

INTRODUCTION TO MERGERS AND ACQUISITIONS (M&A)

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CONTENTS

What are mergers and acquisitions?	5
How are M&A transactions performed?	11
How is M&A Changing?	18
Team Biographies	21

TEAM OF PRESENTERS



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01

WHAT IS M&A?

PRECONCEIVED NOTIONS

What has everyone already heard about M&A?

“ The **pandemic** and related fallout may even provide **new urgency** for M&A as prospective buyers face new impediments to top-line growth and prospective sellers reevaluate strategic priorities. ”

S&P Global

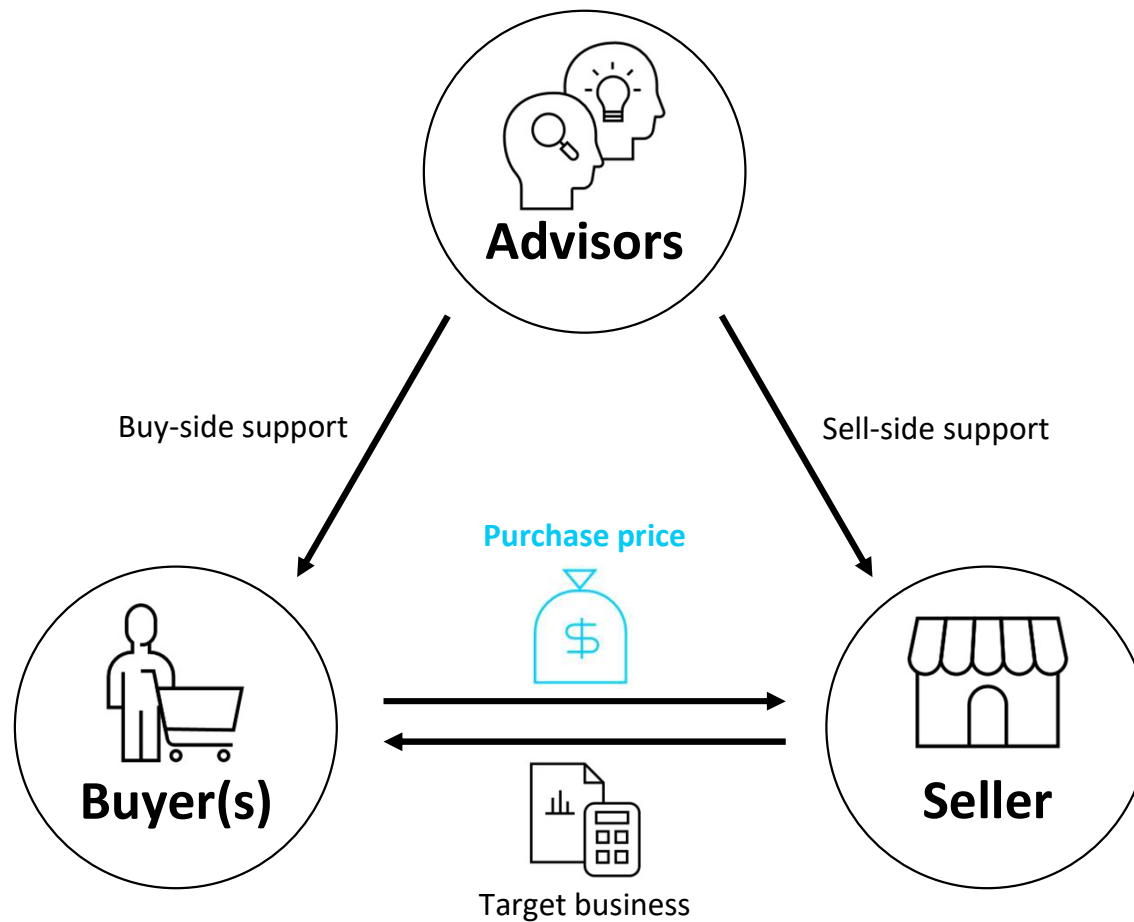
Bloomberg

“ Never before had the chief executive officer of **New York Life** Insurance Co. struck a deal as big as the one announced Wednesday: a **\$6.3 billion** acquisition of **Cigna Corp.** unit that sells life and disability insurance. ”

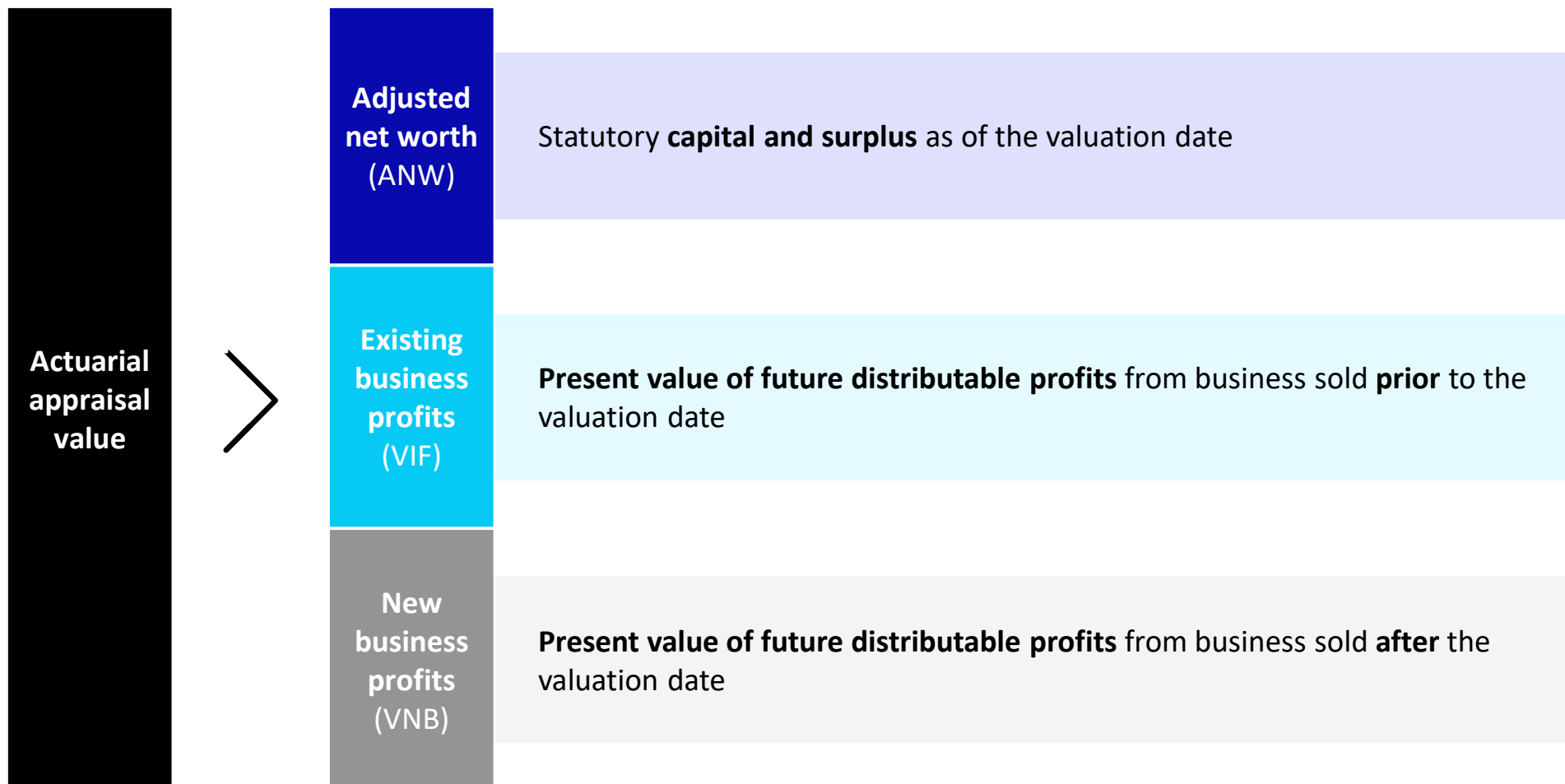
“ **KKR & Co Inc** said on Wednesday it would acquire Goldman Sachs-backed **Global Atlantic Financial Group Ltd**, making it the latest private equity firm to add an annuities and life insurance provider to its platform. ”

 **REUTERS®**

WHAT ARE MERGERS AND ACQUISITIONS?



COMPONENTS OF THE ACTUARIAL APPRAISAL VALUE



ILLUSTRATIVE STATUTORY PROJECTIONS FOR A LIFE INSURANCE BLOCK

Results as of December 31, 2019

<i>\$ millions, net of reinsurance</i>	Initial	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Premium		72	69	66	63	60	57	54	51	48	45
Investment income		27	27	26	26	25	24	23	22	21	20
(1) Total income		99	96	92	89	85	81	77	73	69	65
Death benefits		88	85	83	80	78	76	73	71	69	67
Surrender benefits		1	4	7	10	13	16	19	22	25	28
Other benefits		0	0	0	0	0	0	0	0	0	0
Increase in reserves		(8)	(11)	(16)	(19)	(24)	(29)	(33)	(38)	(44)	(49)
Expenses, commissions, premium tax		9	9	8	7	7	6	6	5	5	4
(2) Total disbursements		90	87	82	78	74	69	65	60	55	50
(3) Federal income tax		2	2	2	2	2	3	3	3	3	3
(4) Increase in capital		(1)	(1)	(1)	(2)	(2)	(3)	(3)	(3)	(4)	(4)
Distributable earnings = (1) – (2) – (3) – (4)		8	8	9	10	11	12	13	14	15	16
Reserves	821	813	802	786	767	743	714	680	642	598	549
Required capital	74	73	72	71	69	67	64	61	58	54	49
Total assets	895	886	874	857	836	810	778	742	700	652	598

COMPONENTS OF THE ACTUARIAL APPRAISAL VALUE

Risk discount rate = 10%

(1) ANW

70

(2) VIF (PV of distributable earnings)

90

(3) VNB

0

(4) Appraisal value = (1) + (2) + (3)

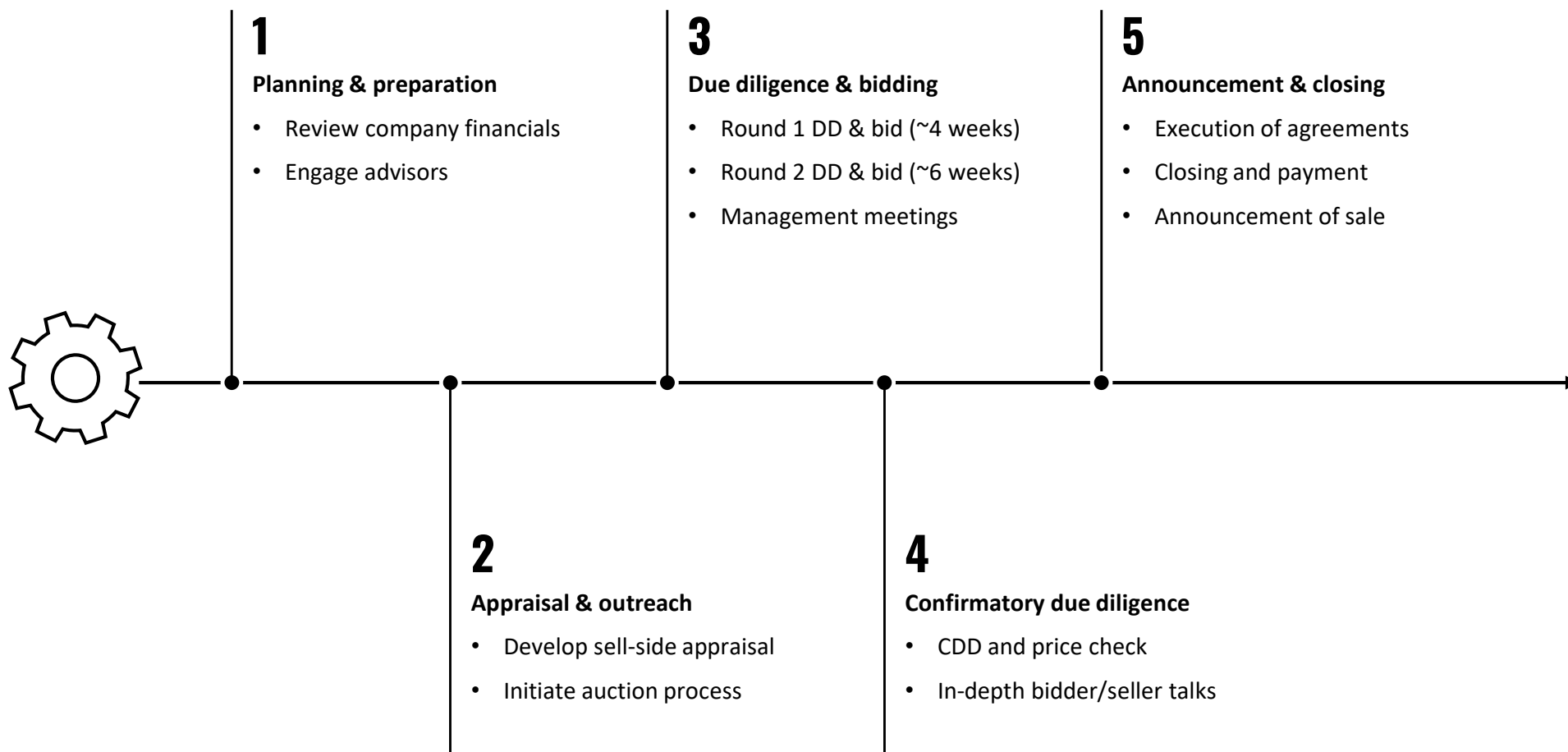
160

<i>Projected statutory financials</i>	Initial	2020	...
Reserves	821	813	...
Capital and surplus	74	73	...
Total assets	895	886	...
Premium		72	...
Investment income		27	...
(1) Total income		99	...
Death benefits		88	...
Surrender benefits		1	...
Other benefits		0	...
Increase in reserves		(8)	...
Expenses, commissions, premium tax		9	...
(2) Total disbursements		90	...
			...
(3) Federal income tax		2	...
(4) Cost of capital		(1)	...
Distributable earnings = (1) – (2) – (3) – (4)		8	...

02

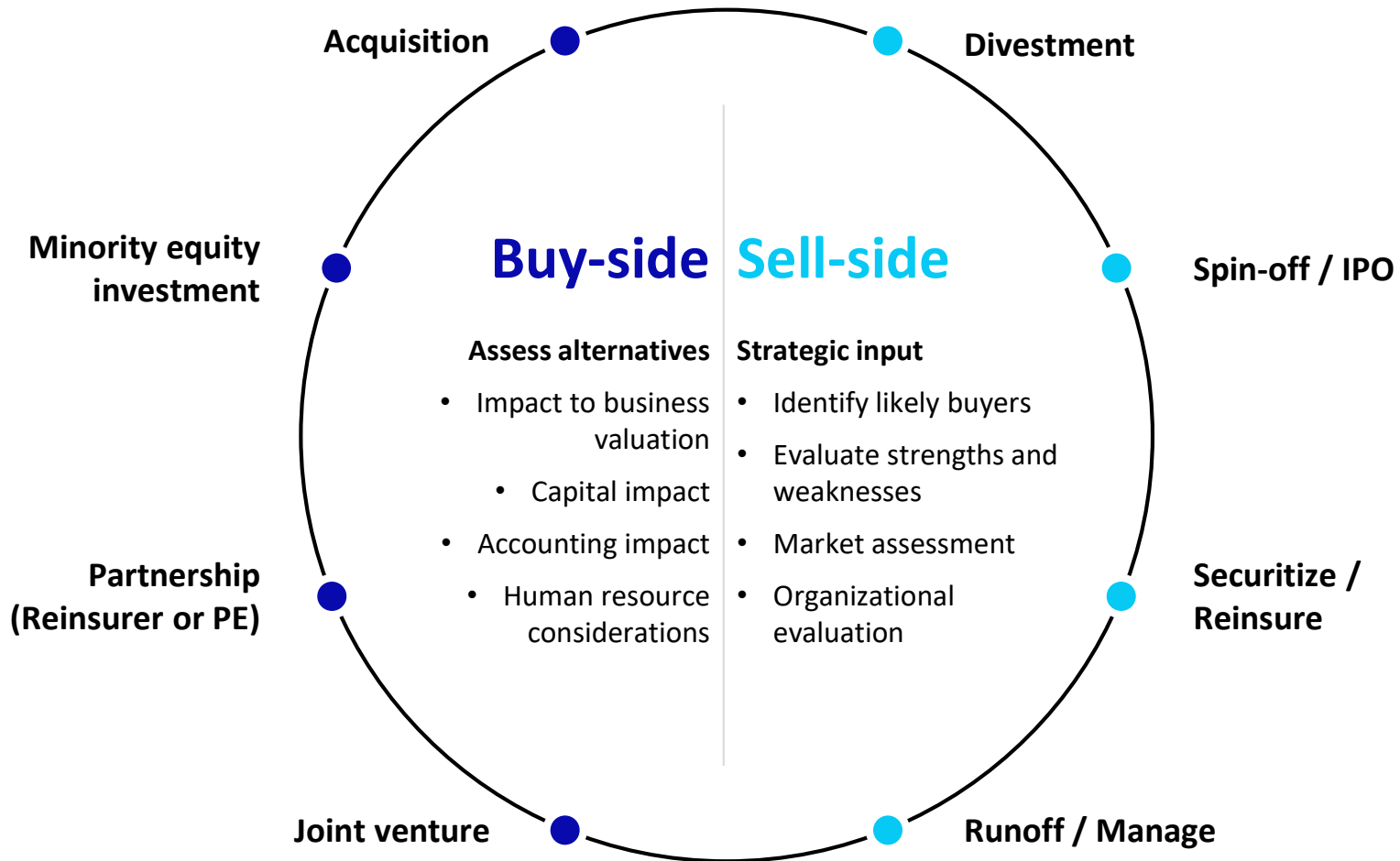
HOW ARE M&A TRANSACTIONS PERFORMED?

M&A PROCESS OVERVIEW



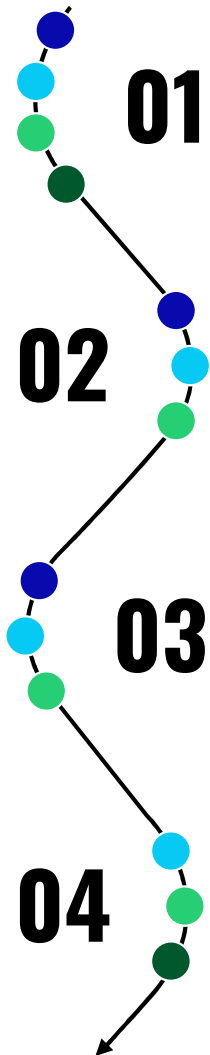
1 STRATEGY

Insurers and reinsurers considering strategic alternatives will commonly perform a feasibility study to understand the impacts of a potential transaction



2 BUY-SIDE SUPPORT

Illustrative buy-side due diligence steps



Data collection and review

- Review information made available by the seller
- Monitor and analyze data room materials
- Participate in management meetings and develop questions and information requests

Appraisal report and model validation

- Review seller's appraisal and other supporting materials
- Analyze seller's projected financial statements, cash flows, and business roll-forwards
- Develop independent models to validate seller projections and construct adjusted financials under a variety of scenarios

Assumption setting and results

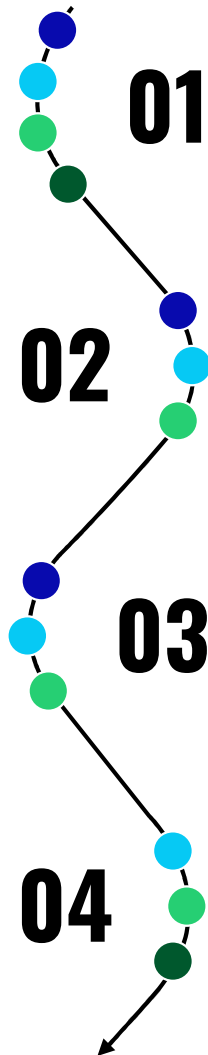
- Provide commentary on appraisal assumptions and methodology
- Identify areas where appraisal value may be over- or under-stated
- Derive a refined estimate of appraisal value using a "waterfall" approach

Report creation and delivery

- Prepare a report summarizing
 - Results of our adjusted valuation of the target
 - Support and assumptions underlying each adjustment to value
- Participate in management meetings with seller

3 SELL-SIDE SUPPORT

Illustrative sell-side appraisal valuation steps



Data collection and review

- Develop project plans
- Establish a data room and prepare detailed data requests
- Collect, organize, and evaluate data

Model construction and validation

- Develop independent models or adapt existing models, ensuring the final product:
 - Is robust and credible from an actuarial perspective
 - Includes all key product features and risks
 - Produces results at appropriately detailed levels

Assumption review and valuation

- Review best estimate assumptions
- Propose potential adjustments, in light of company experience and industry benchmarks
- Produce baseline and sensitivity results

Appraisal delivery and follow-up

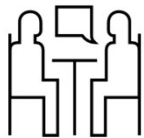
- Prepare actuarial appraisal report in accordance with local actuarial standards
- Provide requested input to financial advisor's CIM
- Participate in management meetings with potential buyers and address follow-up requests

4 INTEGRATION



Actuarial support

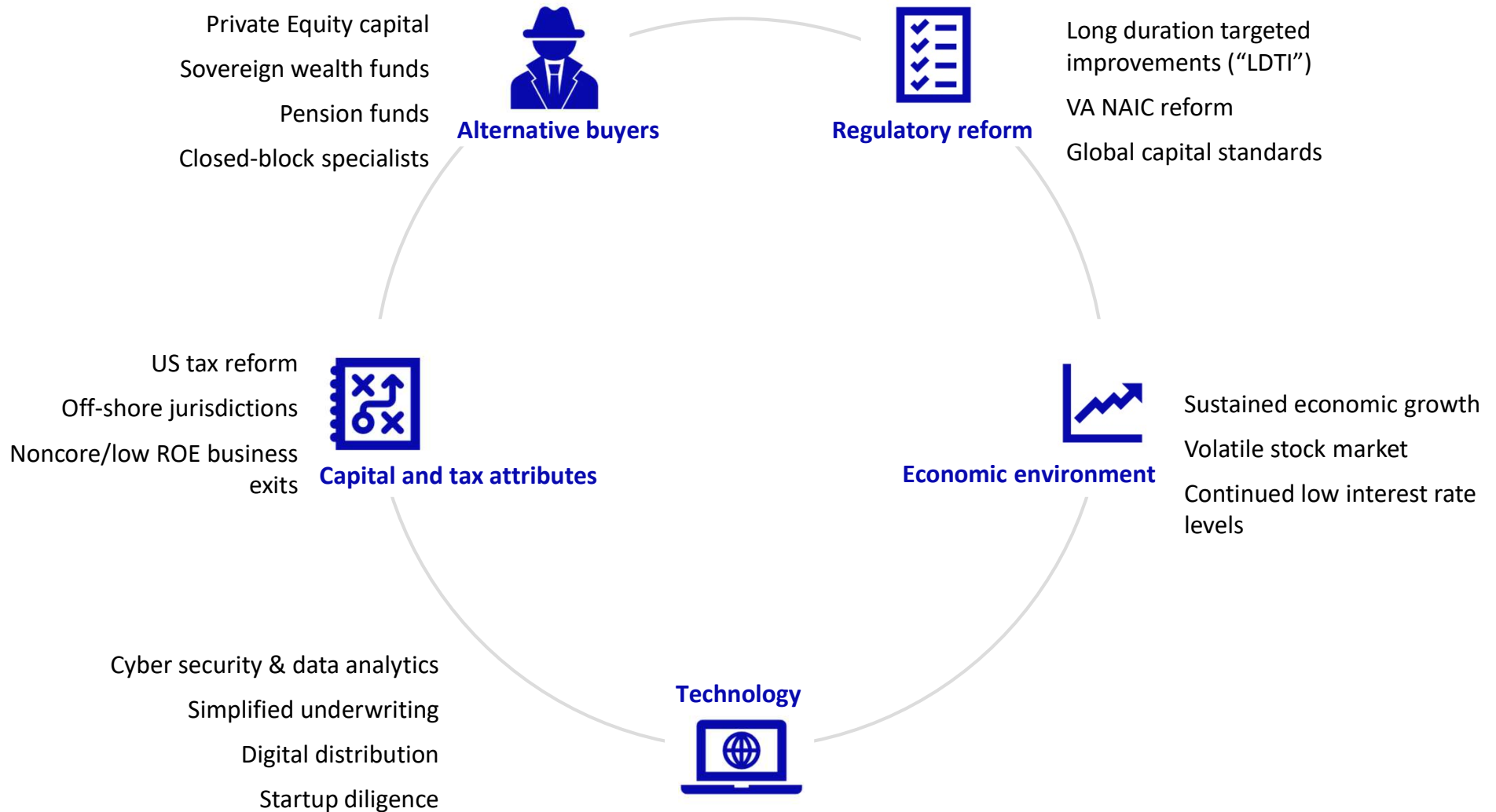
- Support with “Form A” regulatory filings as a result of an acquisition (change in corporate structure)
- Assistance with other atypical regulatory requests (i.e., alternative scenarios and sensitivities)
- Support for purchase accounting to ensure a smooth transition from announcement to closing date
 - Determination of VOBA, VODA, VOCRA, goodwill
 - Development of fair value of liabilities
 - Assessment of tax attributes



Human capital support

- Implementation of post-merger plans
- “Day 1” announcements
- Communications strategy
- Establishment of strategic committees to lead integration efforts
- Health benefits strategy, design, plan management, administration, and brokerage

KEY DRIVERS OF RECENT M&A ACTIVITY

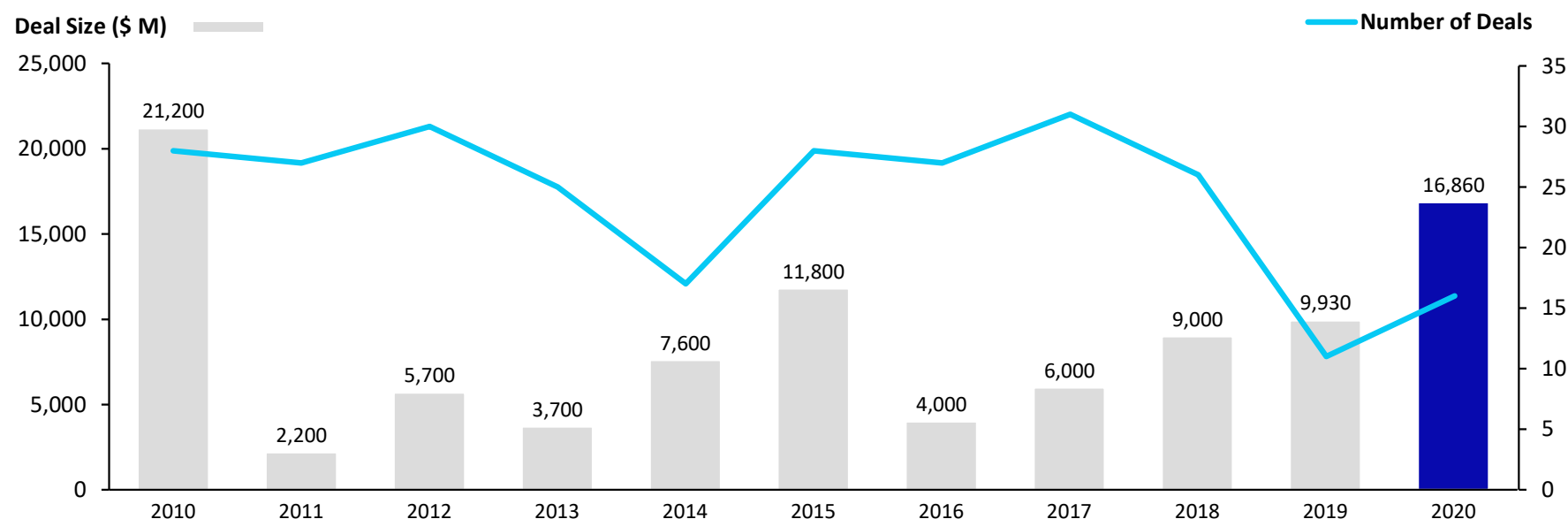


03

HOW IS M&A CHANGING?

DESPITE THE CURRENT ECONOMIC ENVIRONMENT, MARKET MOMENTUM TO DATE IN 2020 IS HIGH WITH TOTAL TRANSACTION VALUE OVER \$16 BILLION

US insurance deals



Notable 2019 and 2020 life and annuity transactions

Principal acquired Wells Fargo's retirement business including DC, DB and etc. for **\$1.2B**

New York Life acquired Cigna's group life and disability income unit for **\$6.3B**

Resolution Life acquired the in-force individual life business of Voya Financial for **\$1.1B**

Protective Life reinsured Great-West Life's individual life and annuity business for **\$1.2B**

Empower Retirement acquired MassMutual's retirement plan business for **\$2.4B**

KKR & Co. acquired all outstanding shares of Global Atlantic for 1.0x book value (appx. **\$4.4B**)

Source: SNL Financial

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ALTERNATIVE CAPITAL CONTINUES TO DRIVE US LIFE INSURANCE M&A ACTIVITY, OFFERING OPPORTUNITIES TO **DIVEST LEGACY LIABILITIES** IN A SELLERS' MARKET



Recap

- **Very competitive sellers' market;** demand from financial and strategic players (US and foreign)
- **Transactable blocks** now include variable annuity, structured settlements and long term care
- **Uptick of strategic deals** as insurers shift focus to keep strategic businesses only

VA, SSA and LTC transactions (deal size)

VENERABLE **VOYA** FINANCIAL \$1.1BN

SYMETRA **Resolution Life** \$0.4BN

Wilton Re **CNO FINANCIAL GROUP** \$0.8BN



Current trends

- **Asset-focused players** developing origination capabilities, including flow reinsurance deals in response to high competition in auction sales
- **Public companies** continue to explore divesting low-performing blocks causing ROE drag
- Buyers without **tax/reserve/capital arbitrage** or **asset capabilities** find it increasingly difficult to close transactions

Recent transactions (deal size)

EMPOWER RETIREMENT **MassMutual** \$2.4BN

NEW YORK LIFE **Cigna** \$6.3BN

Resolution Life **VOYA** FINANCIAL \$1.3BN



Opportunities and outlook

- Greater likelihood of **variable annuity** transactions with LDTI and VA NAIC reform
- Bid/ask spread remains large for **long term care** but sophisticated buyers are finding creative solutions
- Partnerships with asset-focused/offshore players **can lift pricing IRRs** (e.g., PRT reinsurance, MYGAs)

Potential acquirers and sellers

ATHENE
Driven to do more.

Genworth

Protective

MetLife

Blackstone

John Hancock



APPENDIX

TEAM BIOGRAPHIES



ELLEN SMITH

Analyst

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Professional History

- Oliver Wyman (2019–present)
- Global Bankers Insurance Group (2018–2019)

Education

- University of North Carolina at Chapel Hill, Bachelor of Science, Statistics and Analytics, Minor in Computer Science (2019)

Ellen is an Analyst in the New York office of Oliver Wyman’s Life Actuarial practice. Her primary responsibilities are to provide actuarial consulting services to various insurance entities and organizations.

Ellen joined Oliver Wyman in July 2019 after a year of experience interning at Global Bankers Insurance Group on the annuity pricing team. She graduated from the University of North Carolina in Chapel Hill in May 2019 with a Bachelor of Science in Statistics and Analytics and a minor in Computer Science.

Relevant experience

- R, SQL, VBA, Python, MATLAB, AXIS™
- Developed a sell-side actuarial appraisal model using GGY AXIS and traditional U.S. appraisal methodology based on the present value of distributable cash flows for a block of Current Assumption Universal Life (“CAUL”)
- Supported a buy-side M&A transaction for a block of separate account Bank Originated Life Insurance (“BOLI”) business. Primary responsibilities included identifying key risks in the sell-side appraisal and benchmarking actuarial and economic assumptions such as mortality, morbidity and incidence, policyholder behavior, and expenses
- Developed Business Requirements Documents (“BRD”) to outline specifications for the development of an AXIS Asset Liability Management (“ALM”) projection model for a block of Traditional Life business. BRDs encompassed all base policy and rider product features, GAAP LDTI, statutory reserves, tax reserves, and reinsurance
- Developed an Excel replicating tool in order to validate a series of Volatility Controlled Fund strategies modeled in Python
- Ran routine annuity pricing for multiyear guaranteed annuities and fixed indexed annuities using GGY Axis
- Created product pricing tools in Excel that were used to design and launch a new fixed indexed annuity
- Automated data collection by data scraping external sources to improve competitor analysis tools using R and VBA
- Created and maintained dashboards used to visualize and hedge against risk associated with fixed indexed annuities using RShiny, Excel, and PowerBI



MICHAEL CALLAHAN

Analyst

michael.callahan@oliverwyman.com

Professional History

- Oliver Wyman (2019–present)
- New York Life (Summer 2018)
- Chubb Inc. (Summer 2017)

Education

- The Pennsylvania State University, BS in Mathematics, Minors in Statistics and IST, 2019
Summa Cum Laude

Michael (Mike) is an Analyst with the Actuarial Practice of Oliver Wyman and is based in New York. His primary responsibilities are to provide actuarial consulting services to a variety of insurance, reinsurance and self-insured organizations. He serves as a support analyst and provides guidance and technical capacity on actuarial assignments. He also produces internal intellectual capital to support marketing and engagement efforts.

Mike joined Oliver Wyman this summer. Prior to joining Oliver Wyman, Mike interned at both life and property and casualty insurers.

Relevant experience

- Supported VISL product business-as-usual activities in AXIS, including table validation, sensitivity runs, model findings documentation, methodology review and design
- Supported DAC and CFT AXIS model modernization project, which revised the existing model's architecture to meet best practices
- Supported conversion of cash flow testing model using Prophet's Asset and Global libraries to ALS
- Supported Asset-Liability Modeling project to reinvest \$3.2B Long Term Care asset portfolio
- Supported multiple experience study and assumption update projects in R and Python
- Supported data transformation project routing MoSes data to GGY AXIS, creating data validation tools in R and Python

Mike has supported internal intellectual capital on insurance bloc offshoring, mortality improvement trends, data transformation and experience studies.



SEAN MENG

Analyst

sean.meng@oliverwyman.com

Professional History

- Oliver Wyman (2020 –present)
- Pacific Life (2019)
- CUNA Mutual (2018)

Education

- University of Wisconsin-Madison, BBA in Actuarial Science, Finance, Risk Management with Distinction

Sean is an Analyst with the Actuarial Practice of Oliver Wyman and is based in New York. His primary responsibilities are to provide actuarial consulting services to a variety of insurance entities and organizations.

Prior to joining Oliver Wyman, Sean interned at Pacific Life on the internal reinsurance team and worked on their new reinsurance business proposal, and at CUNA Mutual Group on the product management team.

Sean graduated with distinction from University of Wisconsin-Madison with a Bachelor of Business Administration degree in Actuarial Science, Finance and Risk Management.

Relevant Experience

- Developed Excel replication tools for AXIS™ models and Polysystems on SPIA, CAUL CRVM and FIA under AG33, AG35, FAS133 & SOP 03-1
- Served as several support roles on multiple buy-side and sell-side M&A transactions on UL and FIA including setting mortality and lapse assumptions for a block of CAUL business appraisal, deal model validations, inforce analysis and single cell testings
- Performed AXIS™ datalinks validations for a large block of VUL business
- Automated and streamlined a captive's deal model for a letter of credit refinancing of AXXX redundant reserves in Excel and VBA
- Developed a GAAP Earnings at Risk methodology in Excel and Alteryx that measured assumption sensitivities on net income for a company's life insurance products in Excel and Alteryx
- Conducted impact analysis on net income under different YRT retention limits in Excel and Alteryx
- Built a term to whole life conversion quote tool that automated the development of premium quotes and benefit statements using Excel and VBA

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