

The AIG logo is displayed in a bold, blue, sans-serif font. The letters 'A', 'I', and 'G' are spaced out. The logo is centered within a white rectangular area that is enclosed by a thick blue border. The background of the slide is a dark blue gradient with a wavy pattern at the top.

**AIG**

*A Bulldog Investment Company Presentation by:*

**The Billy Beane Dream Team**

**December 6<sup>th</sup>, 2012**

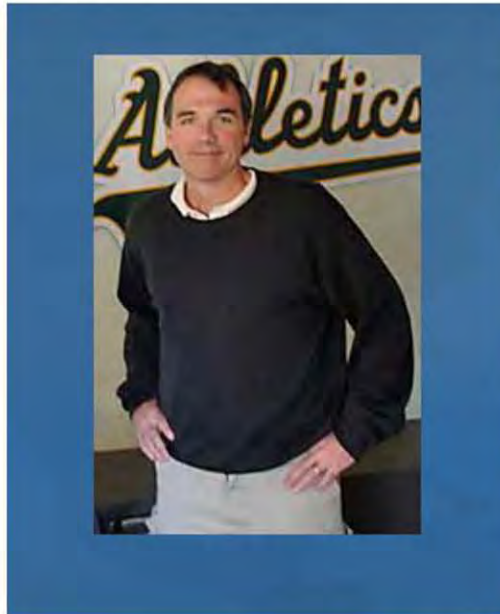
# The Billy Beane Dream Team

- Eric Sturman- *Company Background*
- April Estes- *Company Background*
- Ryan Griffiths- *The Crisis*
- Nate Raschke- *AIG is Different Now*
- Emily Toensing- *Financials, Key Ratios*
- Kevin Haugen- *Risk, Conclusion*

# Our Investing Strategy:

## *MONEYBALL* Analogy <sup>(6)</sup>

**The live presentaion featured a video of the history behind the success of Billy Beane and how he found value in underrated baseball players where no-one else could.**



# Company Background

- NYSE – AIG
- American International Group
- Industry: Full Line Insurance
- Founded in 1919
- Headquartered in New York, New York
- 57,000 Full Time Employees
- Market Cap: \$50.22 Billion
- Shares Outstanding: 1.48 Billion

The AIG logo consists of the letters 'AIG' in a bold, blue, sans-serif font, centered within a white square that is enclosed by a thick blue border.

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# Business

- AIG provides insurance products and services for the commercial, institutional, and individual customers in the United States and internationally.
- Serves in more than 130 countries
- Provides via brokers, agents, wholesalers, banks, financial advisors, direct-to-consumer platforms, benefit consultants, etc.

The AIG logo is displayed in a blue-bordered box. The letters 'AIG' are in a bold, blue, sans-serif font, centered within the white space of the box.

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# Segments

- Chartis- Property and Casualty Insurance
- SunAmerica- Life Insurance and Retirement Services
- ILFC- Aircraft Leasing
- Other Operations

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# CHARTIS

- Offers a number of general liability insurances from environmental disasters to health, travel, accidental, etc.
- 45,000 employees
- 70 million worldwide clients
- #1 Global insurer (Euromoney)
- Offers insurance products and services to businesses world wide.
- Buyer's Choice Award for Expertise, *Business Insurance*



**SunAmerica**<sup>®</sup>  
the retirement specialist

- Offers term life, universal life, accident & health, fixed and variable deferred annuities, fixed payout annuities, mutual funds, and financial planning products and services
- 13,000 employees
- 16 million customers
- Recognized leader in U.S. market
- Leading Provider of Term and Universal Life Products

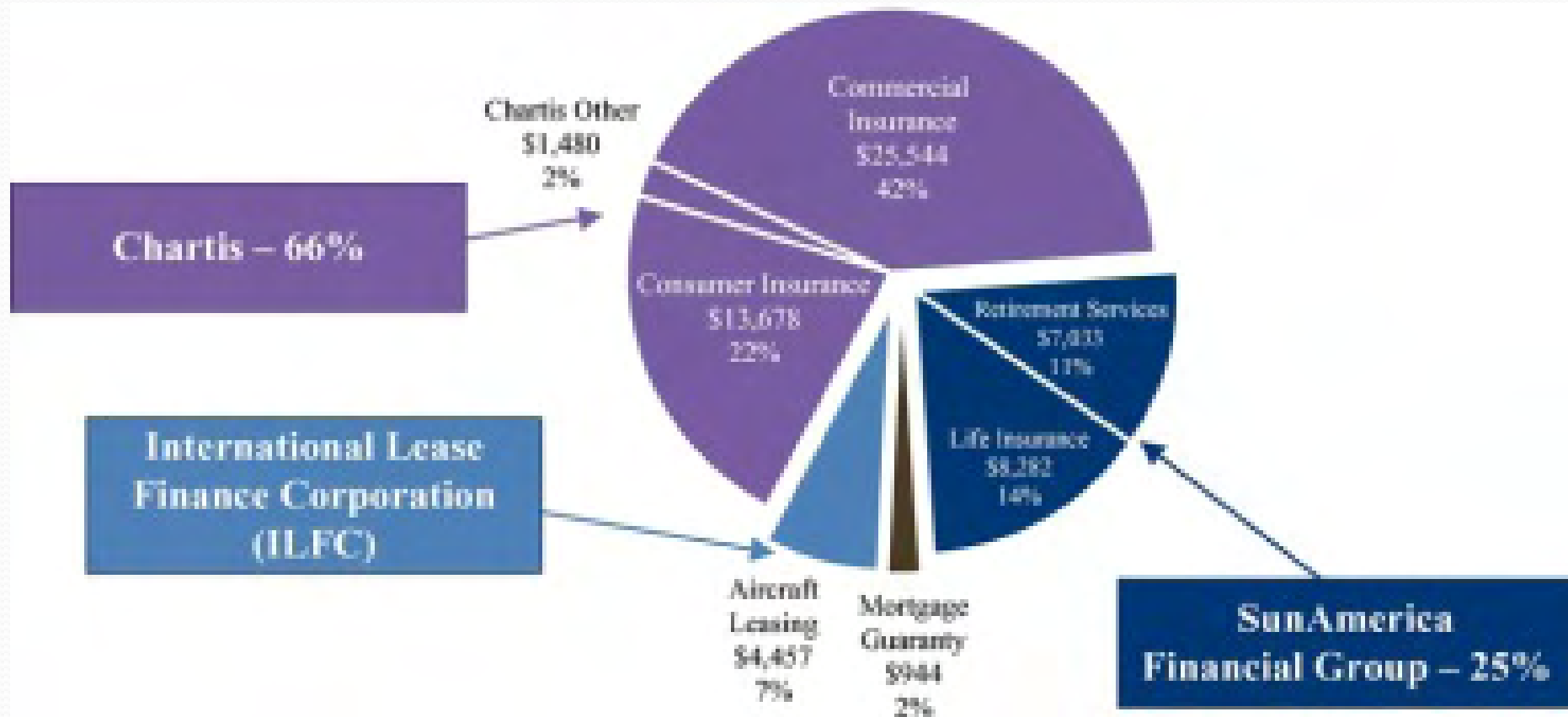


# Aircraft Leasing

- Acquires and leases commercial jet aircraft to airlines
- Issues residential mortgage guaranty insurance that covers mortgage lenders, as well as derivatives intermediary activities



# Segment Revenues (5)



# Competitors

- Allianz SE
- Allstate Corp
- AXA Group
- Hartford Financial Services

# Best Insurer Overall- Global <sup>(1)</sup>

- Region
  - #1 Western Europe
  - #1 Latin America
  - #2 North America
  - #2 Asia
  - #2 Central & Eastern Europe
- Category
  - #1 General Property & Casualty
  - #1 D & O Liability
  - #1 Marine & Fire
  - #1 Medical & Life
  - #2 Catastrophe

# AIG's Troubles

- Credit default swaps were used to back collateralized debt obligations.
- **Credit default swaps**: insurance guarantees that cover bonds if they default.
- **Collateralized debt obligations**: securities backed by a pool of bonds, loans and other assets.



# AIG's Troubles

- Collateralized debt obligations: Backed by adjustable rate (**subprime**) **mortgages**.
- Rates adjusted, borrowers did not have the money to pay the increase of their monthly payments. Defaults on loans.
- Billions in credit default swaps backed by a sinking economy.



# AIG's Troubles

- AIG's obligation: makes payments to back the **credit default swaps** or buy **Collateralized debt obligations**.
- No money = Bankruptcy or government bailout.
- September 2008:
  - \$180 Billion in relief from New York Federal Reserve and U.S. Treasury.



# AIG Now: A Restructured Company

- Far different from the risky pre-crisis AIG
- Smaller, more focused → Understandable!
- Repayment Plan: Paid back, at \$15 Billion Profit!
- P/BV ~ .50
  - Current price of ~\$33/share
  - Tangible BV ~\$62/share
- Government overhang is nearly gone, with ~16% ownership

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# Regulation <sup>(2)</sup>

- United States Federal Reserve System
- The Department of the Treasury
- US Securities and Exchange Commission
- United States Government Accountability Office
- Troubled Asset Relief Problem

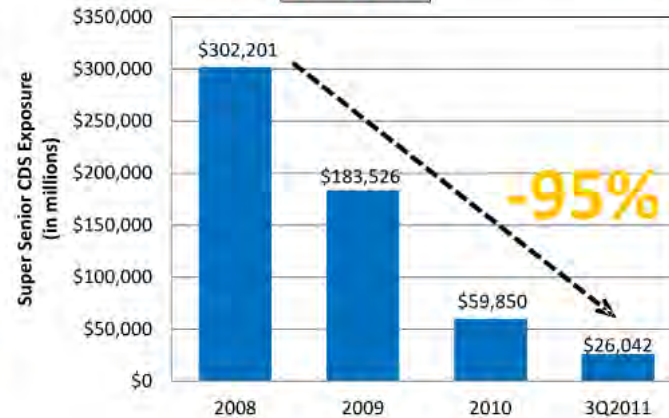
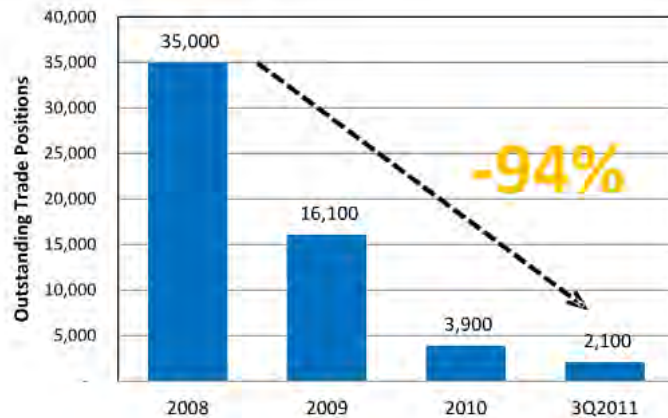
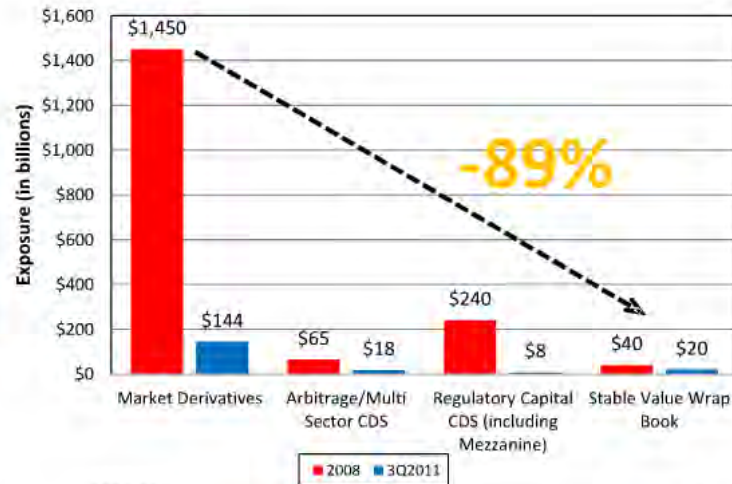


# Key Points *(1)*

- Trades at less than one-half tangible book value
- Fortress balance sheet
- Shareholder equity-to-assets ratio of 15%
- Repurchasing common stock
- Leader in global property and casualty insurance
- Dominant US life insurance and retirement service provider
- 86 million customer and client relationships worldwide

# Reduction in Derivatives (1)

- ✓ 89% Reduction in Derivatives Exposures
- ✓ 94% Reduction of Trade Positions
- ✓ 95% Reduction of CDS portfolio



# A Promise Made, A Promise Kept <sup>(5)</sup>

**The live presentaion featured a video documenting all AIG endured in 2008-09 including all governement oversight and explained how AIG had kept it's promise to the American Taxpayer that AIG would**

**Payback all taxpayer money in full with interest.**

**Which it did with a profit of \$15,000,000,000**

# Profitability & Growth : 8/10



		vs industry	vs history
Operating margin (%)	18.87		
Net-margin (%)	45.28		
ROE (%)	7.84		
ROA (%)	1.48		
Revenue Growth (%)	-20		

## Ratios

		vs industry	vs history
P/E(ttm)	3		
P/B	0.5		
P/S	0.9		
P/FCF	12.3		
EV-to-EBIT	0.7		
Shiller P/E	-0.3		

## Valuation & Return

		vs industry	vs history
Price/Tangible Book	0.5		
Price/DCF (Projected)	0.3		
Price/Median PS Value	0.7		
Price/Graham Number	0.4		
Earnings Yield (Greenblatt)	138.9		
Forward Rate of Return (Yacktman)	232.49		





1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	® VALUE LINE PUB. LLC	15-17
119.72	129.02	147.32	133.79	149.24	148.08	178.94	243.32	296.82	314.28	334.04	361.18	343.56	239.20	267.01	21.29	27.25	28.15	P/C Prem Earned per sh	32.40
44.08	48.29	55.12	75.08	84.23	111.86	115.22	127.75	142.08	170.70	193.23	226.27	90.84	187.06	153.23	7.78	12.40	13.15	Investment Inc per sh <sup>F</sup>	15.90
1.98	5.46	8.24	5.76	21.52	67	1.60	17.02	d1.15	d15.79	35.80	35.58	d31.22	d19.24	d11.05	.83	1.25	1.45	Underwriting Inc per sh <sup>A</sup>	2.25
29.16	33.78	38.29	43.60	48.60	55.20	54.00	77.80	87.20	66.00	117.60	71.60	d390.20	d56.99	d6.57	1.02	4.40	3.50	Earnings per sh <sup>B</sup>	5.25
1.80	1.99	2.45	2.53	2.90	2.96	3.60	4.60	5.60	11.00	12.60	14.60	12.40	--	--	--	Nil	Nil	Div'ds Decl'd per sh <sup>C</sup>	Nil
222.63	244.00	275.69	288.39	339.66	398.79	452.97	546.33	621.27	664.75	781.65	757.44	391.64	.30	97.63	55.33	71.20	73.55	Book Value per sh <sup>DG</sup>	89.10
99.02	98.37	98.41	116.18	116.64	130.77	130.48	130.42	129.75	129.85	130.08	126.48	134.54	134.93	136.59	1896.8	1475.0	1475.0	Common Shs Outst'g <sup>E</sup>	1425.0
210%	274%	333%	435%	478%	409%	293%	211%	223%	185%	168%	176%	140%	NMF	38%	55%			Price to Book Value	NMF
16.0	19.8	24.0	28.8	33.4	29.5	24.6	14.8	15.9	18.6	11.1	18.6	--	--	--	29.9			Avg Ann'l P/E Ratio	NMF
1.00	1.14	1.25	1.64	2.17	1.51	1.34	.84	.84	.99	.60	.99	--	--	--	1.88			Relative P/E Ratio	NMF
.4%	.3%	.3%	.2%	.2%	.2%	.3%	.4%	.4%	.9%	1.0%	1.1%	2.3%	--	--	--			Avg Ann'l Div'd Yield	Nil
CAPITAL STRUCTURE as of 9/30/12 <sup>HI</sup>						23348	31734	38511	40809	43451	45682	46222	32274	36472	40386	40175	41500	P/C Premiums Earned <sup>A</sup>	46200
Total Debt \$73.7 bill.						79.0%	73.3%	78.8%	81.1%	64.6%	65.6%	76.9%	78.6%	76.4%	69.2%	68.5%	72.0%	Loss to Prem Earned <sup>A</sup>	72.0%
(41% of Cap'l)						17.1%	17.7%	20.5%	23.3%	23.9%	23.8%	32.9%	31.0%	27.2%	26.7%	27.0%	27.0%	Expense to Prem Writ <sup>A</sup>	26.0%
Leases, Uncapitalized Annual rentals \$1.8 bill.						3.9%	8.9%	.7%	-4.4%	11.5%	10.6%	-9.8%	-9.6%	-3.6%	4.1%	3.2%	3.5%	Underwriting Margin <sup>A</sup>	5.0%
Pension Assets-12/11 \$4.1 billion						31.8%	30.7%	27.9%	28.1%	30.1%	22.9%	--	--	--	--	10.0%	10.0%	Income Tax Rate	25.0%
Oblig. \$5.6 billion						7099.0	9265.0	11495	8657.0	15423	9308.0	d51193	d6687	d898.0	1826.0	6500	5200	Net Profit (\$mill)	7350
Preferred Stock None						3.6%	3.3%	3.0%	3.3%	3.3%	3.6%	2.1%	4.6%	5.7%	3.8%	3.2%	3.5%	Inv Inc/Total Inv	5.0%
Common Stock 1,476,304,497 shares						561229	678346	798660	853370	979414	060505	860418	847585	683443	555773	570000	590000	Total Assets (\$mill)	670000
MARKET CAP: \$48.9 billion (Large Cap)						61256	71253	80607	86317	101677	95801	52710	69824	85319	104951	105000	108500	Shr. Equity (\$mill) <sup>GI</sup>	127000
FINANCIAL POSITION 2010 2011 9/30/12						11.6%	13.0%	14.3%	10.0%	15.2%	9.7%	NMF	NMF	NMF	1.7%	6.0%	5.0%	Return on Shr. Equity	6.0%
(\$MILL.)						11.2%	12.2%	13.4%	8.4%	13.6%	7.8%	NMF	NMF	NMF	1.7%	6.0%	5.0%	Retained to Com Eq	6.0%
Bonds						7%	6%	6%	16%	11%	20%	NMF	--	--	--	Nil	Nil	All Div'ds to Net Prof	Nil

Bold figures are  
Value Line  
estimates

# Catalysts <sup>(2)</sup>

- Overhang of US Treasury ownership is nearly gone
- Additional Sales of non-core assets
- ROE expansion and operating improvements in core business driven by restructuring initiatives, price increases and an improving insurance market
- Use of appropriate leverage to boost returns (AIG has a low debt-to-capital ratio versus peers)
- Offense vs. defense: going forward, AIG can focus growing its business and allocating its strong cash flows instead of selling assets and managing government ownership
  - Additional buybacks and initiation of dividend likely
- Fading of institutional taint

# Risks <sup>(2)</sup>

- Deteriorating macroeconomic environment
- Reserve Shortfalls
- Exposure to derivatives
- Exposure to catastrophic risks
- Exposure to Europe
- Succession of management
- Volatility (not a concern for B.I.C., this creates opportunities for us)

# Potential Payout

- If AIG grows book value, at 6-8% per year and the stock trades at book value upon expiration, the warrants will increase in value by approximately 4-5x (vs. 2.8-3.3x for the stock)

		8 years of growth	
	12/5/2012	6%	8%
Book Value	\$ 62.80	\$ 100.09	\$ 116.24
Current Value	33.78		

# Conclusion

- Multiple catalysts to close valuation gap
  - Strong global franchise trading well below intrinsic value
  - Government overhang almost gone
  - Core business improving
  - Insurance market hardening (increase rates and be more selective in types of risks willing to underwrite)
  - Management executing on strategic plan

# Value Investing <sup>(1)</sup>

- “This is not an easy time for investors. As we practice the strategy, value investing has been underperforming and prices for our companies are depressed and do not reflect the intrinsic value or business fundamentals... Each of our holdings generates excess free cash. All are at bargain prices. Yet, our investment experience has taught us that we cannot control prices. Cheap can get cheaper, even if there is nothing fundamentally wrong. However, market history says that high quality, well-managed companies don't stay cheap for long.”

-Bruce Berkowitz

Ignore the Crowd...

...Buy

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**AIG**

# Sources

1. Fairholme Funds, Bruce Berkowitz
2. Whitney Tilson, T2 Partners LLC
3. Value Line
4. Guru Focus
5. AIG Website, 10-K
6. MONEYBALL Trailer