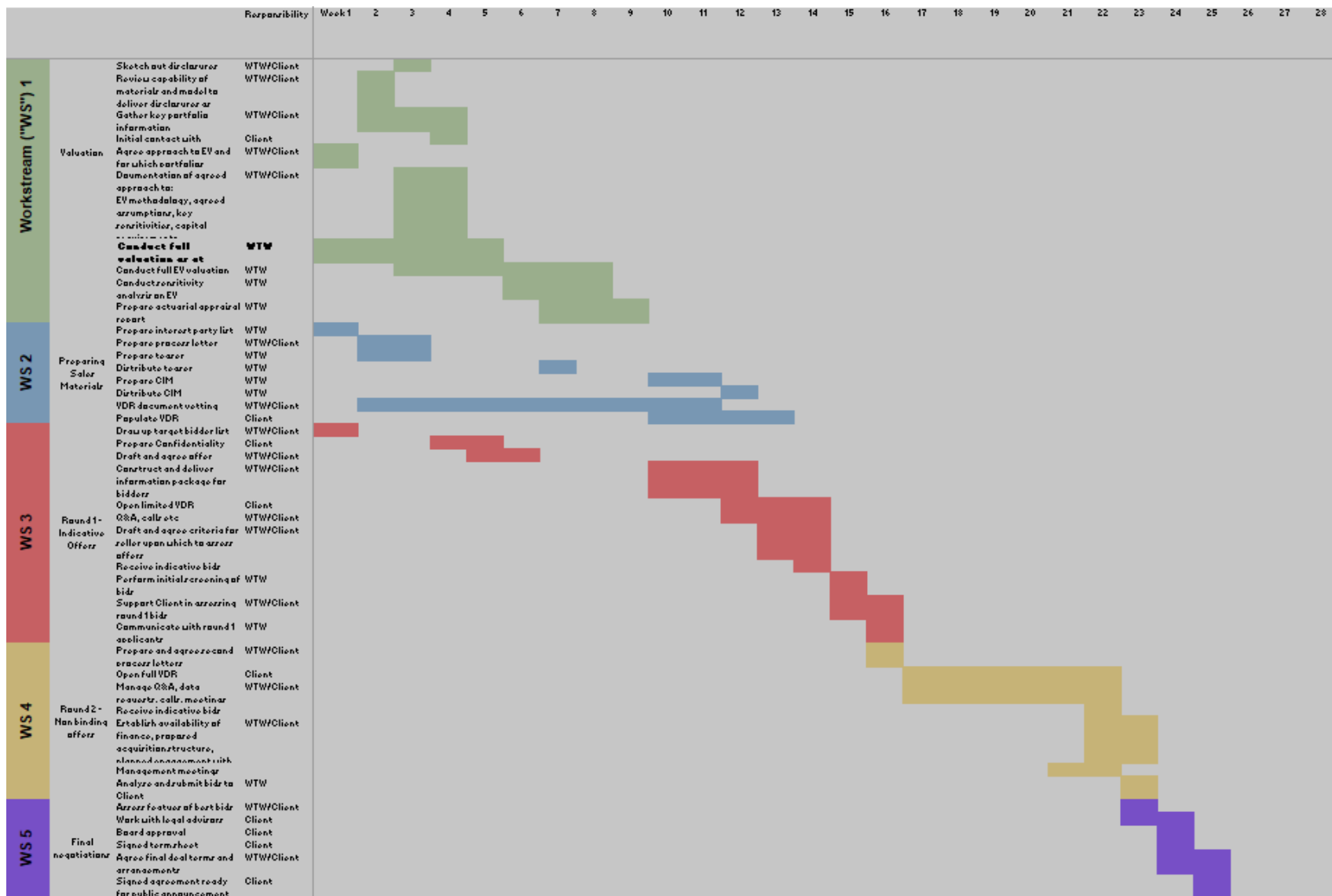
Overview of the transaction and integration lifecycle

Sellside





Strawman plan





Overview of actuarial due diligence

Due diligence



Distribution and sales



Investment strategy



Actuarial capabilities



Claims management



Underwriting, pricing and products



Cash flow projections / Enterprise valuation



Liabilities, reserves and capital management

Business plan

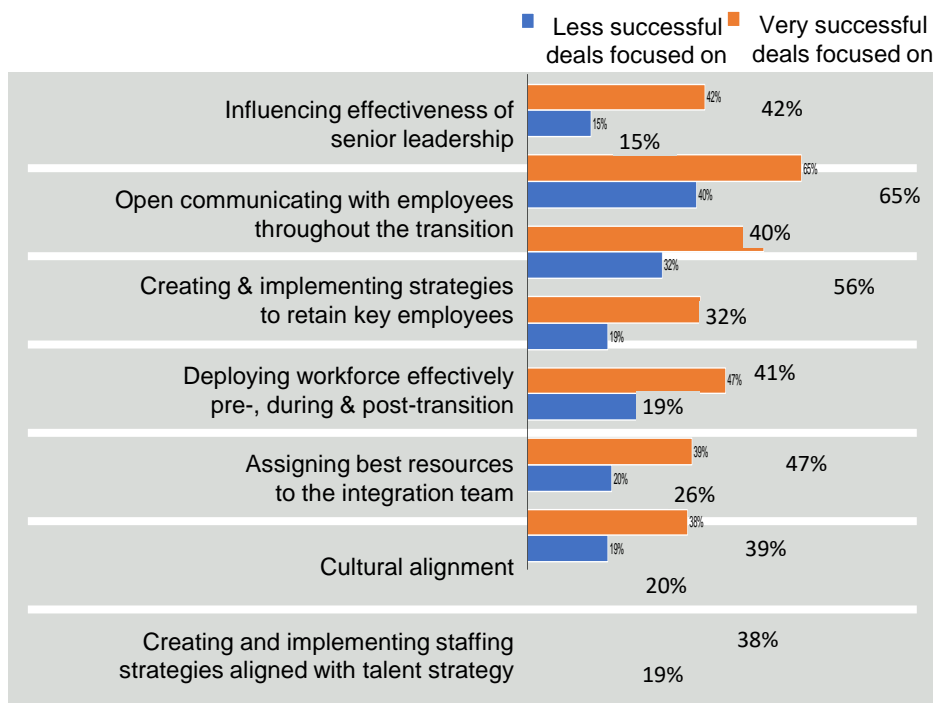
- Strategy
- Business planning
- Organisation readiness
- Planning
- Market Screening
- Performance Improvement

Business performance

- Change management
- Project management office
- Integration planning
- Integration execution

People Considerations that Impact Deal “Value Realisation”

Early, intense focus on people issues



Source: 2009 Global Pulse Survey.

Top Ten Pitfalls in Achieving Synergies

Rank		Negative Impact
1	Incompatible cultures	5.60
2	Inability to manage target	5.39
3	Unable to implement change	5.34
4	Synergy nonexistent or overestimated	5.22
5	Did not anticipate foreseeable events	5.14
6	Clash of management styles/egos	5.11
7	Acquirer paid too much	5.00
8	Acquired firm too unhealthy	4.58
9	Need to spin off or liquidate too much	4.05
10	Incompatible marketing systems	4.01

Source: Survey of Forbes 500 CFOs. Assessed on a scale of 1 to 7, where 7 is high.



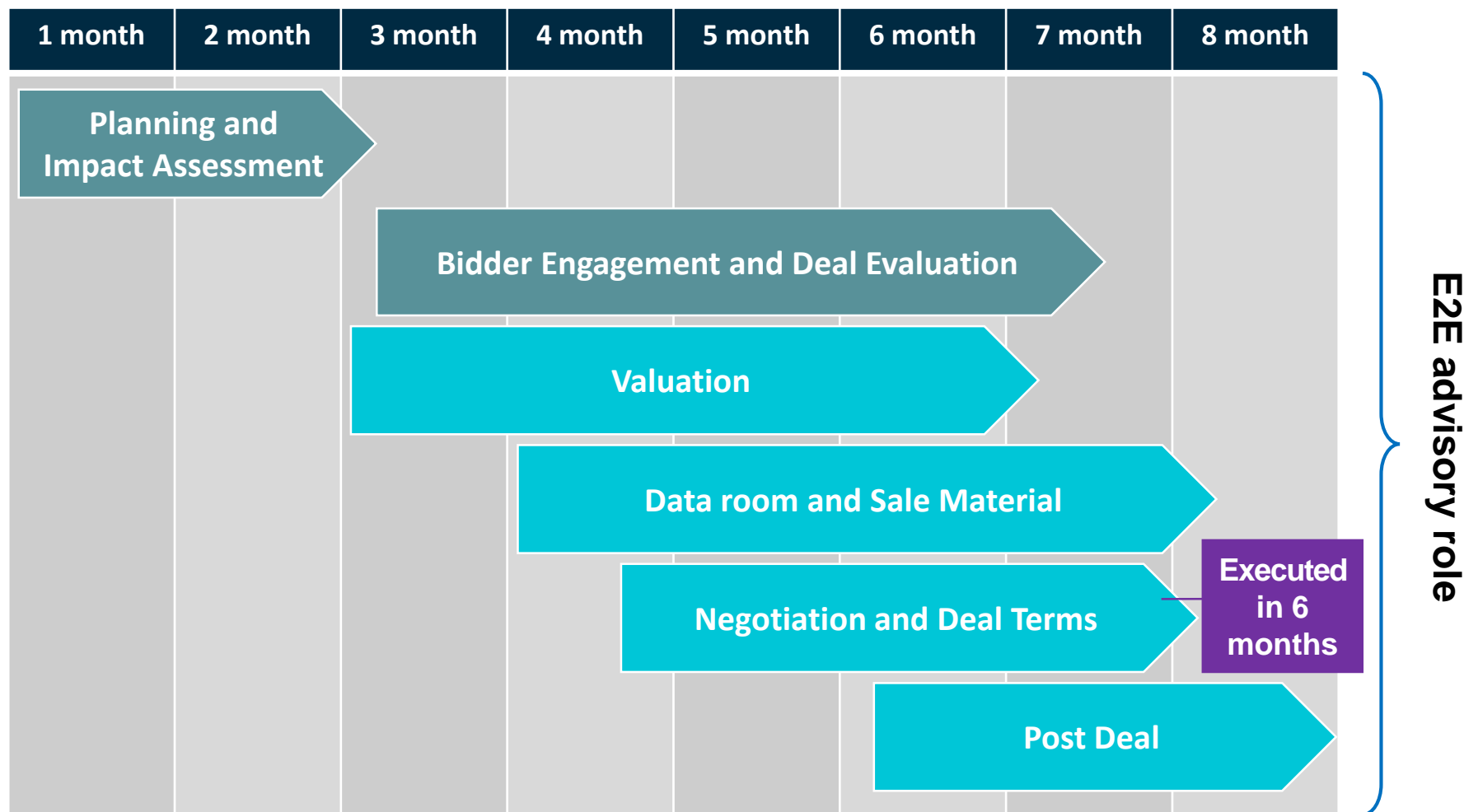
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Strategic advice in sale process

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Part of Demerger of Prudential Group into a UK and International business: Sale of £12bn portfolio





Advance planning is critical to maximise deal success, minimise execution time and impact on internal resources





Key considerations in planning and impact assessment

Sale Rationale and Investor story

- Buy-in key stakeholders
- Clear consistent story
 - Why sale?
 - What is being sold?
 - How will you execute?
- Rationale for sale
 - Capital impact
 - Future profits important for investors

Sale Portfolio

- Saleability vs. Retained
 - Reinsured vs. Non-reinsured
 - Data Quality
 - Risk profile
- Bidder Appetite one large block vs smaller tranches
 - Competitive tension
 - Timescales

Impact Assessment

- Deal model
 - Simulate bidder prices
- Impact on
 - Capital/ Diversification
 - IFRS/GAAP profits
 - Optimisation plans/BAU
- Success criteria
 - Executable price range
 - Target capital release



Solvency II Capital Impact: Proposed Portfolio

- The table below shows the Solvency II capital impact of the sale of
 - Portfolio 1: A £4bn slice of the £Xbn retail, non-reinsured, non-Y portfolio
 - Portfolio 2: A £4bn slice of the £Xbn retail, reinsured non-Y portfolio
 - Portfolio 3: The £4bn retail, reinsured Y portfolio
 - Portfolio 4: A £4bn slice of the £Xbn Bulk Annuity portfolio (current and deferred)

At 31/12/17 (£bn)	Retail Non- Reinsured	Retail Reinsured		Bulk	Total
	Non-Y	Non-Y	Y	Non-CoC	
Technical Provisions Sold	4.0	4.0	4.0	4.0	16.0
Estimated Buyer Price	4.3	4.3	4.3	4.3	17.2
Profit (Loss) on Sale	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)
SCR (including SRA) Release	0.6	0.5	0.5	0.6	2.2
Total Capital Release	0.3	0.2	0.2	0.3	1.0

Due to rounding columns and rows may not add.

NOTE THE NUMBERS ARE FOR ILLUSTRATIVE PURPOSES ONLY



Solvency II Capital Impact: Proposed Portfolio – Sensitivities

- The capital impact is quite sensitive to the buyer price actually achieved. A 1% change in the buyer price has an impact of £0.2bn on the capital release.
- The table below shows the impact of prices 1% lower (i.e. a 1% lower premium)
- Similarly, If the price were 1% higher, the capital release would only be **£0.8bn**

At 31/12/2017 (£bn)	Retail Non-Reinsured	Retail Reinsured		Bulk	Total
	Non-Y	Non-Y	Y	Non-CoC	
Technical Provisions Sold	4.0	4.0	4.0	4.0	16.0
Estimated Buyer Price	4.2	4.3	4.2	4.3	17.0
Profit (Loss) on sale	(0.2)	(0.3)	(0.2)	(0.3)	(1.0)
SCR (including SRA) Release	0.6	0.5	0.5	0.6	2.2
Total Capital Release	0.2	0.3	0.3	0.3	1.2

Due to rounding columns and rows may not add.

NOTE THE NUMBERS ARE FOR ILLUSTRATIVE PURPOSES ONLY



IFRS Impact: Proposed Portfolio

- The table below shows the immediate IFRS impact on the sale of each portfolio, and the impact over the next three years

At 31/12/2017 (£bn)	Retail NR	Retail R		Bulk	Total
	Non-Y	Non-Y	Y	Non-CoC	
Liability	4.0	4.0	4.0	4.0	16.0
Loss of IFRS profits	(0.0)	(0.0)	(0.0)	(0.0)	(0.3)
Profit/Loss on Sale	(0.4)	(0.2)	(0.2)	(0.4)	(1.3)
IFRS impact 2018	(0.4)	(0.4)	(0.4)	(0.4)	(1.6)
IFRS impact 2019	(0.0)	(0.0)	(0.0)	(0.0)	(0.3)
IFRS impact 2020	(0.0)	(0.0)	(0.0)	(0.0)	(0.3)

Due to rounding columns and rows may not add.

NOTE THE NUMBERS ARE FOR ILLUSTRATIVE PURPOSES ONLY



Key considerations in planning and impact assessment

Sale Rationale and Investor story

- Buy-in key stakeholders
- Clear consistent story
 - Why sale?
 - What is being sold?
 - How will you execute?
- Rationale for sale
 - Capital impact
 - Future profits important for investors

Sale Portfolio

- Saleability vs. Retained
 - Reinsured vs. Non-reinsured
 - Data Quality
 - Risk profile
- Bidder Appetite one large block vs smaller tranches
 - Competitive tension
 - Timescales

Impact Assessment

- Deal model
 - Simulate bidder prices
- Impact on
 - Capital/ Diversification
 - IFRS/GAAP profits
 - Optimisation plans/BAU
- Success criteria
 - Executable price range
 - Target capital release

Deal Strategy

- Targeted list of bidders
- Tactics
 - Information
 - Timescales
 - Engagement
- Bid composition
 - Indicative bids
 - Binding offers
- Bid Evaluation Criteria



Evaluation Criteria - Example

Weight	100%	xx%	xx%	xx%	xx%	xx%	xx%	xx%	xx%	xx%
Bidder	Score	Purchaser & Experience	Reputation	Timing & Execution	Value	Quote: £12bn or <£12bn	Investment Management	Financing sources	Approvals	Rating & Outlook
Bidder 1	1.30	1	2	1	1	1	1	2	2	2
Bidder 2	1.00	2	2	2	0	2	0	2	2	2
Bidder 3	1.80	1	1	1	2	2	2	2	2	2
Bidder 4	1.55	1	1	1	2	1	2	1	2	1
Bidder 5	1.85	2	1	2	2	2	2	2	2	1
Bidder 6	1.25	1	2	1	1	1	1	2	1	2
Bidder 7	1.30	2	1	1	1	1	1	2	2	2
Bidder 8	1.40	2	2	1	1	1	1	2	2	2



Bidder Engagement and Bid Evaluation

Round 1 tactics

- **Protect IP:** Limited information
- **Bandwidth management:** One call
- **Benchmark Price:** Appraisal Report and Base cashflows

Bid Evaluation

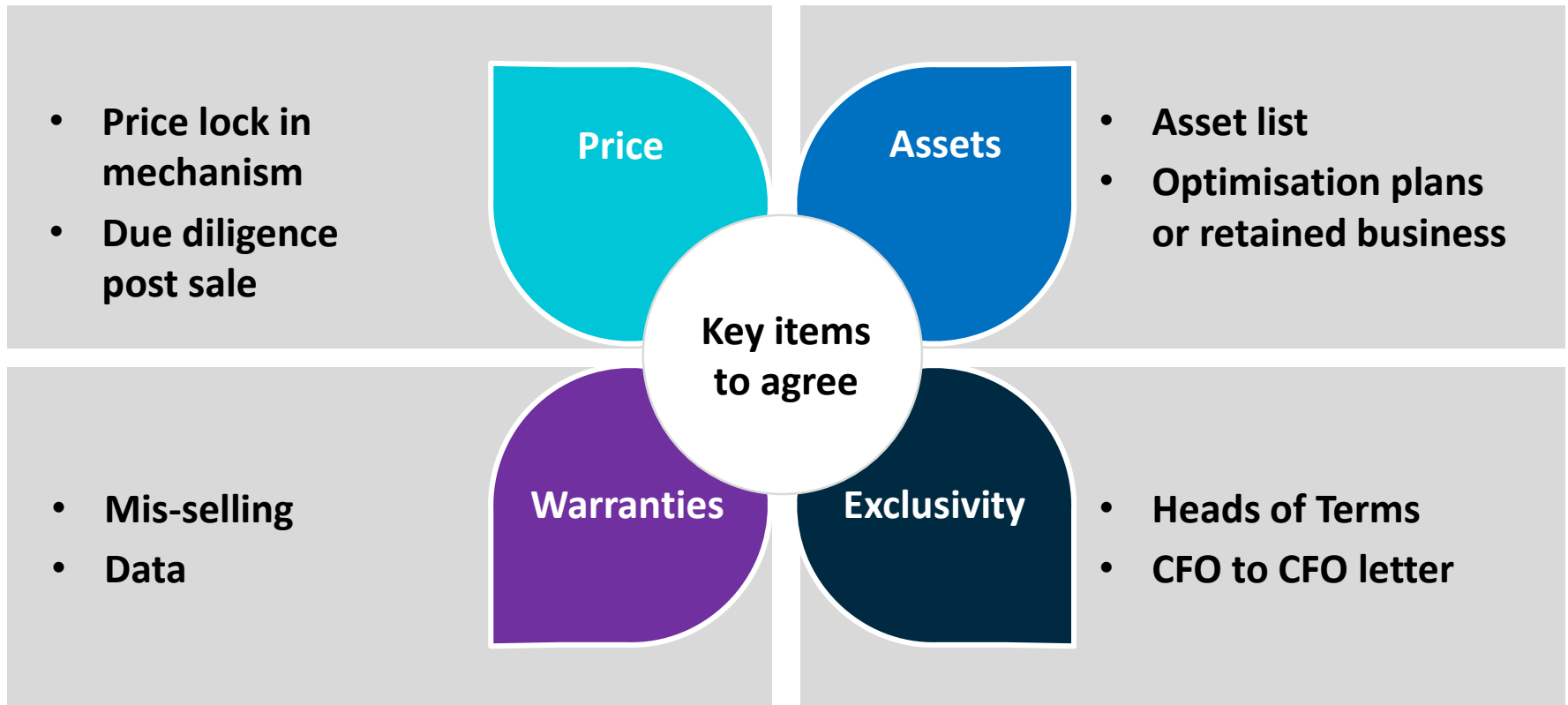
- **Refresh impact assessment** (Capital, IFRS profits)
- **Assess bids vs agreed evaluation criteria**

Final Round

- **Only relevant detailed information**
- **Managed VDR questions:** Actuary principal to Actuary principal
- **Management and legal meetings:** Heads of Terms and Execution certainty



Getting the deal over the line





Final price was in line with impact assessment and executed in 6 months

Our technical and market knowledge

**Collaborative
Deal
Preparation**

+

**Clear
Consistent
Market Story
and
Deal Rationale**

+

**Impact
Assessment
and
Success
Criteria**

+

**Deal Strategy
and
Execution path**

**Reduced demands on internal resources
+ Reduced execution time + Good price outcome**



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Conclusions



Conclusions

- Summary of M&A drivers
 - Expand distribution and / or product mix
 - Focus on core activities and capital optimisation
 - Hunt for scale
 - Strategic buyer demand (healthy balance sheet and low growth) supplemented by PE
- Life market
 - Solvency II (capital intensity, reliance on transitional measures)
 - Closed Books (consolidation, economies of scale)
- Valuation metrics
 - Creeping up but rarely 1.0x equity OF
 - Shareholders/investors focus on capital and cash generation
- Sell side case study: Strategic planning
 - Reduce demands on internal resources + Reduce execution time + Increase execution certainty
 - Collaborative deal preparation
 - Clear consistent deal rationale and market story
 - Impact Assessment to define success criteria
 - Defined deal strategy and execution path



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Q&A
