

BREAKING NEWS

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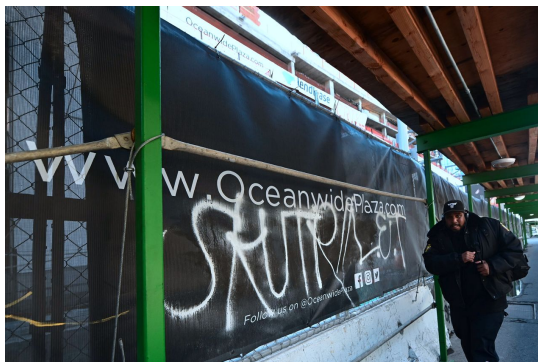
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MARKETS

A 'Zombie' Chinese Deal for an American Insurer Staggers Toward the Unknown

Chinese conglomerate's planned \$2.7 billion takeover of Genworth Financial is one of the longest engagements in deal history



Construction of Oceanwide Plaza in Los Angeles stalled after the development encountered financing issues. PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

By Jing Yang

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It's a marriage that has been put off a dozen times.

A Chinese conglomerate's planned \$2.7 billion takeover of U.S. insurer Genworth [GNW -3.28%](#) Financial Inc. has yet to close more than three years after it was announced in October 2016, making it one of the longest engagements in recent deal history.

The uncompleted transaction has tested the patience of company executives, investors and regulators. One U.S. analyst recently referred to it as a "zombie" merger deal. The closing has taken so long that Genworth said some regulatory approvals it had earlier received have lapsed and that the companies would need to reapply for them.

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"We fully understand how challenging it has been for our shareholders and stakeholders, given the merger agreement was signed three years ago," Thomas McNerney, president and chief

executive of Genworth, said on the insurer's third-quarter earnings call after it reported lower net income for the period. Genworth said an adjusted measure of operating income rose from a year earlier.

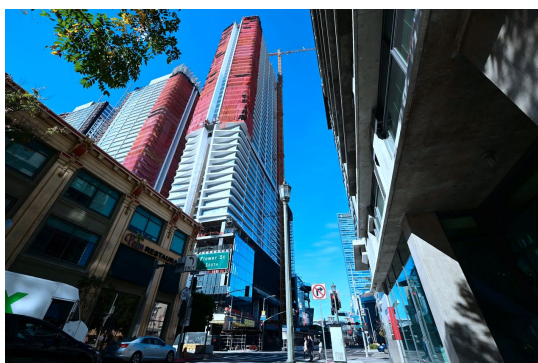
The takeover of Genworth by Beijing-based China Oceanwide Holdings Group Co. was supposed to give the Richmond, Va., provider of mortgage, life and long-term-care insurance a much-needed financial boost. Years of low interest rates have crimped the profitability of Genworth's

business of providing long-term-care coverage for Americans, who are living longer. The company's mortgage-insurance business is doing fairly well, while its life-insurance units have struggled.

The deal took place when large Chinese conglomerates were collecting trophy assets overseas and were flush with cash and cheap financing. The Genworth-China Oceanwide deal was noteworthy because it was one of the largest Chinese acquisitions to pass a national security review by the Committee on Foreign Investment in the U.S. The interagency committee has blocked other attempts by Chinese companies to acquire American businesses.

China's State Administration of Foreign Exchange and regulators in Canada, where Genworth also has operations, have yet to give it the green light.

While Canadian regulators recently indicated they intend to approve a sale of Genworth's Canada business after various conditions are met, there has been no word from the Chinese agency. A Genworth spokeswoman said the Chinese agency is the last stage in the process and should come after all other regulators have signed off on the deal. Some analysts say the main hurdle to the deal's completion is that much of China Oceanwide's money is stuck in China.



The unfinished Oceanwide Plaza in downtown Los Angeles in January. Construction of the three-tower complex started in 2015 but stalled earlier this year after the development encountered financing issues. PHOTO: FREDERIC J. BROWN/AGENCE FRANCE-PRESSE/GETTY IMAGES

The Chinese agency has to clear any large funds transfer that would require the conversion of yuan into other currencies. Under the \$2.7 billion cash deal for Genworth would, China Oceanwide agreed to provide additional funds to boost the insurer's capital and help it reduce debt.

Analysts from research firm CreditSights said in late October that a no-deal scenario was becoming increasingly likely. They added that it isn't clear whether the delay in approval is related to the U.S. -China trade war or something about China Oceanwide in particular.

Over the past two years, Chinese authorities have increased scrutiny of overseas acquisitions and investments made by the country's largest private companies, especially those funded with debt. Tighter credit conditions and China's economic slowdown have also crimped the growth ambitions of once highflying Chinese conglomerates including HNA Group Co., Anbang Insurance Group Co. and others.

China Oceanwide, meanwhile, isn't in great financial shape. The investment holding company has domestic and overseas investments in property, financial-services businesses and power plants, and has experienced significant revenue and profit declines since 2016, in part because of lower real-estate sales, according to its annual reports. Earlier this year, one of its units sold four parcels of land in Beijing and Shanghai to another developer for 12.55 billion yuan (\$1.78 billion).

The group in 2013 bought a large site in downtown Los Angeles for an ambitious development called Oceanwide Plaza that includes a hotel, high-end residences, restaurants and retailers. Construction of the three-tower complex started in 2015 but stalled earlier this year after the development encountered financing issues.

After 12 extensions of the deadline to close the deal, the companies are aiming for it to be completed by the end of 2019.

“I suppose additional extensions are possible—but we’re into month 36 at this point,” said David Havens, a managing director and credit trading desk analyst at Imperial Capital LLC who has been following the ins and outs of the transaction. Mr. Havens, who called it a zombie deal, said Genworth’s current share price—which is 21% below what China Oceanwide agreed to pay—indicates investors see a low likelihood of the deal being consummated.

If the deal falls apart, either side may have to pay a termination fee—depending on the reason for a breakup—according to a 2016 regulatory filing.

Genworth plans to seek re-approvals for the deal from the New York State Department of Financial Services, as well as government-backed mortgage companies Fannie Mae and Freddie Mac, after their previous approvals expired.

Mr. McInerney, Genworth’s CEO, said the re-approval from the New York regulator could be completed in the next month. “Our objective is close the Oceanwide transaction by the end of the year, and we still think we have a shot at doing that,” he said.

—*Zhou Wei contributed to this article.*

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