

# The Wolves of Court Street

American International Group

Bring on Tomorrow

**AIG**



# Presenting Members

Tasha Phillips

Emilie Crow

Stephanie Thompson

Kelli Gohmert

Arthur Munoz



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# Background





# Company Background

Founded in 1919

Business: Global Insurance Company

Segments: Property & Casualty, Life & Retirement, and Mortgage

Goals: Protect customers assets, manage risks, and provide for retirement security

2008

Massive bailout

US Federal Reserve takes 80% ownership





# Recovery

Smaller, more focused, and understandable

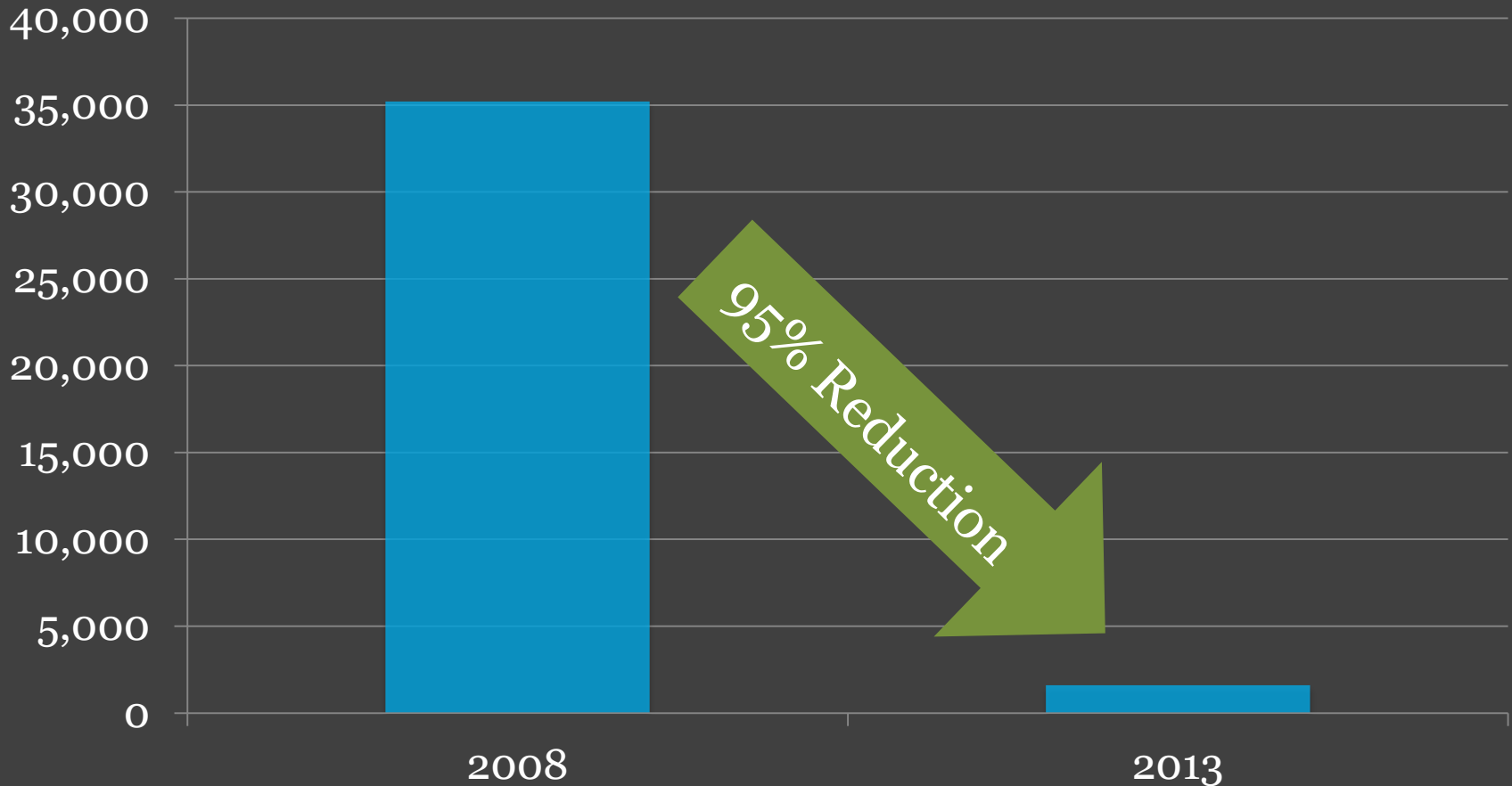
Repaid bailout with \$22.7 Billion Profit

Derivatives liquidated



# Derivative Exposure

## Position Count



**AIG**

AIG Today

Strengthen and improve the operating performance of core businesses

Enhance the yield on investments while maintaining focus on quality

Work with the Board of Governors of the Federal Reserve System

Reduce recurring operating expenses by leveraging AIG's scale

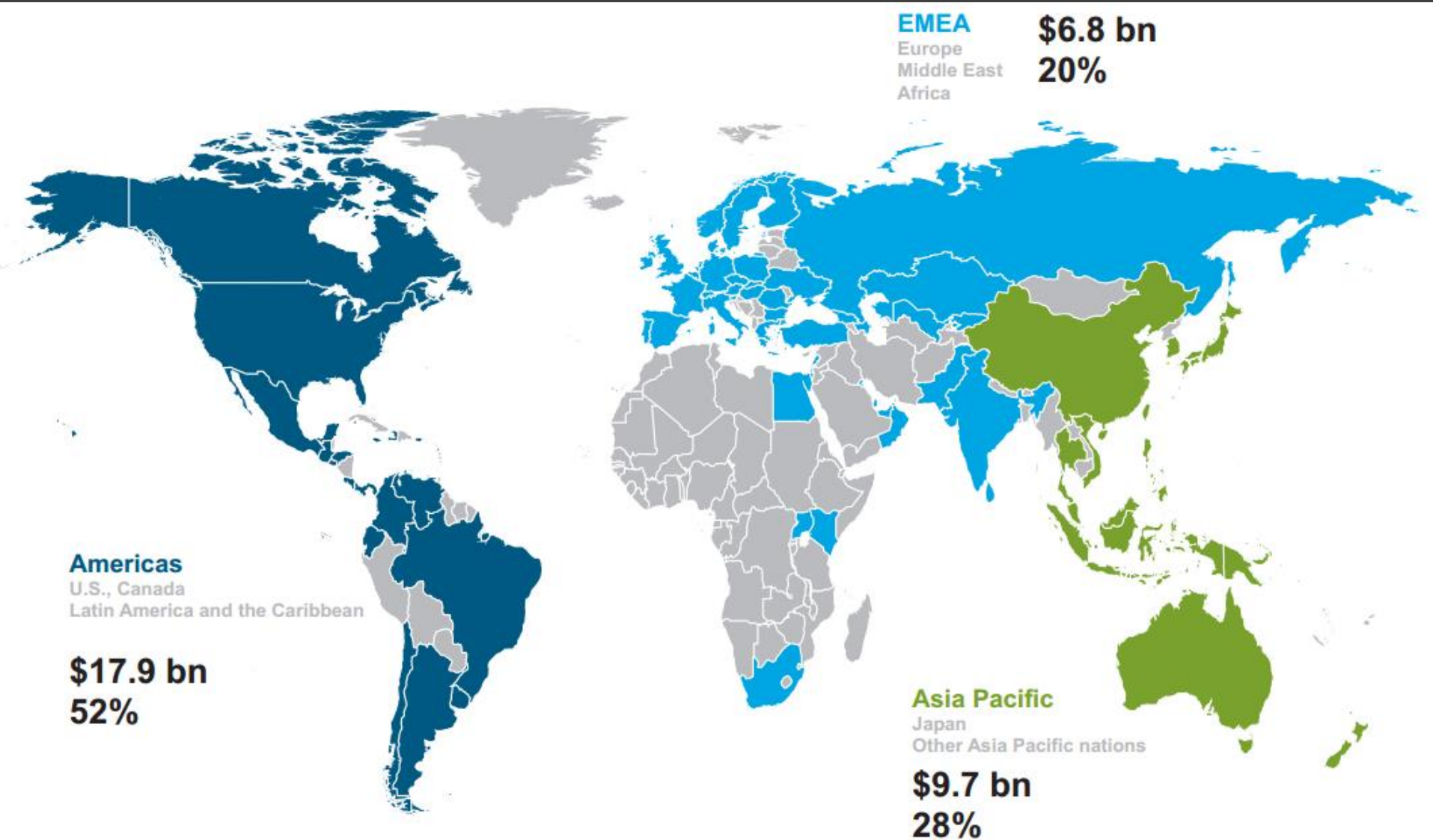


# The Global Marketplace

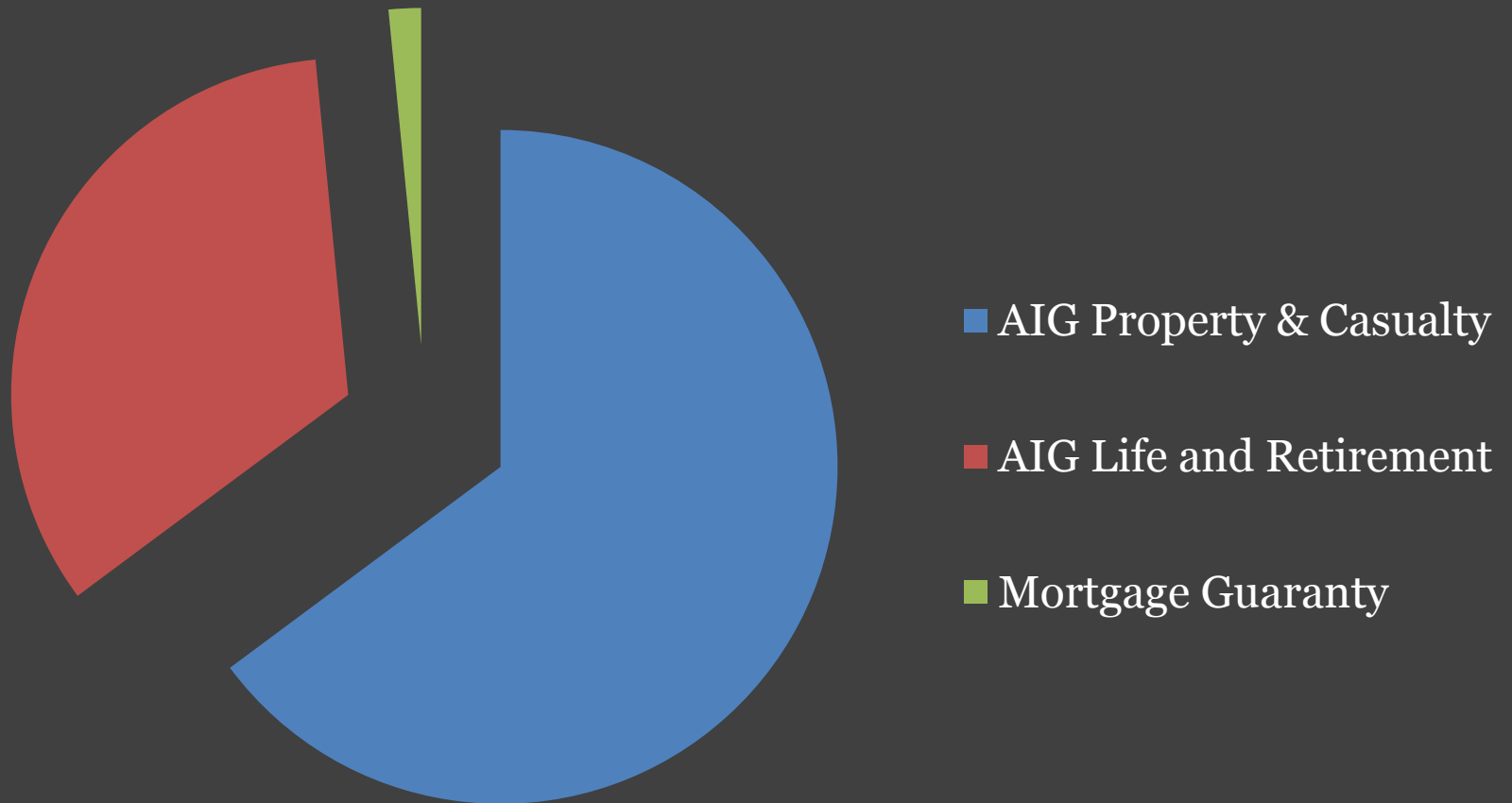
Customers in over 130 countries and jurisdictions

Has significant international presence in:

- Americas
- Asia Pacific
- EMEA (Europe, Middle East, and Africa)









# Revenues

Property & Casualty: 65%

– \$39,709

Life & Retirement: 34%

– \$20,590

Mortgage Guaranty: 1%

– \$949

**AIG**

# Property & Casualty



# AIG Property & Casualty

In business with:

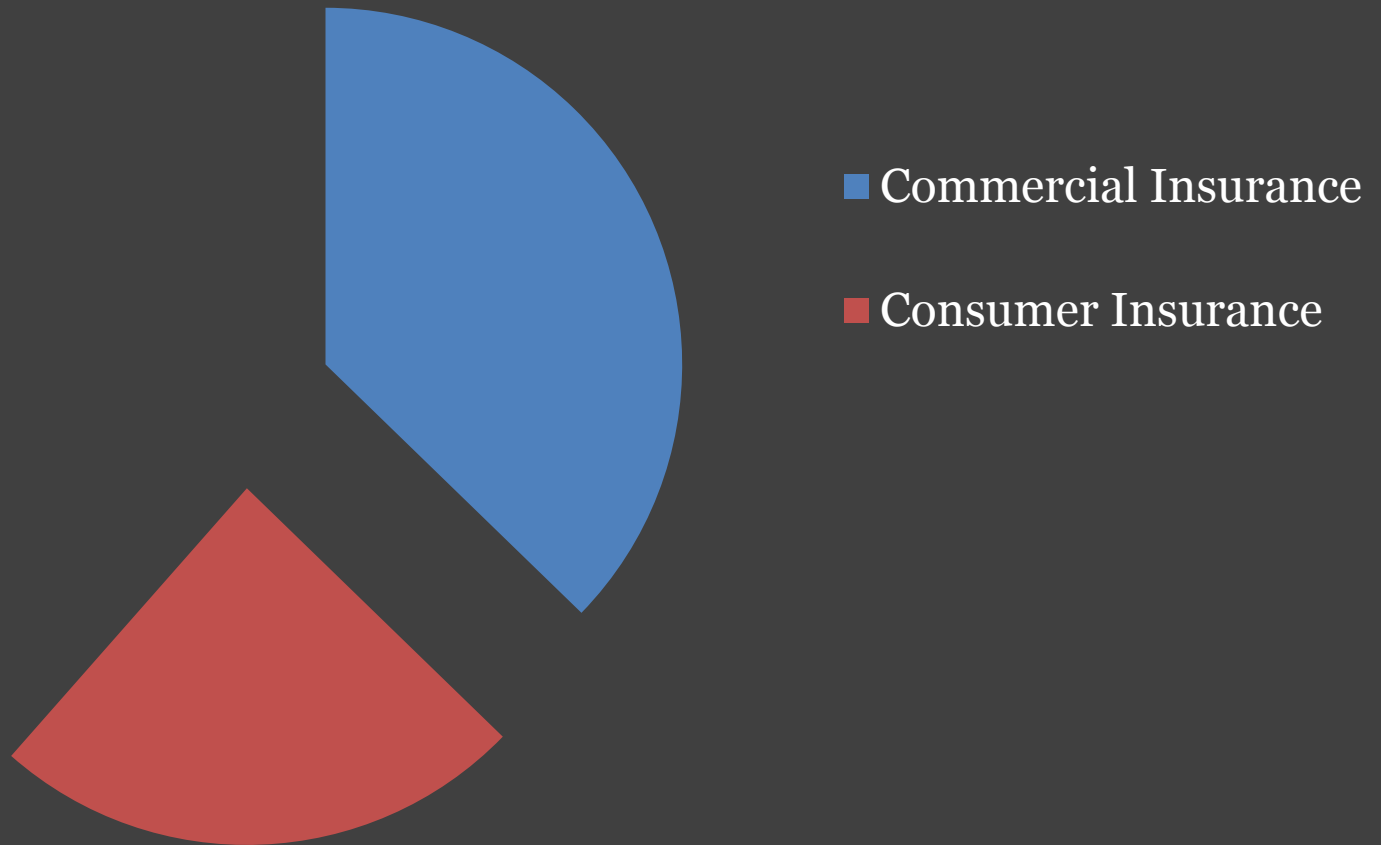
- 98% of Fortune 500
- 96% of Fortune 1000
- 90% of Fortune Global 500

#1 Commercial Insurer in:

- US
- Canada
- Japan
- China



# Property & Casualty





# Property & Casualty

Commercial Insurance: 38%

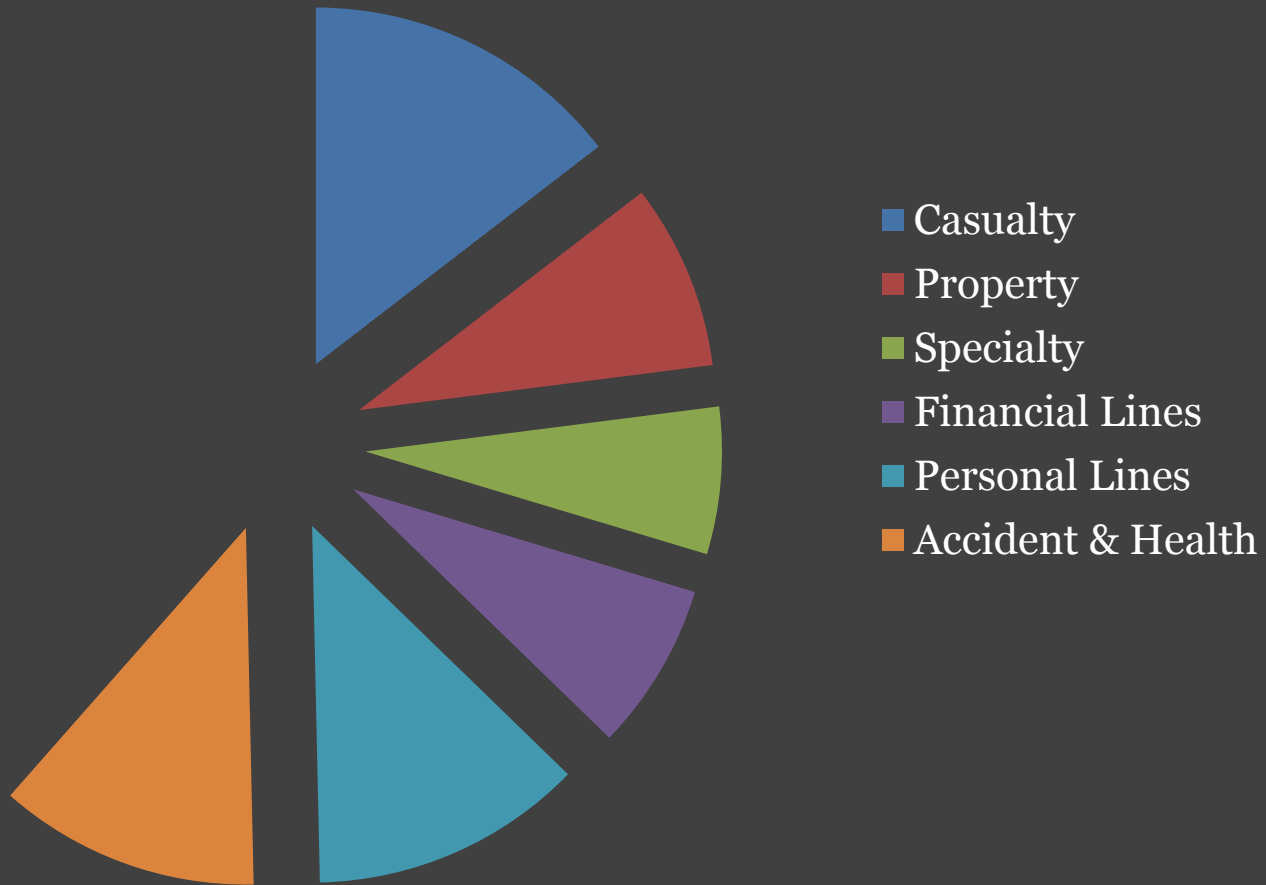
– \$23,137

Consumer Insurance: 22%

– \$13,601

Other: 5%

– \$2,971





# Commercial

Casualty

Property

Specialty

Financial Lines



The AIG logo consists of the letters 'AIG' in a bold, blue, sans-serif font, set against a white background that is itself within a blue-bordered square.

Consumer

Accident and Health

Personal Lines

**AIG**

Life & Retirement



# Life & Retirement

Formerly SunAmerica

Life Insurance: Life Insurance and A&H,  
Group Benefits, Institutional

Retirement Services: Group Retirement,  
Fixed Annuities, Variable Annuities,  
Brokerage Services, Retail Mutual Funds



# Life & Retirement

## Life Insurance

#4 Structured Settlements

#5 Term Life

## Annuity Sales

#2 Total Annuity Sales

#1 Provider for 16 straight years

#3 Variable Annuity Sales

## Group Retirement

#2 K-12 Assets

#3 403(b) Assets





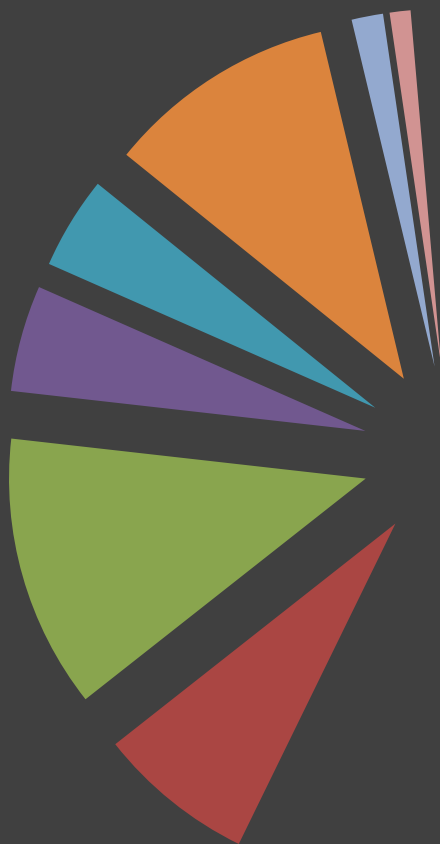
# Life & Retirement

Retail: 21%

– \$12,715

Institutional: 13%

– \$7,875



- Retail Mutual Funds
- Retirement Income Solutions
- Life Insurance
- Fixed Annuities
- Group Retirement
- Institutional Markets
- Group Benefits



# Retail

Life Insurance and A&H

Fixed Annuities

Retirement Income Solutions

Brokerage Services

Retail Mutual Funds





# Institutional

Group Retirement

Group Benefits

Institutional Markets

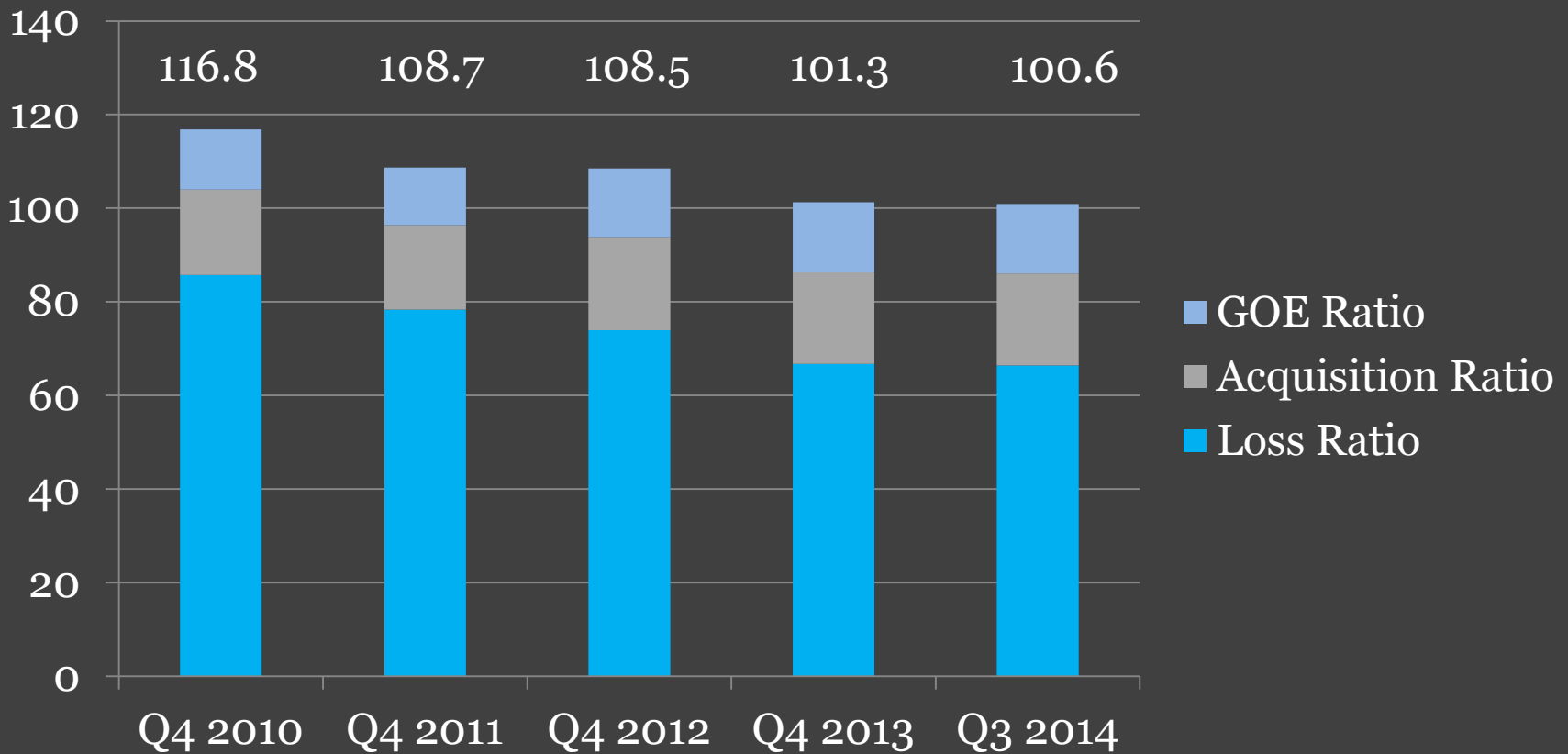
AIG

Bring on Tomorrow



# Combined Ratio

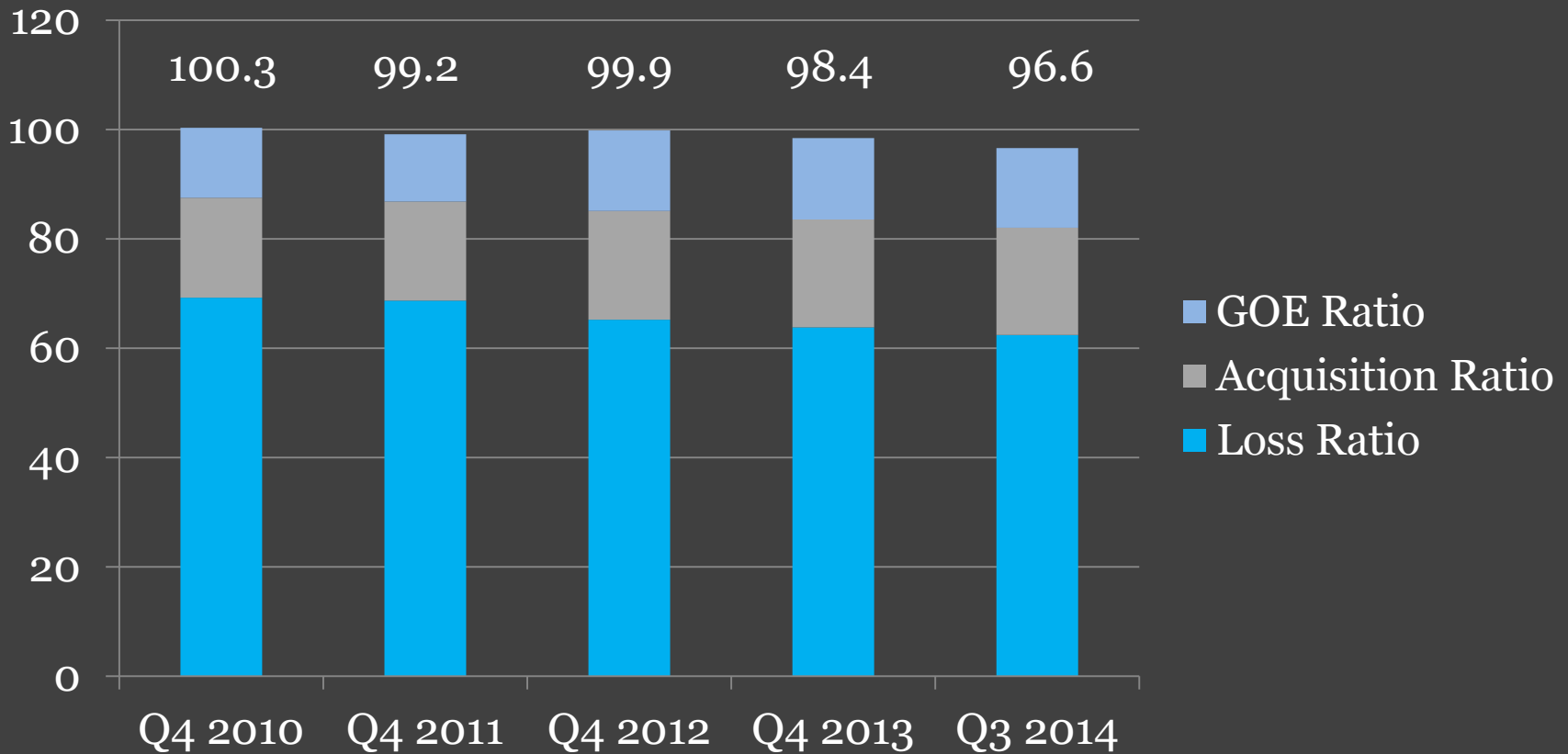
## Calendar Year





# Combined Ratio

## Accident Year





## Recent News

Terrorism Risk Insurance Program  
Reauthorization Act of 2007

Systematically Important Financial  
Institution (SIFI)

*Starr v. United States*



# Systematically Important Financial Institution

Announced on July 8, 2013

Effect on AIG:

- Additional Stress Tests

- Stricter Standards

- An Early Remediation Regime Process

- Possible Further Regulation



# Starr vs. United States

Maurice Greenberg

Claims Against US Government

Financial Effect on AIG



## Recent News

AIG was recently chosen as a 'Superbrand'

AIG selling 40-year paper

International Lease Finance Corporation





# International Lease Finance Corporation

December 2013: Entered into sales agreement with AerCap Holdings

May 2014: Sale of ILFC completed

Results of transaction:

- Netted about \$2.4 billion in cash
- Received 46 percent ownership interest in the outstanding common stock of AerCap



# Risk Factors

Pending Litigation

Regulatory changes in recent years

Changes in interest rates

Global capital markets and economy

Natural and man-made catastrophes

Terrorist Attacks



# Key Strengths

World Class Insurance Franchises

A Diverse Mix of Businesses

Effective Capital Management

Execution of Strategic Objectives

Improved Profitability



# Competitive Advantage

Large scale of business

Large amount of capital base

Advanced underwriting approaches

AIG

# Quantitative Analysis

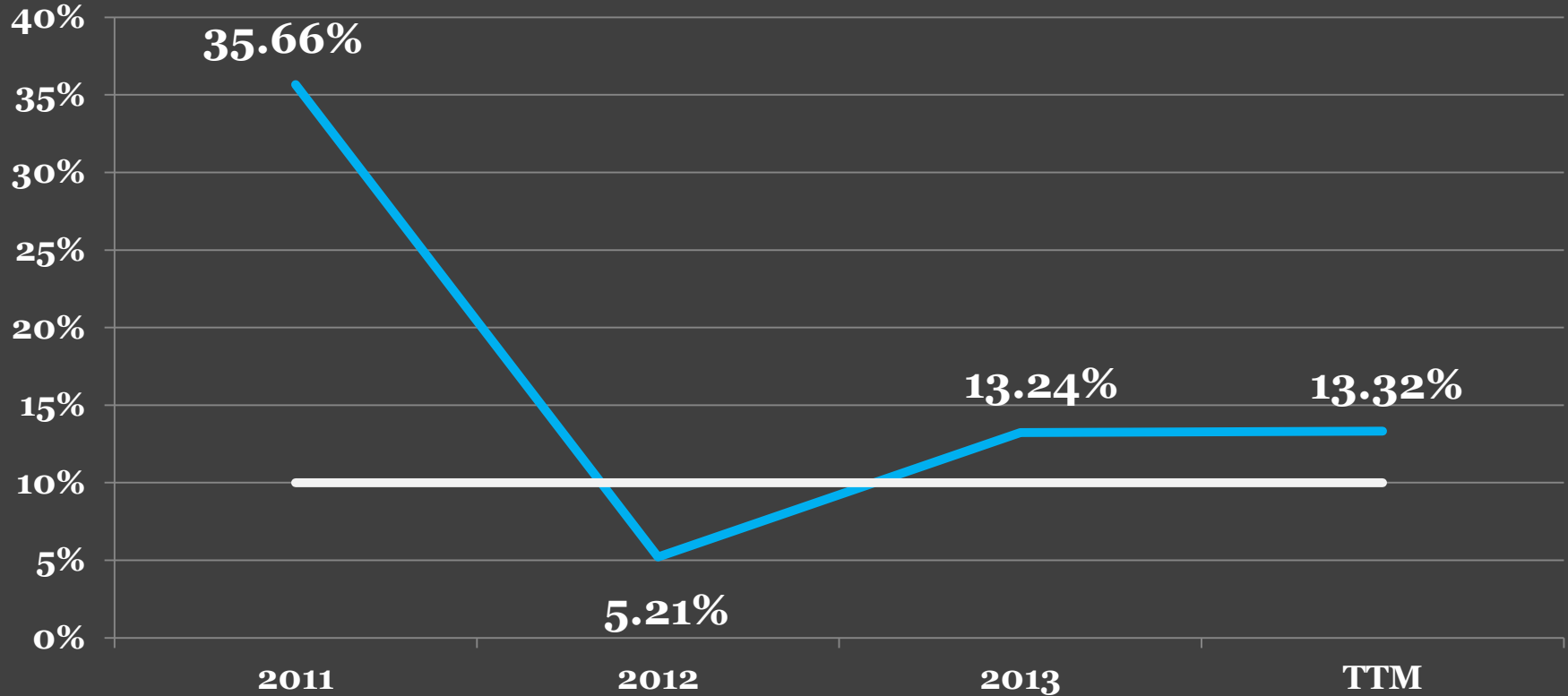


# Interpretation of Financial Statements

<b>Ratio</b>	<b>AIG TTM</b>	<b>Threshold</b>	<b>Pass/Fail</b>
Net Profit Margin	13.32%	≥10%	Pass
Obligation Ratio	2.99 years	<5 years	Pass*
Interest Expense as % of Operating Profit	15.82%	<70%	Pass
Adjusted Debt to Equity	3.31	<10	Pass
Dividend Payout Ratio	7.78%	≤60%	Pass
Return on Assets	1.67%	≈1%	Pass
Return on Equity	8.12%	N/A for Industry	
Return on Capital	7.78%	N/A for Industry	



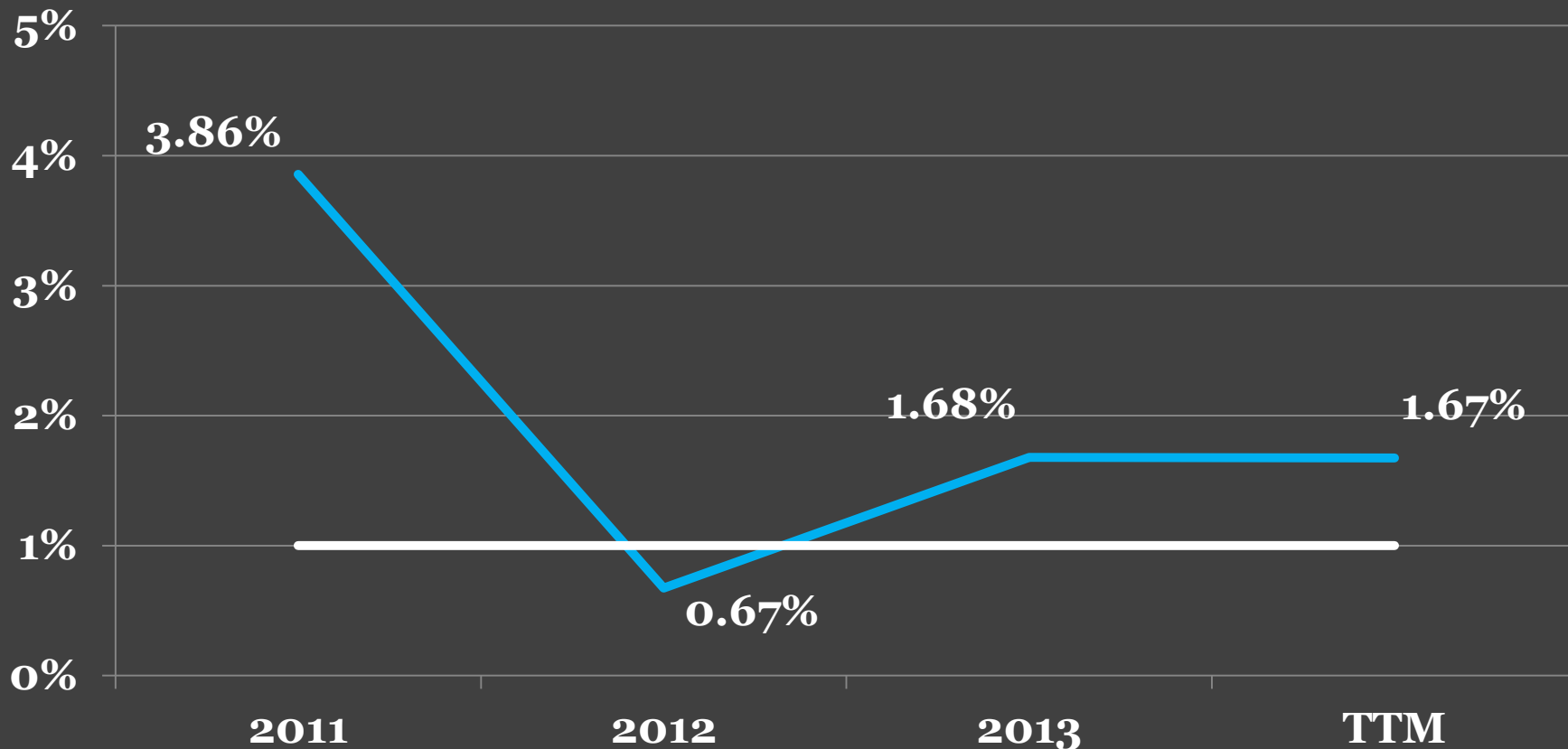
# Net Profit Margin



$$\text{Net Profit Margin as \%} = \frac{\text{Net Profit(\$)}}{\text{Revenue (\$)}}$$



# Return on Assets

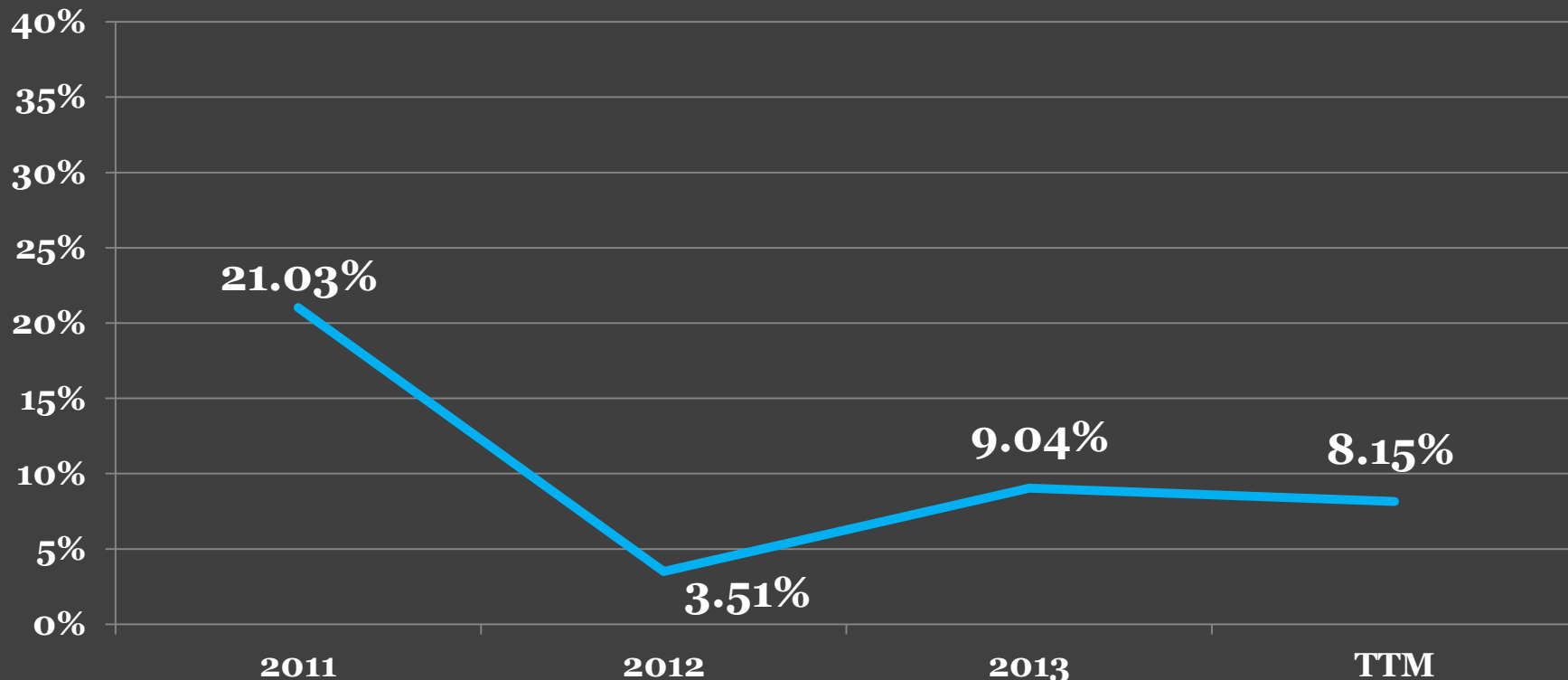


$$\text{Return on Assets as \%} = \frac{\text{Net Profit(\$)}}{\text{Total Assets (\$)}}$$





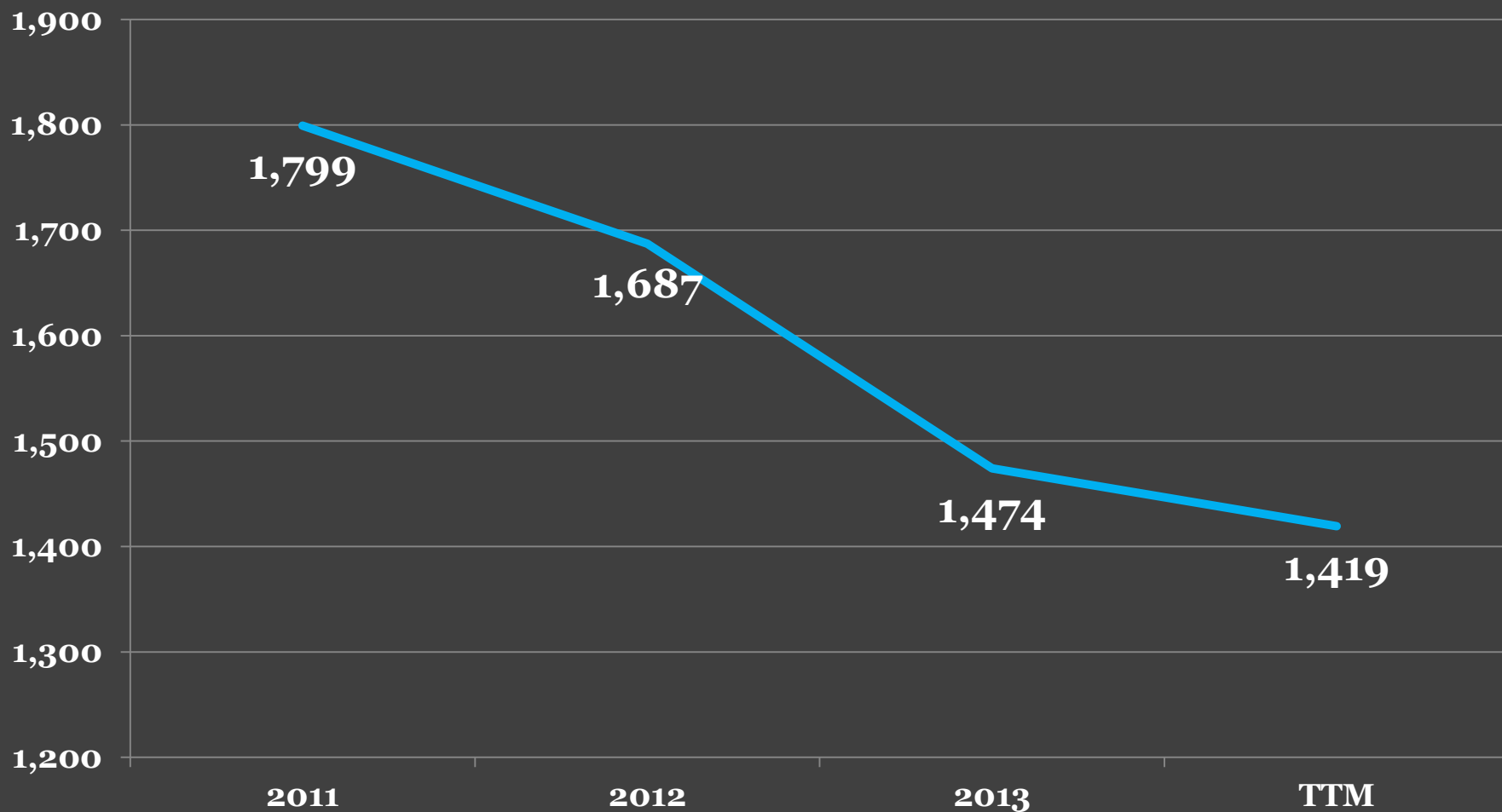
# Return on Equity



$$\text{Return on Equity as \%} = \frac{\text{Net Profit}(\$)}{\text{Total Equity}(\$)}$$



# Shares Outstanding



(In millions)



# Default

Tangible Assets	\$ 527,190,000,000.00
Liabilities	\$ 418,207,000,000.00
Number of Shares	1,442,067,842
Tangible Book per Share	\$ 75.57
Tangible Book per Share	\$ 75.57
Price	\$ 51.00
<b>Margin of Safety</b>	<b>32.52%</b>

Tangible Assets	\$ 527,190,000,000.00
Liabilities	\$ 418,207,000,000.00
Number of Shares	1,442,067,842
Tangible Book per Share	\$ 75.57
Lawsuit	\$ 25,000,000,000.00
Tangible Book per Share	\$ 58.24
Price	\$ 51.00
<b>Margin of Safety</b>	<b>12.43%</b>

Tangible Assets	\$ 527,190,000,000.00
Liabilities	\$ 418,207,000,000.00
Number of Shares	1,442,067,842
Tangible Book per Share	\$ 75.57
Lawsuit	\$ 25,000,000,000.00
Terrorist attack	\$ 5,000,000,000.00
Tangible Book per Share	\$ 54.77
Price	\$ 51.00
<b>Margin of Safety</b>	<b>6.88%</b>



# Kill It – Again

Tangible Assets	\$ 527,190,000,000.00
Liabilities	\$ 418,207,000,000.00
Number of Shares	1,442,067,842
Tangible Book per Share	\$ 75.57
Lawsuit	\$ 25,000,000,000.00
Terrorist attack	\$ 5,000,000,000.00
Huge Catastrophe	\$ 3,400,000,000.00
Tangible Book per Share	\$ 52.41
Price	\$ 51.00
<b>Margin of Safety</b>	<b>2.70%</b>



# Qualitative Analysis

What type of Business is this: Commodity or Sustained Competitive Advantage?	Commodity
Can you easily explain what this business does?	Yes
Is AIG heavily unionized?	No
Does it require heavy capital infusion?	No
Lots of Research and Development?	No
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	No



# Qualitative Analysis

Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor?	No
How can I lose money?	Tangible Book lowers or price does not close
What is this stock NOT worth?	Extreme multiples of Tangible Book
If this drops 50% today, will I buy more?	Yes



**AIG**

# Lucrative Valuations



# 52 Week Range



Ticker 	▲ 52-wk Range
IBM	\$150.50  \$199.21
WRLD	\$63.25  \$103.62
AIG	\$46.80  \$56.79
KO	\$36.89  \$45.00
ORCL	\$35.44  \$46.71
MSFT	\$35.52  \$50.05
AAP	\$109.58  \$163.46
BBBY	\$54.96  \$79.64
WMT	\$72.27  \$90.97
CHRW	\$50.21  \$77.49
PEP	\$77.01  \$100.70
MDT	\$53.33  \$75.66
LO	\$46.48  \$67.46
WBA	\$55.27  \$77.98
BRK.B	\$108.12  \$152.94
NSRGY	\$4.93  \$80.65
<b>CTSH</b> 	\$41.51  \$55.68
PETM	\$55.00  \$81.97



# Price to Sales

WMT	0.6
CHRW	0.8
WBA	0.9
AIG	1.1
PETM	1.2
AAP	1.2
BBBY	1.2
WRLD	1.4
IBM	1.7
BRK.B	1.8
PEP	2.2
NSRGY	2.3
LO	3.4
CTSH	3.4
KO	4.1
MDT	4.2
MSFT	4.2
ORCL	5.1



# Price to Earnings

WRLD	8.1
AIG	8.5
IBM	10.1
BBBY	14.9
BRK.B	16.9
MSFT	18.1
ORCL	18.2
WMT	18.3
PETM	19.3
LO	20.7
PEP	21.5
NSRGY	21.5
KO	23.6
AAP	24
CTSH	24
MDT	25.1
CHRW	25.5
WBA	35.8



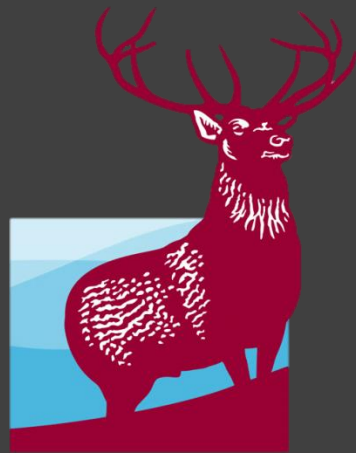
# Price to Tangible Book

AIG	0.7
BRK.B	2
WRLD	2.7
WBA	3.9
WMT	4.6
CTSH	4.9
BBBY	5.1
MSFT	6
PETM	7.8
NSRGY	10.5
MDT	12
ORCL	27.3
KO	28.8
AAP	66.6

**AIG**

Competitors

**MetLife**



**THE  
HARTFORD**

**VOYA**

**Allianz**





# DuPont Analysis

	<b>Net Profit Margin</b>	<b>Total Asset Turnover</b>	<b>Financial Leverage Multiplier</b>		<b>Return on Equity</b>
AIG	0.13	0.13	5.39	=	9.04%
MetLife	0.08	0.08	12.83	=	8.04%
Hartford Financial	0.03	0.10	13.12	=	3.88%
Voya Financial	0.13	0.05	15.38	=	9.96%
Prudential Financial	0.05	0.06	18.29	=	5.70%



# Cross Industry Comparison

Company	American International Group Inc	MetLife Inc	Hartford Financial Services	Voya Financial Inc	Prudential Financial Inc
Number of Guru	16	8	6	1	2
P/E(ttm)	8.50	10.10	25.80	6.90	16.40
P/S	1.10	0.79	0.80	0.90	0.80
P/B	0.70	0.80	1	0.70	0.90
EV/EBIT	7.39	7.40	50.61	9.60	18.03
EV/Sales	1.33	0.81	0.74	1.67	0.98
ROA (%)	1.67	0.64	0.27	0.65	0.32
ROE (%)	9.04	8.04	3.88	9.96	5.70
Operating Margin (%)	18	11.01	1.46	17.43	5.44
Net Margin (%)	13.37	7.84	3.02	13.30	4.93
Debt to Equity (%)	33	34	32	68	78



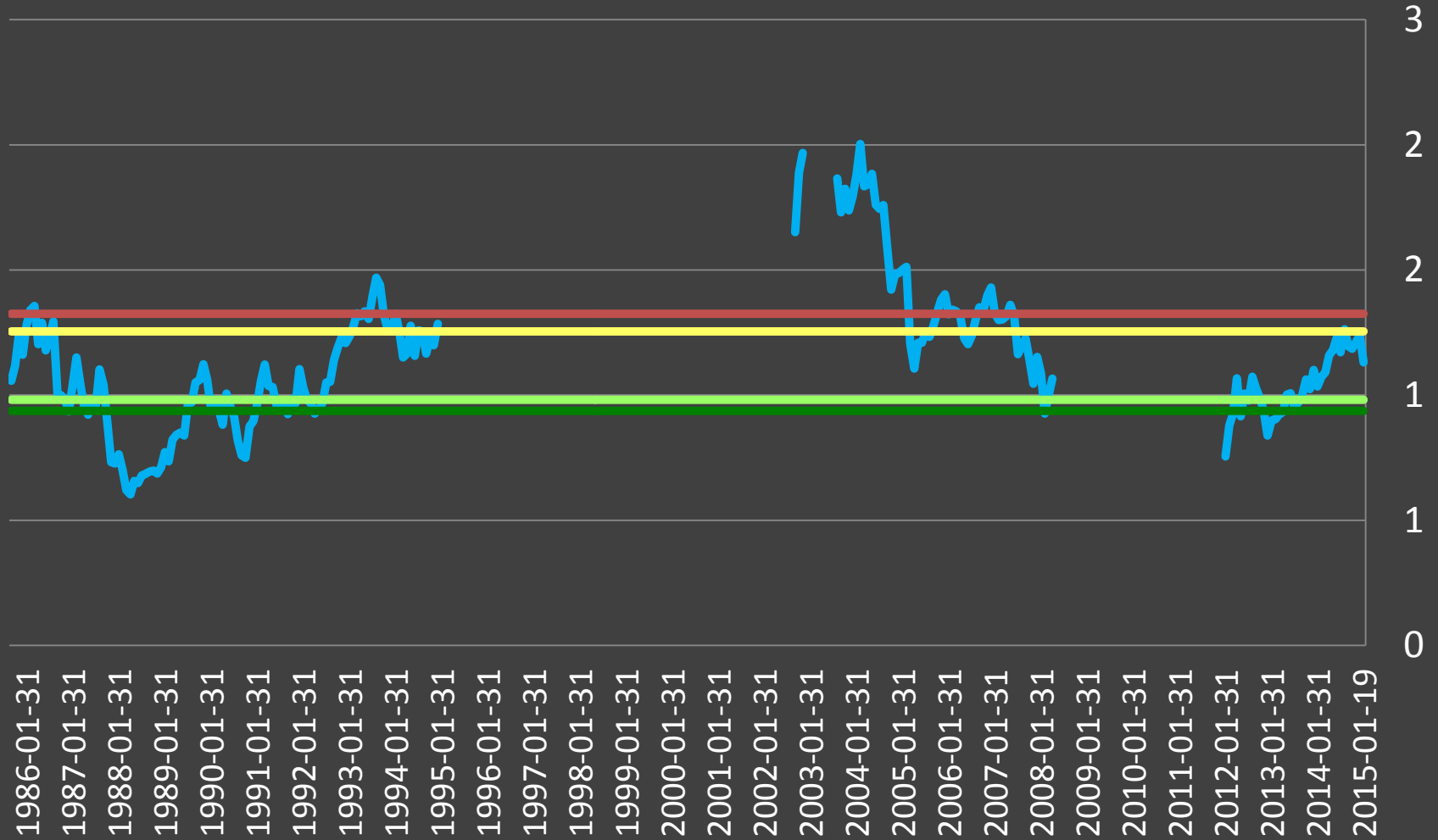


# DuPont Analysis

<b>AIG</b>	<b>Net Profit Margin (Net Income/Revenue)</b>	<b>Total Asset Turnover (Revenue/Total Assets)</b>	<b>Financial Leverage Multiplier (Total Assets/Total Equity)</b>		<b>Return on Equity</b>
TTM	0.13	0.13	4.86	=	8.15%
2013	0.13	0.13	5.39	=	9.04%
2012	0.05	0.13	5.60	=	3.51%
2011	0.34	0.11	5.45	=	20.31%

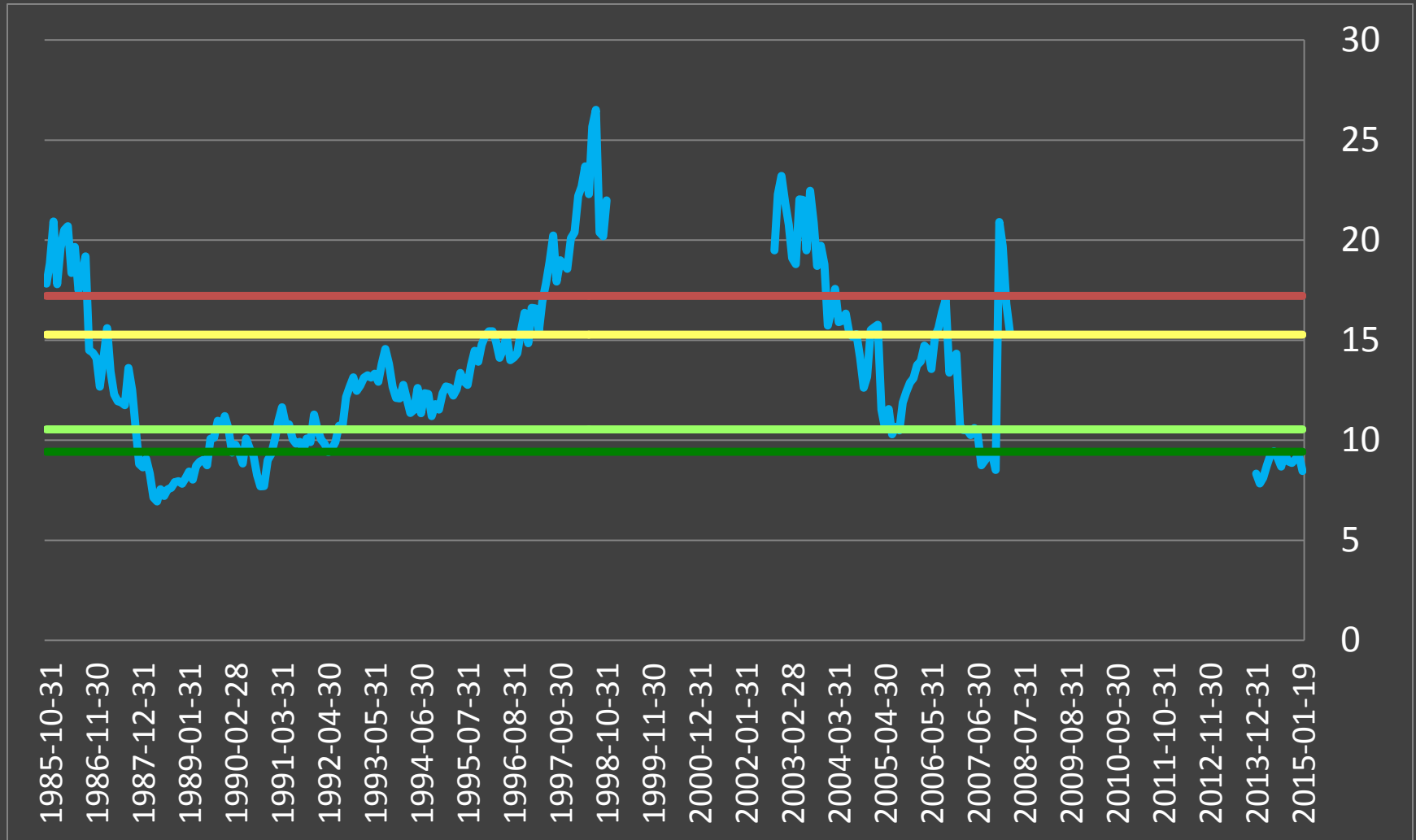


# Price to Sales



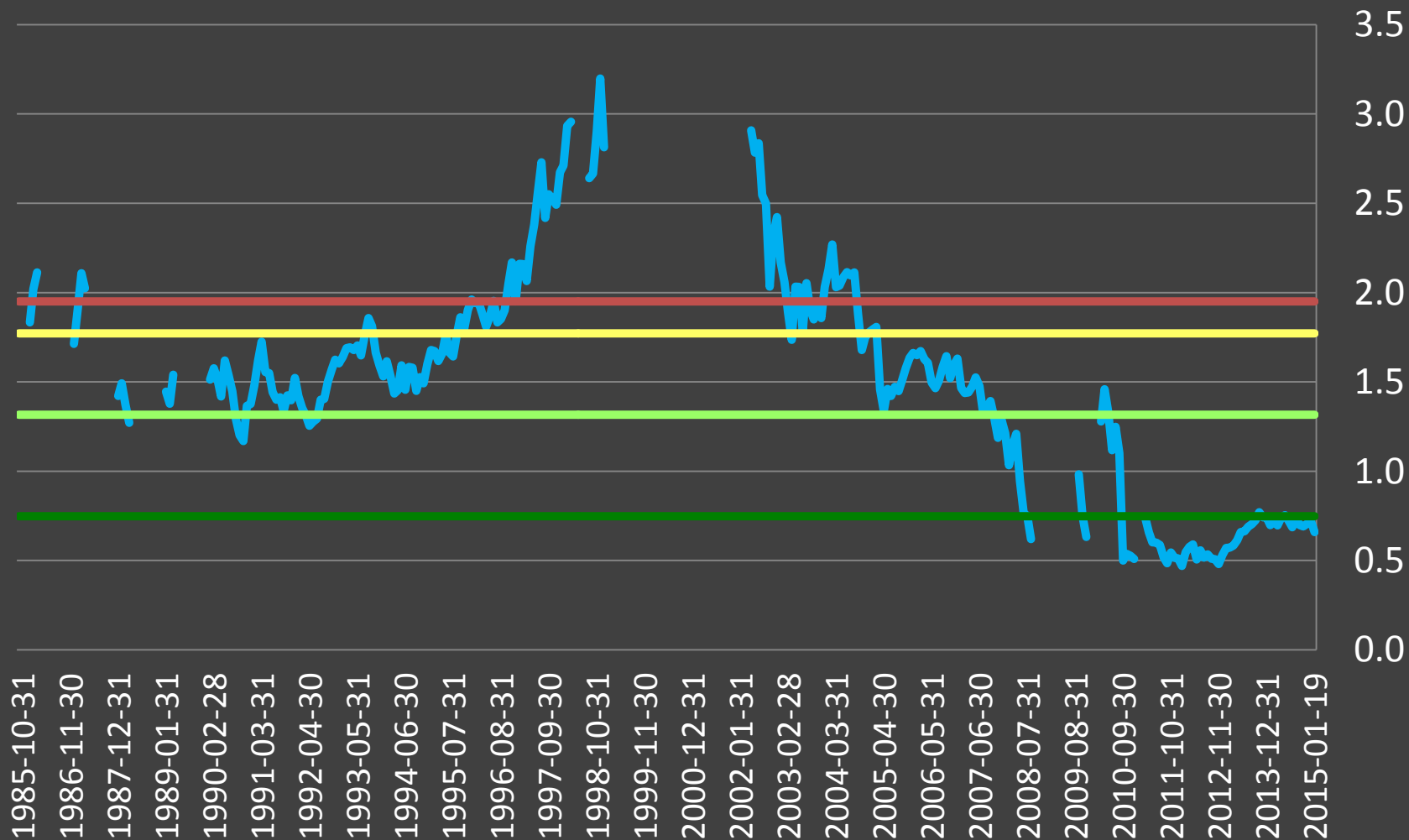


# Price to Earnings



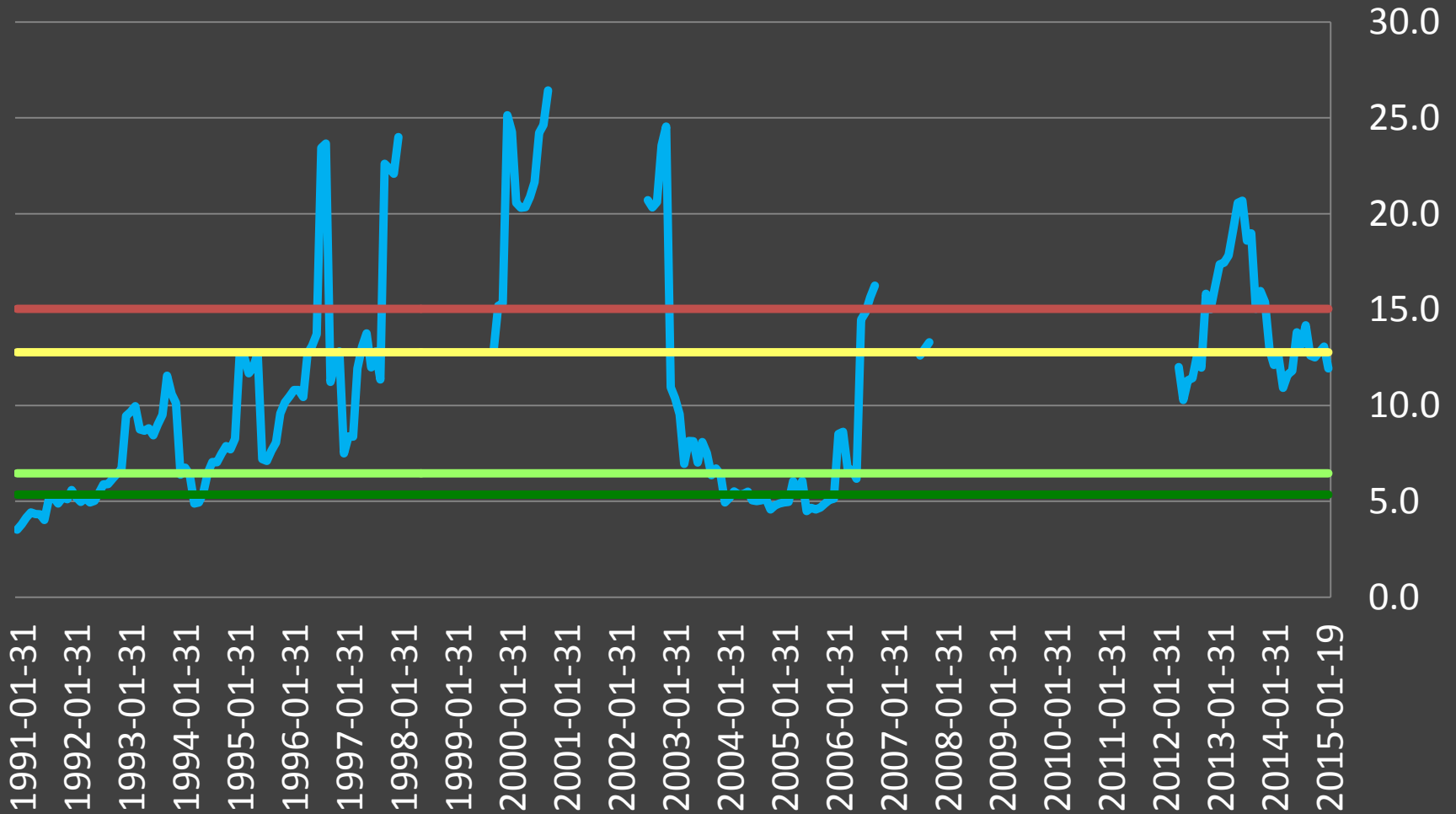


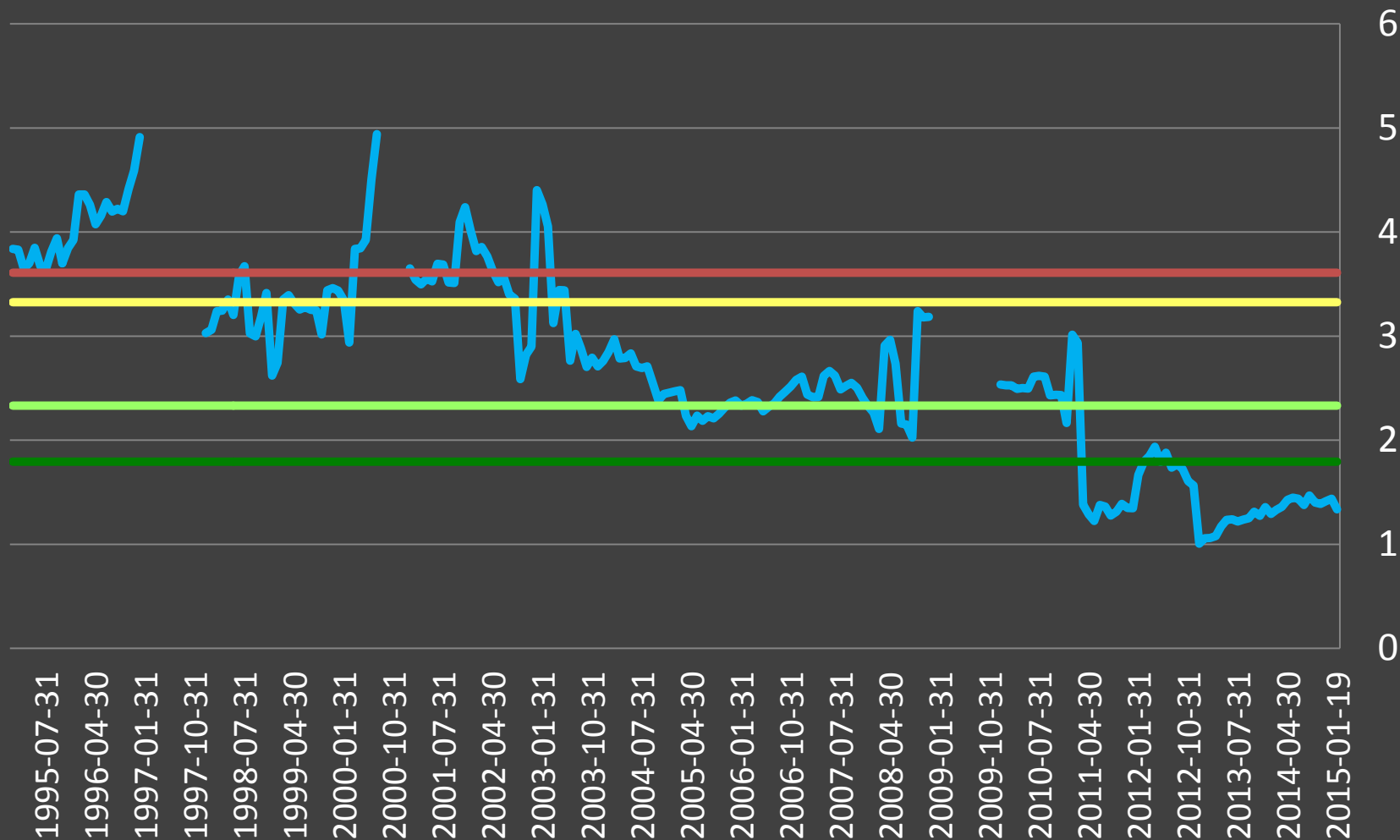
# Price to Book





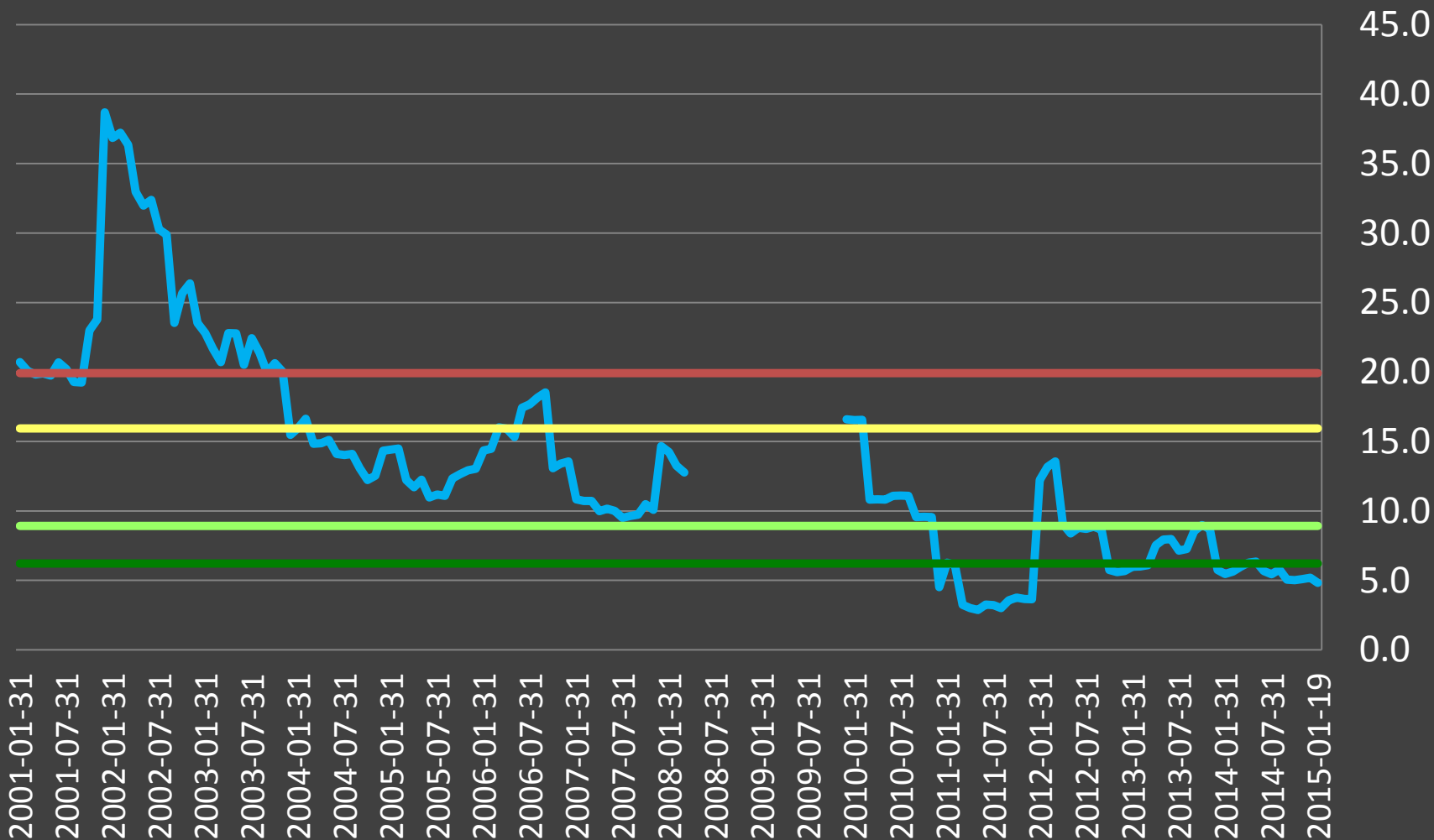
# Price to Free Cashflow

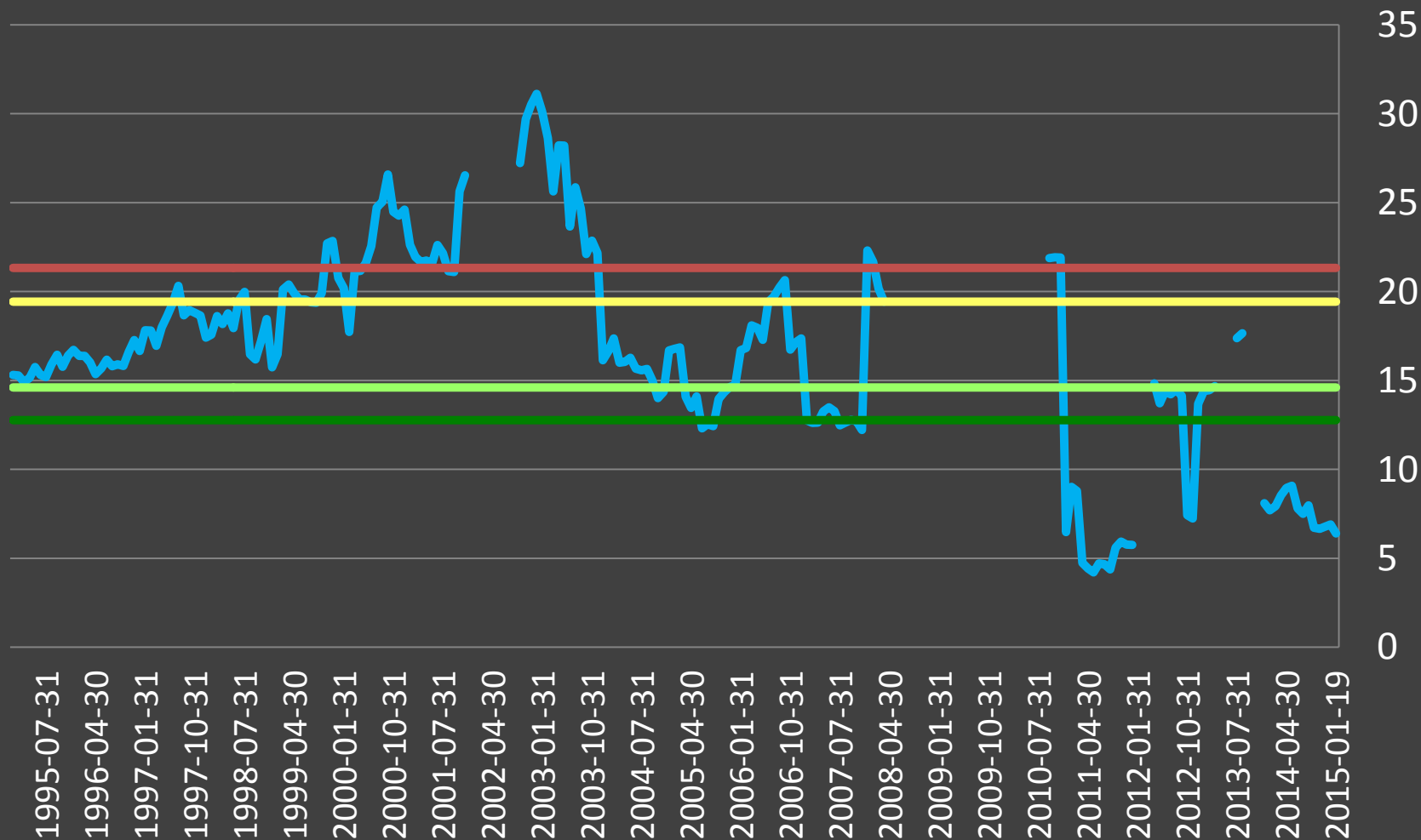






# EV/ EBITDA







# Conclusion



# Why AIG?

Hidden carry forward tax losses

Irrational Market Discount

Great Company



# Carry Forward Tax Credit

(in millions)	Gross	Tax Effected
Net operating loss carryforwards	\$ 34,233.00	\$ 11,981.00
Capital loss carryforwards- Life	\$ 1,117.00	\$ 391.00
Capital loss carryforwards- Non-Life	-	-
Foreign tax credit carryforwards	-	\$ 5,796.00
Other carryforwards and other	-	\$ 513.00
Total AIG U.S consolidated income tax group tax losses and credits carryforwards	-	\$ 18,681.00



# The Investment

Even almost 7 years removed, the market continues to irrationally discount AIG

We have the opportunity to purchase into one of the world's largest insurance companies at a 40% discount to liquidation value



# Shares vs. Warrants

Special one time dividend of a 10 – year warrant to purchase common shares at \$45 a share

Contain anti-dilution measures

2021 AIG Stock Price	Returns of		
	Shares	vs.	Warrants
\$52.00	0%		-66%
\$65.50	26%		0%
\$77.35	49%		58%
\$ 87.00	67%		105%



# Recommendation

Limit order to purchase AIG Warrants at a strike price of \$20.50

## Questions

“Be fearful when others are greedy and  
greedy when others are fearful.”

- Warren Buffett

A – Legacy Derivatives

B – Awards

C – Combined Ratios

D – Bond Ratings

E – L & R Investments

F – P & C Investments

G – LT Debt

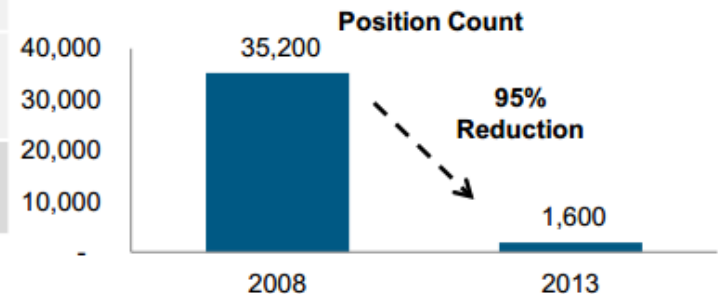
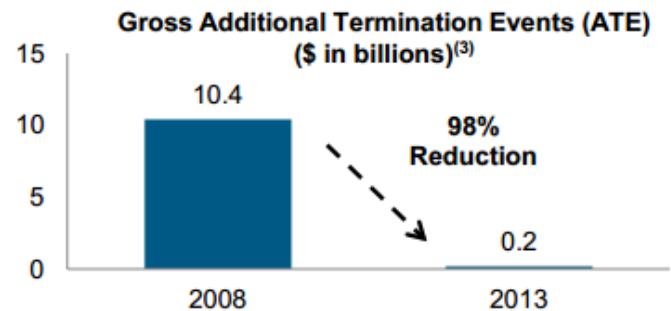
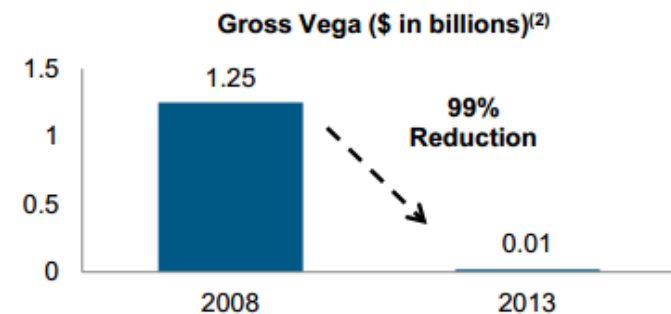




## Legacy AIGFP: What We've Accomplished

AIG will continue to de-risk the legacy AIGFP portfolio while ensuring the firm retains the maximum economic benefit possible.

Net Notional Exposures (\$ in billions)					
Derivatives Book	Dec. 31, 2008 <sup>(1)</sup>	Dec. 31, 2012	Mar. 31, 2013	% Reduction	
				2008 – 2013	2012 – 2013
Market Derivatives	~1,450	101	98	93%	3%
Multi-sector CDS	~13	4	4	69%	0%
Corporate Arbitrage	~52	12	12	77%	0%
Regulatory Capital CDS	~245	0	0	>99%	0%
Stable Value Wraps	~40	10	8	80%	20%
<b>Total Legacy Derivatives<sup>(4)</sup></b>	<b>~\$1,800</b>	<b>\$127</b>	<b>\$122</b>	<b>93%</b>	<b>4%</b>





## Year-to-Date Market Positions

Rank*		Metric
3Q14	3Q13	
2	2	Total Annuity Sales
1	1	Fixed-Rate Deferred Annuity Sales
3	5	Variable Annuity Sales
6	4	Structured Settlement Annuity Sales
7	10	Total Life Issued
8	8	Term Life Sales
12	9	Universal Life Sales
2	2	Total K-12 Assets
3	3	Total 403(b) Assets

## Excellence in Service, Marketing and Technology

### *Market Tools*

2013 Achievement in Customer Excellence (ACE award for 7<sup>th</sup> Consecutive Year)

### *DALBAR*

2013 Annuity Service Excellence Award (7<sup>th</sup> Consecutive Year)

2013 #1 Ranking for Annuity Client Quarterly Statements (13<sup>th</sup> Consecutive Year)

### *PlanSponsor Magazine*

Earned 17 Best-in-Class Awards for Participant and Plan Sponsor Services in 2013

### *International MarCom Awards*

2012 and 2013 Platinum and Gold Awards (42 in total)

### *Insurance & Financial Communications Association*

2013 and 2014 Best in Show and Awards of Excellence (13 in total)

### *InformationWeek 500*

2012 and 2013 Top Technology Innovators

### *Best's Review*

2012 and 2013 Innovators Showcase

AIG Property Casualty	Quarterly Trend								
Accident year combined ratio, as adjusted	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
<b>Commercial Insurance</b>									
Loss ratio	78.0	100.9	64.9	72.6	71.8	77.9	69.4	67.7	74.3
Catastrophe losses and reinstatement premiums	(4.5)	(32.8)	(0.6)	(6.0)	(3.5)	(3.6)	(3.6)	(2.3)	(4.9)
Prior year development net of premium adjustments	(2.7)	(1.7)	1.1	(4.4)	(2.1)	(0.9)	(3.2)	0.7	(4.9)
Net reserve discount benefit (charge)	-	-	-	-	-	(6.1)	2.5	0.3	0.3
<b>Accident year loss ratio, as adjusted</b>	<b>70.8</b>	<b>66.4</b>	<b>65.4</b>	<b>62.2</b>	<b>66.2</b>	<b>67.3</b>	<b>65.1</b>	<b>66.4</b>	<b>64.8</b>
Acquisition ratio	15.6	15.5	16.3	16.3	15.8	16.1	16.2	15.4	15.4
General operating expense ratio	12.4	13.9	11.0	12.8	12.6	13.7	12.1	12.3	11.4
<b>Expense ratio</b>	<b>28.0</b>	<b>29.4</b>	<b>27.3</b>	<b>29.1</b>	<b>28.4</b>	<b>29.8</b>	<b>28.3</b>	<b>27.7</b>	<b>26.8</b>
Combined ratio	106.0	130.3	92.2	101.7	100.2	107.7	97.7	95.4	101.1
Catastrophe losses and reinstatement premiums	(4.5)	(32.8)	(0.6)	(6.0)	(3.5)	(3.6)	(3.6)	(2.3)	(4.9)
Prior year development net of premium adjustments	(2.7)	(1.7)	1.1	(4.4)	(2.1)	(0.9)	(3.2)	0.7	(4.9)
Net reserve discount benefit (charge)	-	-	-	-	-	(6.1)	2.5	0.3	0.3
<b>Accident year combined ratio, as adjusted</b>	<b>98.8</b>	<b>95.8</b>	<b>92.7</b>	<b>91.3</b>	<b>94.6</b>	<b>97.1</b>	<b>93.4</b>	<b>94.1</b>	<b>91.6</b>
<b>Consumer Insurance</b>									
Loss ratio	58.3	67.9	57.8	58.9	58.8	60.4	61.3	55.8	55.3
Catastrophe losses and reinstatement premiums	(0.6)	(8.9)	(0.3)	(0.3)	(1.2)	(0.6)	(2.5)	(0.6)	(0.7)
Prior year development net of premium adjustments	-	(1.0)	1.3	1.6	0.9	0.9	0.5	0.5	0.4
<b>Accident year loss ratio, as adjusted</b>	<b>57.7</b>	<b>58.0</b>	<b>58.8</b>	<b>60.2</b>	<b>58.5</b>	<b>60.7</b>	<b>59.3</b>	<b>55.7</b>	<b>55.0</b>
Acquisition ratio	25.7	26.9	24.9	25.9	26.1	25.2	25.9	25.9	26.1
General operating expense ratio	14.8	16.4	15.7	15.3	15.0	17.7	14.7	16.3	17.4
<b>Expense ratio</b>	<b>40.5</b>	<b>43.3</b>	<b>40.6</b>	<b>41.2</b>	<b>41.1</b>	<b>42.9</b>	<b>40.6</b>	<b>42.2</b>	<b>43.5</b>
Combined ratio	98.8	111.2	98.4	100.1	99.9	103.3	101.9	98.0	98.8
Catastrophe losses and reinstatement premiums	(0.6)	(8.9)	(0.3)	(0.3)	(1.2)	(0.6)	(2.5)	(0.6)	(0.7)
Prior year development net of premium adjustments	-	(1.0)	1.3	1.6	0.9	0.9	0.5	0.5	0.4
<b>Accident year combined ratio, as adjusted</b>	<b>98.2</b>	<b>101.3</b>	<b>99.4</b>	<b>101.4</b>	<b>99.6</b>	<b>103.6</b>	<b>99.9</b>	<b>97.9</b>	<b>98.5</b>
<b>Total AIG Property Casualty</b>									
Loss ratio	71.4	87.6	63.3	68.0	67.3	68.2	67.1	64.6	67.7
Catastrophe losses and reinstatement premiums	(2.9)	(22.9)	(0.5)	(3.7)	(2.7)	(2.4)	(3.2)	(1.6)	(3.3)
Prior year development net of premium adjustments	(2.0)	(1.4)	0.4	(2.3)	(0.8)	(3.1)	(1.9)	(0.2)	(3.1)
Net reserve discount benefit (charge)	-	-	-	(0.1)	(0.1)	3.7	1.2	(0.1)	-
<b>Accident year loss ratio, as adjusted</b>	<b>66.5</b>	<b>63.3</b>	<b>63.2</b>	<b>61.9</b>	<b>63.7</b>	<b>66.4</b>	<b>63.2</b>	<b>62.7</b>	<b>61.3</b>
Acquisition ratio	19.5	20.2	19.7	20.0	19.7	19.5	19.9	19.4	19.4
General operating expense ratio	14.1	17.3	14.3	14.6	14.6	16.1	14.2	14.8	14.9
<b>Expense ratio</b>	<b>33.6</b>	<b>37.5</b>	<b>34.0</b>	<b>34.6</b>	<b>34.3</b>	<b>35.6</b>	<b>34.1</b>	<b>34.2</b>	<b>34.3</b>
Combined ratio	105.0	125.1	97.3	102.6	101.6	103.8	101.2	98.8	102.0
Catastrophe losses and reinstatement premiums	(2.9)	(22.9)	(0.5)	(3.7)	(2.7)	(2.4)	(3.2)	(1.6)	(3.3)
Prior year development net of premium adjustments	(2.0)	(1.4)	0.4	(2.3)	(0.8)	(3.1)	(1.9)	(0.2)	(3.1)
Net reserve discount benefit (charge)	-	-	-	(0.1)	(0.1)	3.7	1.2	(0.1)	-
<b>Accident year combined ratio, as adjusted</b>	<b>100.1</b>	<b>100.8</b>	<b>97.2</b>	<b>96.5</b>	<b>98.0</b>	<b>102.0</b>	<b>97.3</b>	<b>96.9</b>	<b>95.6</b>





# Bond Ratings



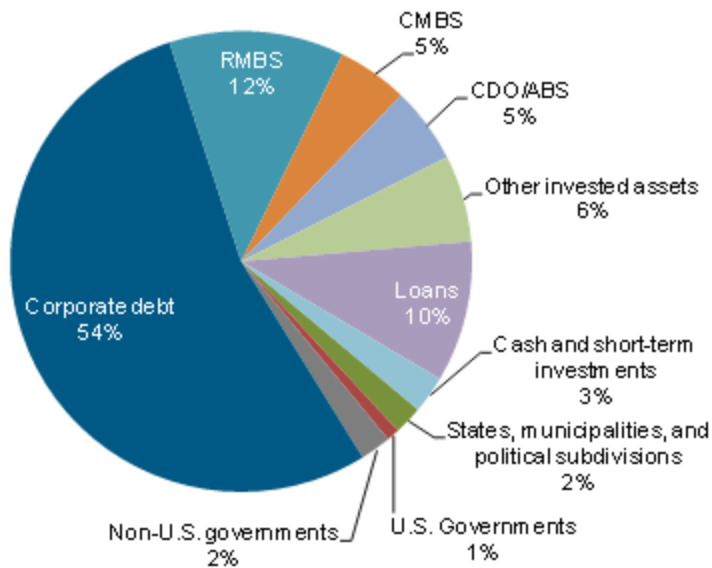
	S&P	Moody's	Fitch	AM Best
<b>AIG Senior Debt</b>	A-	Baa1	BBB+	NR
<b>AIG Property Casualty Financial Strength*</b>	A+	A1	A	A
<b>AIG Life and Retirement Financial Strength*</b>	A+	A2	A+	A

\*Ratings only reflect those of the core insurance companies.  
All ratings have stable outlooks (as of May 28, 2014).



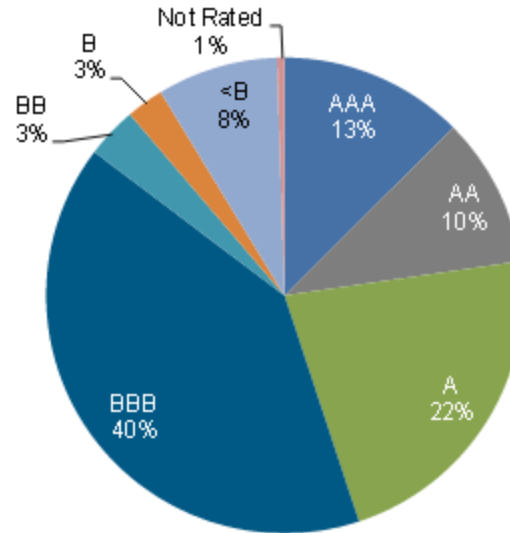
## Cash & Invested Assets - \$201.8 billion<sup>(1)</sup>

### Total Portfolio Composition

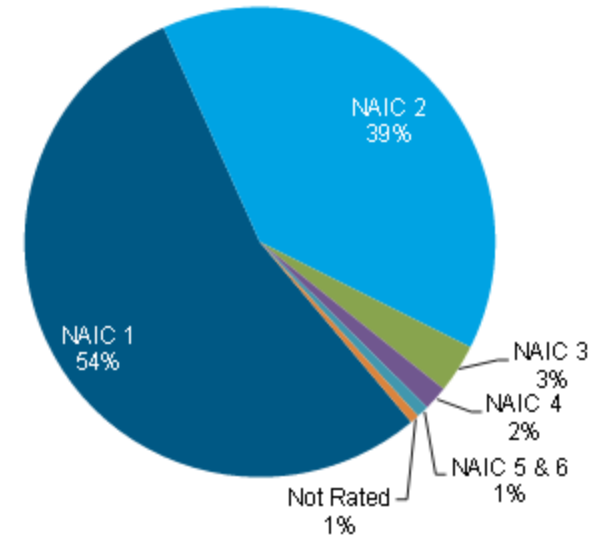


## Bond Portfolio – \$164.5 billion

### By Agency Credit Rating



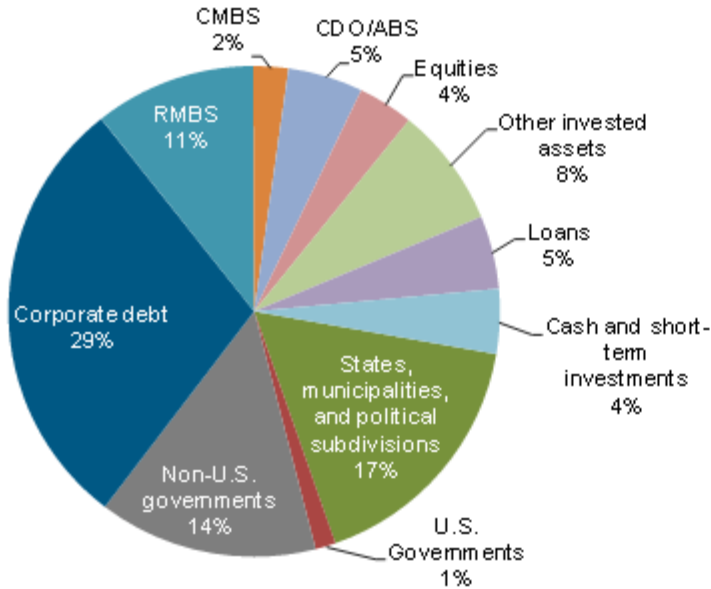
### By NAIC Ratings<sup>(2)</sup>





## Total Cash & Invested Assets as of September 30, 2014 - \$124.1 billion<sup>(3)</sup>

### Total Portfolio Composition



### Bond Portfolio - \$98.5 billion - by Agency Credit Rating

