



CEO Focus Group – Thai General Insurance Association

September 2017

Pakpoom Vallisuta - Biography



Pakpoom, who co-founded The Quant Group in 1998, spent his first 5 work years as an engineer at UNOCAL and later Hewlett-Packard. He began his career in financial services in 1990 as an investment analyst at Smith New Court, an affiliate of N. M. Rothschild.

He later (1992) joined Nomura Research Institute Hong Kong Limited as its chief market strategist & head of research for the Thai market. Amongst other titles for the five years he spent at Nomura, Pakpoom was a senior vice president & head of investment banking at Nomura International Hong Kong Limited.

Pakpoom holds a Computer Engineering degree and an MBA from Duke University's Fuqua School of Business. Pakpoom currently teaches Investment Banking and Financing in the MBA program at the Assumption University, Bangkok, and is a frequent guest lecturer at graduate business school at Harvard, Wharton, Duke, The University of Chicago, and MIT. Pakpoom is a board member of The Board of Visitors at Duke University's Fuqua School of Business, North Carolina; and, a board member of Regional Advisory Board, Duke Kunshan University in Shanghai, China. He is also a director of the PTT Institute of Science & Technology. Pakpoom is also a director at large at other corporations and amongst them a director of non-profits such as The Special Olympics and Thailand Squash & Racquet Association.

Contact details:

Pakpoom Vallisuta

Managing Partner

THEQUANTGROUP

pakpoom@thequantgroup.com



1. What is Merger and Acquisition (“M&A”)



Merger



Acquisition

- A merger is a non-cash exchange offer of common shares of companies of similar sizes
- The parties decide before the merger the surviving entity and the branding or co-branding
- A merger can have co-brands such as Chase-JP Morgan, UBS Warburg, Exxon-Mobil, Daimler-Chrysler
- Overtime, the combined entities in a merger typically transform into using a single brand over the long-run. Deutsche Bank (BT, Alex Brown, Morgan Grenfell), Chase (Chemical Bank)
- Whatever makes best business sense is the best policy

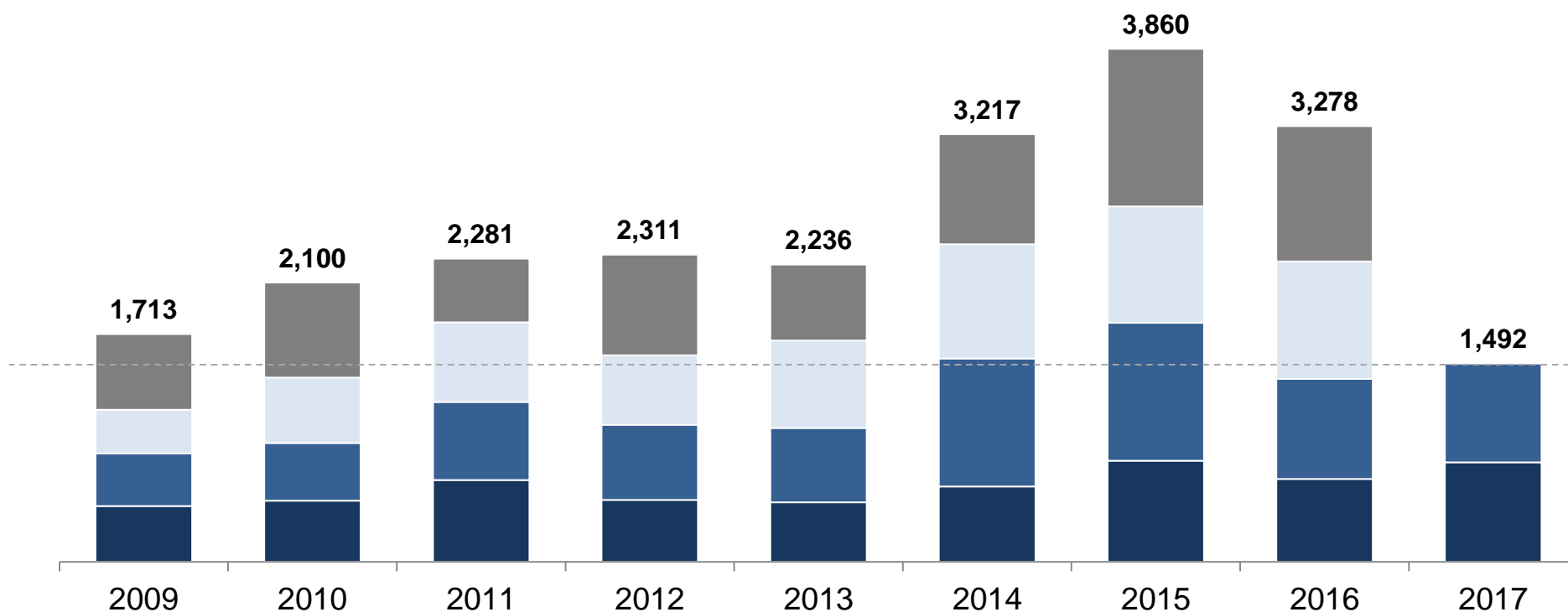
- Minority acquisitions
 - > 25% veto rights
- Majority acquisitions
 - 50% control
 - >75% supermajority
- Acquisition currency
 - Cash
 - Securities
- Premiums paid for control



Global M&A Trend

Deal Value (USD bn)

■ Q1 M&A value ■ Q2 M&A value ■ Q3 M&A value ■ Q4 M&A value



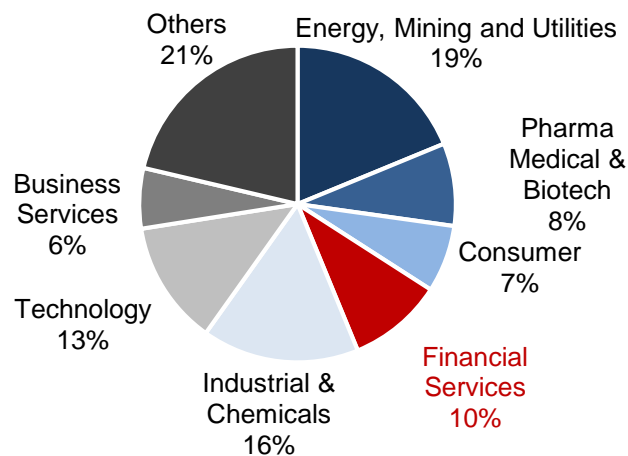
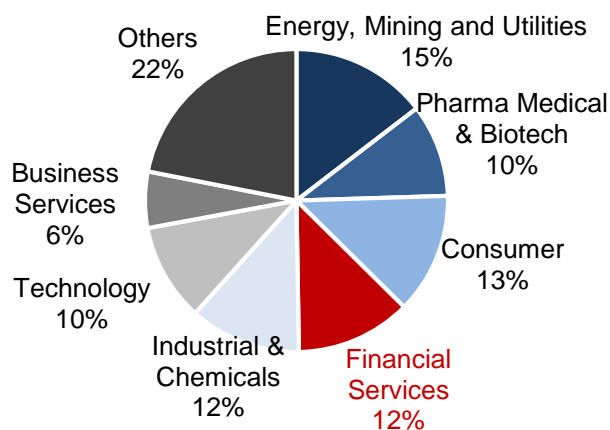


Global M&A Sector Breakdown by Deal Value

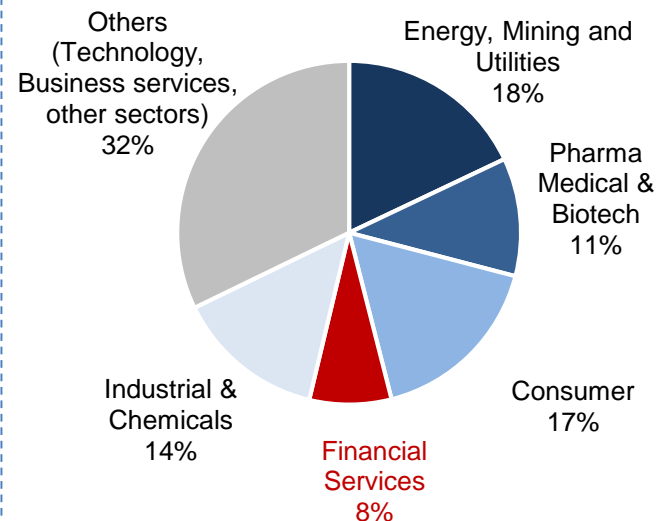
2015
USD 3.9 tn

-15.4%

2016
USD 3.3 tn



1H2017
USD 1.5 tn

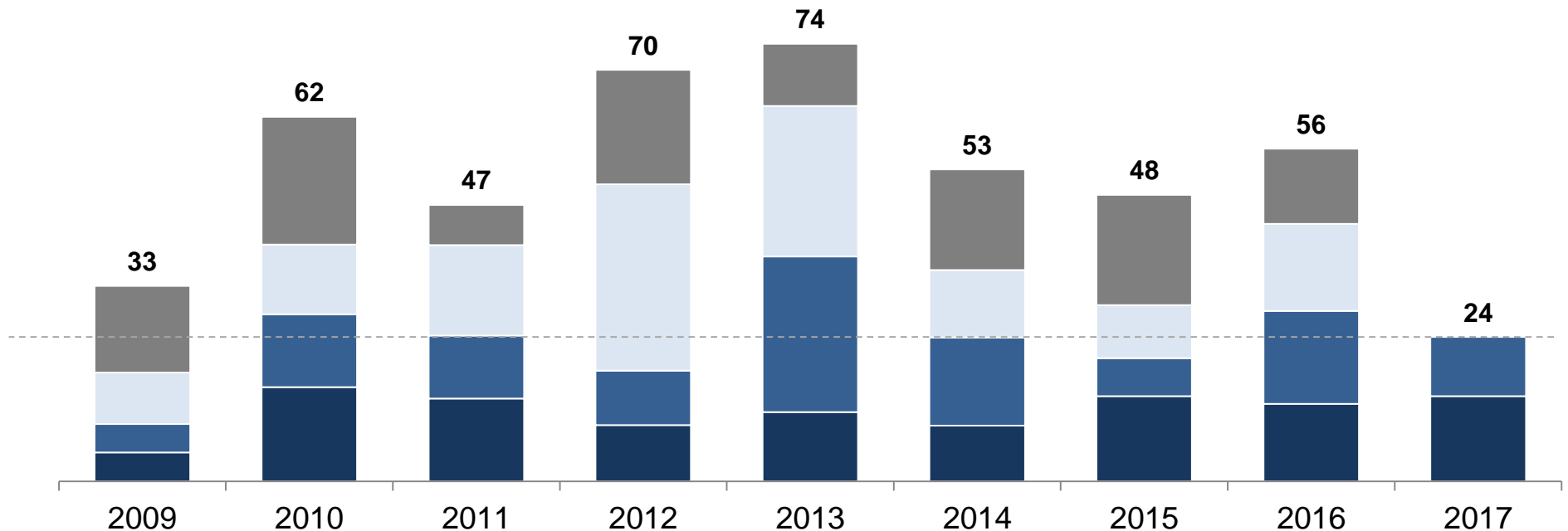




Southeast Asia M&A Trend

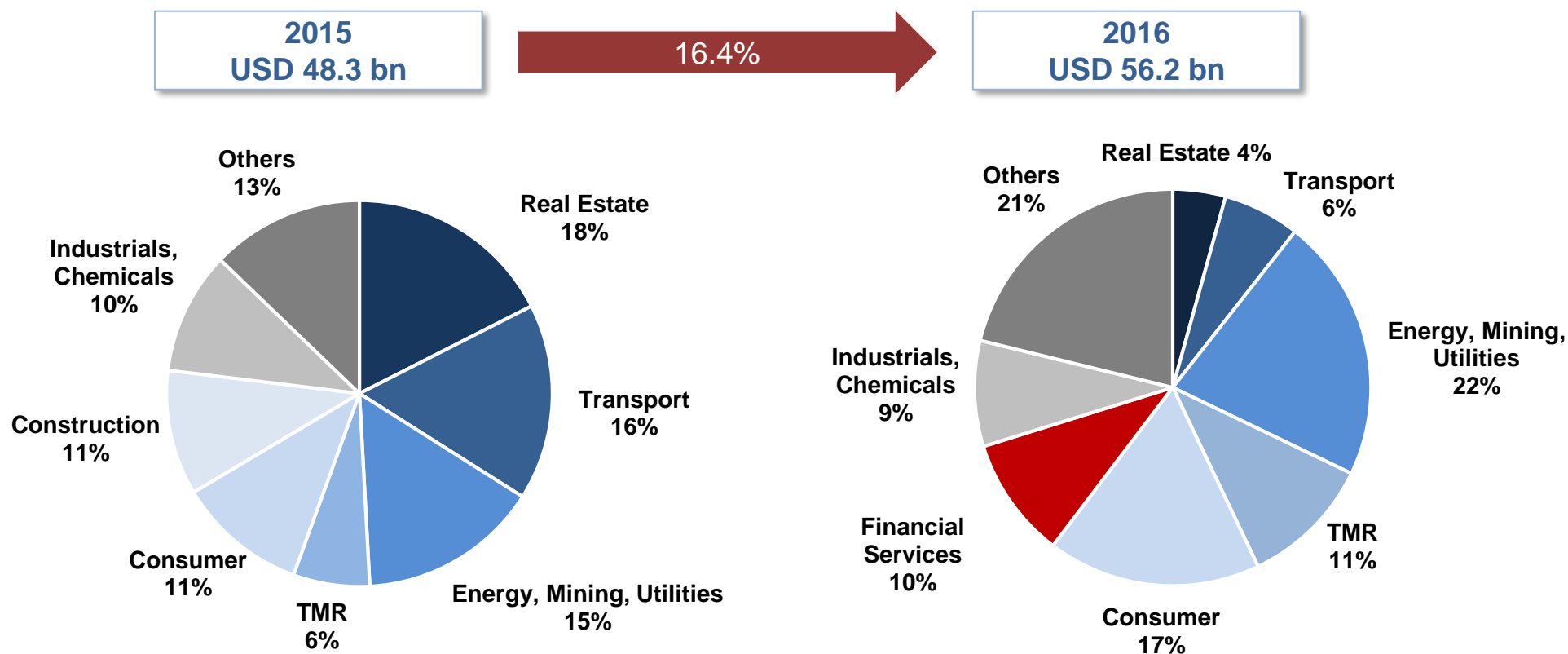
Deal Value (USD bn)

■ Q1 M&A value ■ Q2 M&A value ■ Q3 M&A value ■ Q4 M&A value





Southeast Asia M&A Sector Breakdown by Deal Value





2. Key questions for M&A



Key Questions for M&A

1

Why

Strategic Rationale

2

How much

Valuation

3

How

Transaction Structure

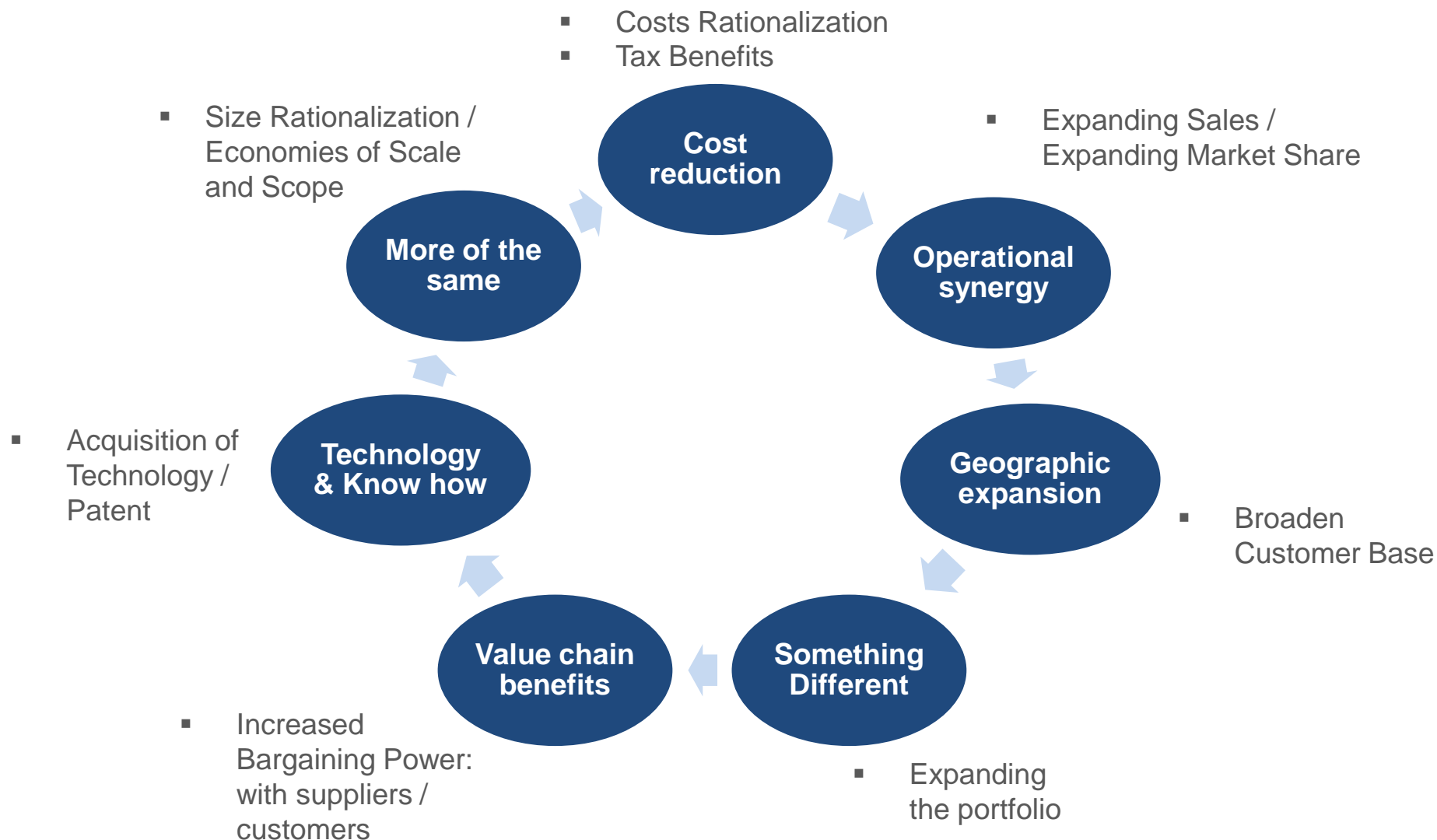
4

How to pay for it

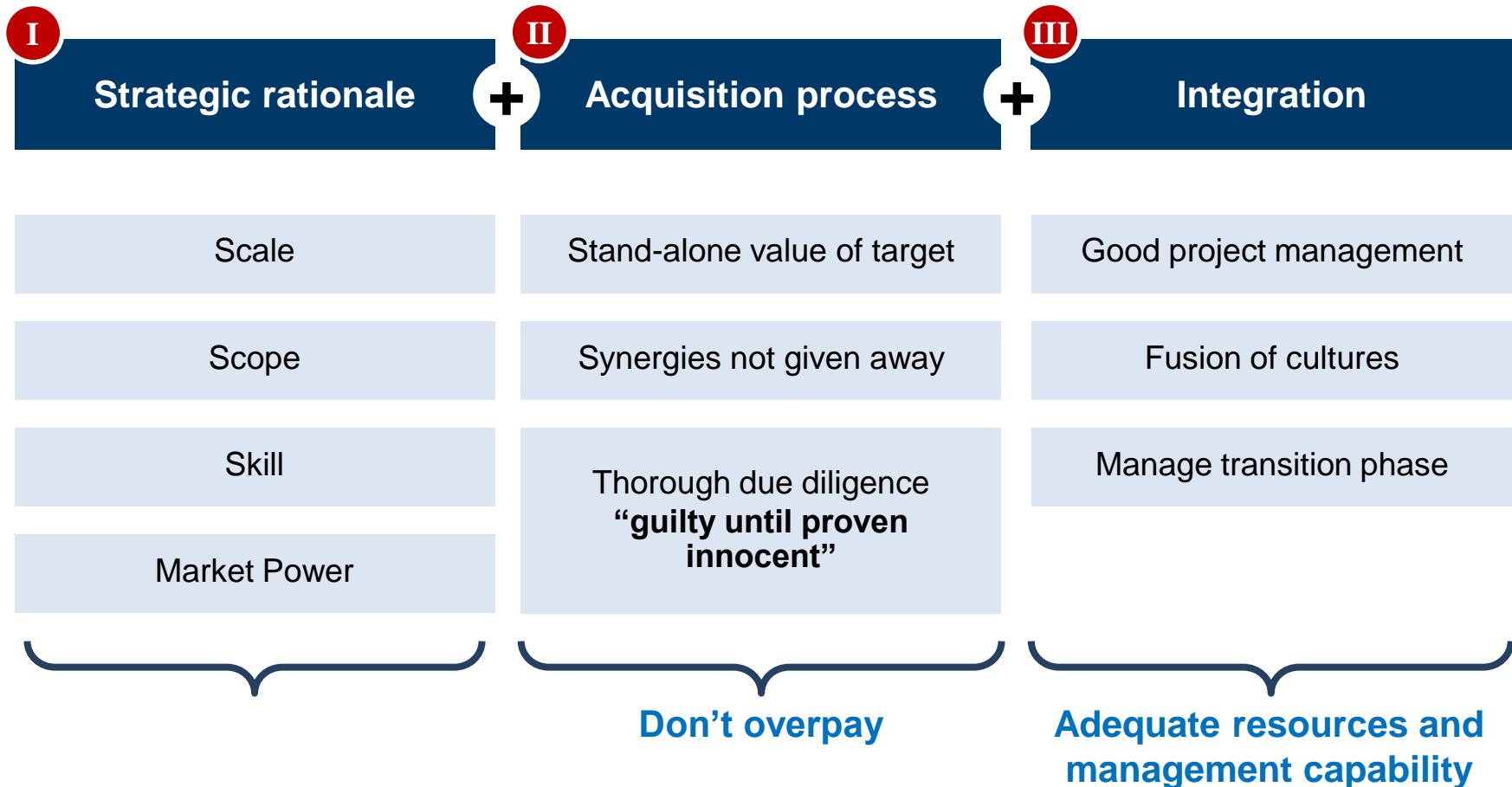
Financing



1 Strategic Rationale: M&A Strategic Rationales



1 Strategic Rationale: M&As are like triathlon: the winner has all three areas



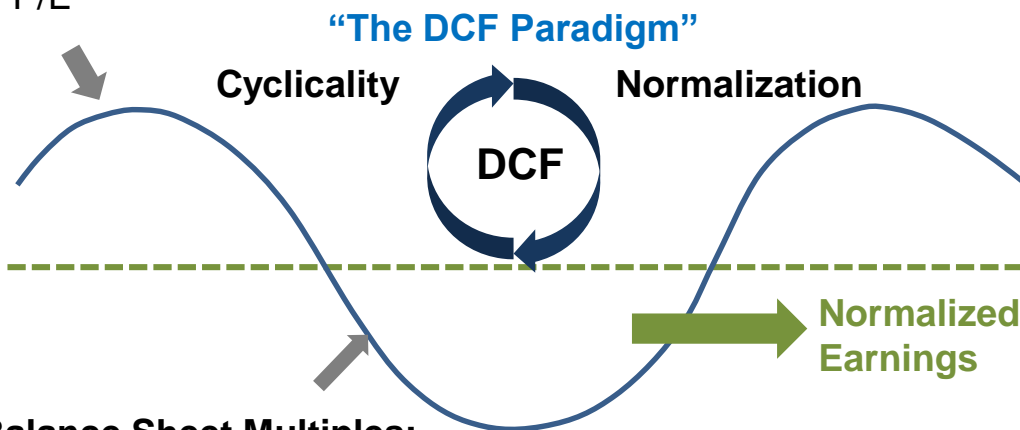
2 Valuation: Multi-disciplinary approach

Generally, multi-disciplinary approaches for valuation will be utilized in M&A activities.

- Which method to focus on depends on where we are in the cycle
- Nonetheless, DCF is the only method that covers all aspects that are unique and specific on the business

Earnings Multiple:

EV/FCF
P/CFFO
EV/EBITDA
P/E



Balance Sheet Multiples:

EV/IC
P/BV
EV/Ton
Replacement: IC per ton

Multiples Method

- Earnings Multiples can only be used when there are earnings. Without earnings then we would need to switch to B/S multiples
- Selection of which multiples to be used is crucial as an efficient market is likely to adjust multiples to reflect level and earnings and cyclicalities

DCF Method

- The use of **DCF is highly recommended**, as it disciplines the process of capital budgeting and provides understanding of risk-reward dynamics, and also reflect "Normalization Earnings"

2 Valuation: Methodology

Valuation is widely perceived among the general public as a science. In practice, it is more of an art and there is no single correct answer to what is the value of a company. It is a common practice for financier to use a “multi-disciplinary” approach.

	Discounted Cash Flow (DCF)	Comparable Multiples	Asset-based Valuation
Description	<p>NPV derived from discounting of projected cash flows</p> <p>Requires appropriate discount rate (leverage ratio & cost of debt and equity)</p>	<p>Use of relevant multiples from:</p> <ul style="list-style-type: none"> Comparable companies with similar characters Comparable (actual) transactions 	<p>Valuation based on the total combined market value of all assets</p>
Comments	<p>Primary method of valuation</p> <p>Provides customised financial forecasts and valuations independent of the company's capital structure</p>	<p>Secondary method of valuation</p> <p>Simple “benchmark” market valuations against similar companies and/or transactions</p>	<p>Secondary method of valuation</p> <p>Provide valuations from the capital expenditure perspectives (build vs. buy analyses)</p>
Issues	<p>Requires significant input and information from the company being valued</p>	<p>Valuation influenced by many external factors including market conditions</p> <p>Excludes a number of company specific factors (e.g. growth, etc.)</p>	<p>Excludes “intangible value” of the business, including:</p> <ul style="list-style-type: none"> Brand premium Management expertise

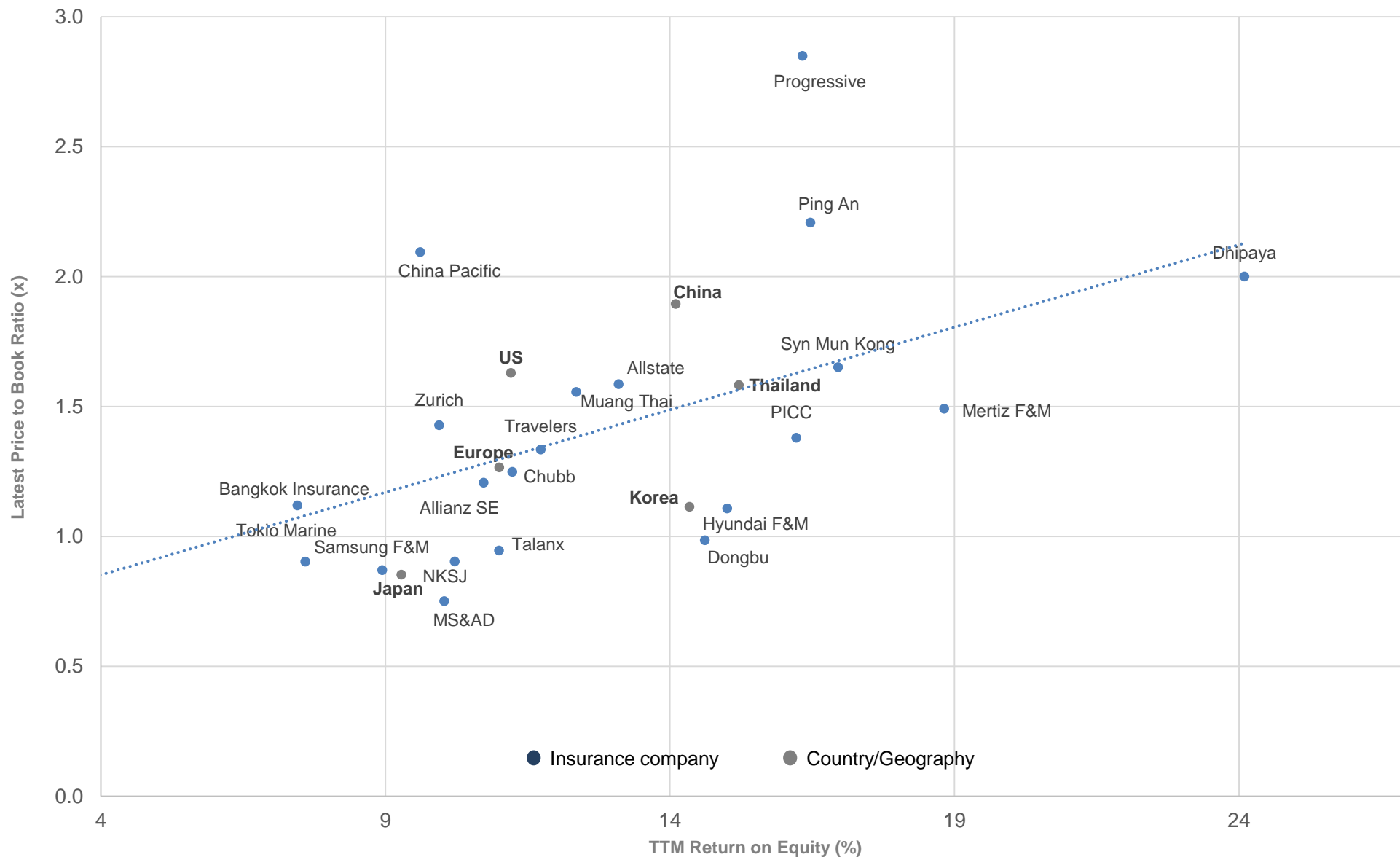
2 Valuation: Illustrative trading multiples of selected comparable companies

Listed non-life insurers in Thailand are trading at an industry average of 1.4x 2016 price-to-book multiple and 12.4x 2016 price-to-earnings multiple

	Share Price	YTD	Market cap	BVPS	P/BV	ROE	ROA	EPS	P/E	ROP
	THB	Change	THB mn	THB	TTM	TTM	TTM	TTM	TTM	TTM
Bangkok Insurance	348.00	1.2%	37,052	310.9	1.1 x	7.5%	4.3%	22.8	15.3	6.5%
Dhipaya Insurance	45.75	-9.0%	13,725	22.9	2.0 x	24.1%	3.1%	5.3	8.7	11.5%
Syn Mun Kong Insurance	43.25	-8.9%	8,650	26.2	1.7 x	17.0%	6.1%	4.2	10.3	9.7%
Muang Thai Insurance	133.00	-4.0%	7,847	85.5	1.6 x	12.4%	3.1%	10.3	13.0	7.7%
Navakij Insurance	58.00	12.1%	1,914	63.6	0.9 x	6.6%	2.6%	4.2	13.8	7.3%
Thaivivat Insurance	4.28	5.4%	1,297	3.6	1.2 x	1.9%	0.4%	0.1	64.0	1.6%
Nam Seng Insurance	81.75	-3.5%	1,136	93.6	0.9 x	10.8%	4.0%	9.8	8.3	12.0%
Thai Insurance	27.00	17.4%	634	26.3	1.0 x	15.2%	2.9%	3.7	7.3	13.8%
Thai Setakij Insurance	0.67	11.7%	615	0.2	3.2 x	n.m.	n.m.	n.m.	n.m.	n.m.
Charan Insurance	38.00	-5.6%	456	48.5	0.8 x	3.5%	2.6%	1.7	22.5	4.5%
Thai Listed Peers - Average					1.4x	11.0%	3.2%		12.4x⁽¹⁾	9.1%⁽¹⁾
Thai Listed Peers - Median					1.1x	10.8%	3.1%		13.0x	7.7%






2 Valuation: Illustrative price benchmark analysis versus global peers



2 Valuation: Illustrative precedent transaction comparables

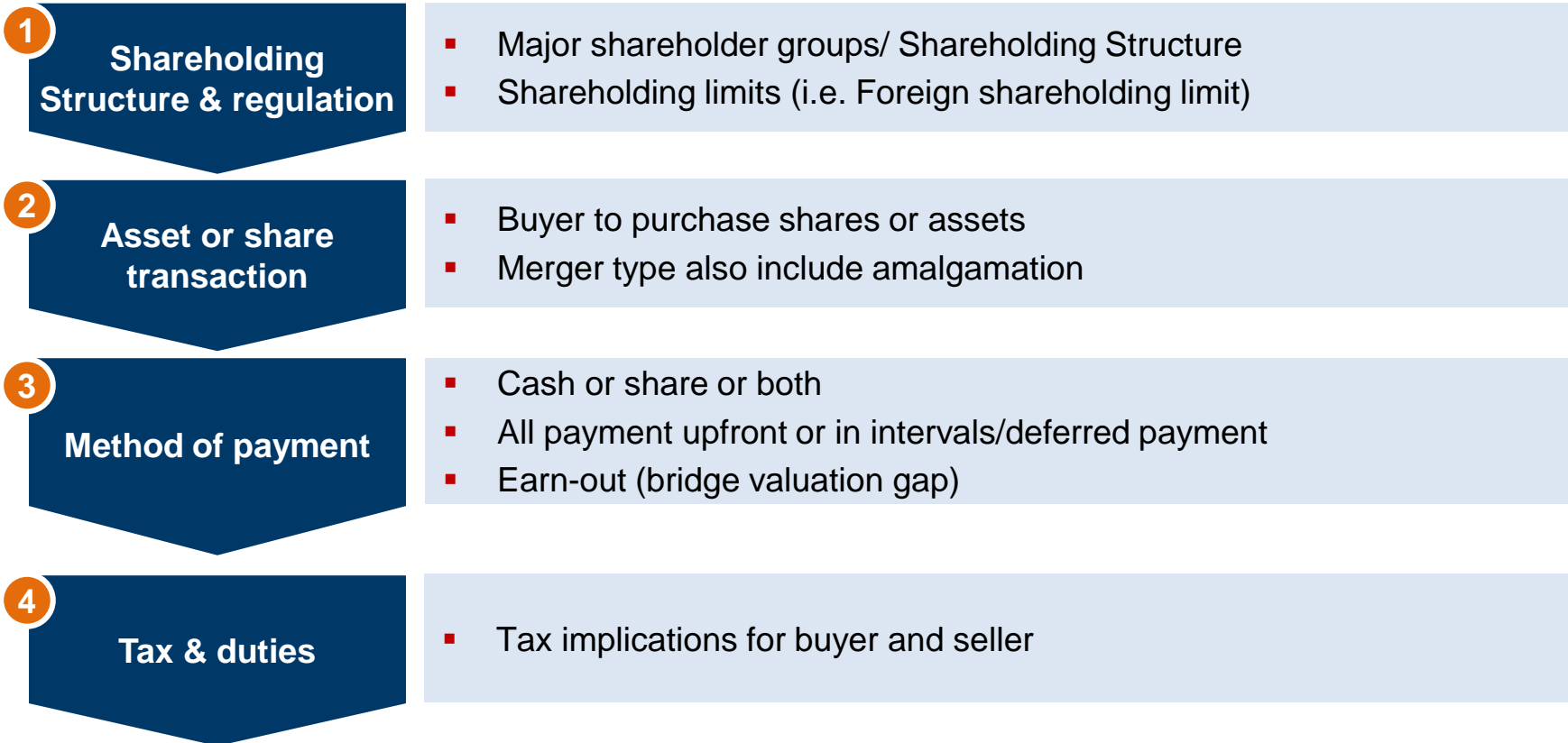
Announcement Date	Target Company	Acquirer	Stake Acquired	% Owned Post-Transaction	Deal Value (USD mn)	Latest P/B	Trailing P/E
25-Jul-17	Bupa Health Insurance (Thailand) PCL	Aetna Inc.	N/A	N/A	N/A	N/A	N/A
29-May-16	Thaisri Insurance	ERGO Group	40.26%	40.26%	N/A	N/A	N/A
19-Dec-14	Syn Mun Kong Insurance PCL	Mindo Asia Investments Ltd, LeapFrog Thailand Holdings Ltd	21.75%	21.75%	56.24	2.1 x	8.5 x
12-May-14	Samaggi Insurance PCL	ACE Ltd	32.17%	93.03%	60.69	1.9 x	7.3 x
13-Jan-14	Samaggi Insurance PCL	ACE Ltd	60.90%	60.90%	175.79	N/A	N/A
30-Mar-09	Navakij Insurance PCL/The	Nipponkoa Insurance Co Ltd	10.00%	10.00%	N/A	N/A	N/A
5-Aug-08	Safety Insurance PCL/The	Insurance Australia Group Ltd	26.79%	100.00%	25.49	1.9 x	22.1 x
19-Jun-08	Kurnia Insurance Thailand	KSK Group Bhd	9.09%	26.27%	2.40	N/A	N/A
19-Jun-08	Kurnia Insurance Thailand	KSK Group Bhd	18.90%	18.90%	2.26	N/A	N/A
9-May-08	Deves Insurance PCL	Crown Property Bureau	12.70%	100.00%	8.96	N/A	N/A
13-Jul-07	Thanachart Insurance Co Ltd	Thanachart Bank PCL	78.00%	78.00%	14.87	N/A	N/A
19-Jun-07	Phatra Insurance PCL	Muang Thai Insurance PCL	100.00%	100.00%	N/A	N/A	N/A
22-Feb-07	Thai Commercial Insurance	ANT Success Co Ltd	31.52%	31.52%	3.14	N/A	N/A
22-Feb-07	Thai Commercial Insurance	Falcon Insurance Co Hong Kong Ltd	24.90%	24.90%	2.48	N/A	N/A
14-Feb-06	Safety Insurance PCL/The	Insurance Australia Group Ltd	57.76%	96.06%	41.42	1.6 x	16.4 x
22-Dec-04	Thai Zurich Insurance Co	Investor Group	100.00%	100.00%	N/A	N/A	N/A
1-Oct-04	Wilson Insurance Co Ltd	Aioi Nissay Dowa Insurance Co	19.00%	19.00%	1.09	N/A	N/A
28-Sep-04	China Insurance Co Siam Ltd	Unnamed Buyer	10.00%	10.00%	0.34	N/A	N/A
6-Feb-04	Sri Ayudhya Capital PCL	Mitsui Sumitomo Insurance Co	24.90%	24.90%	43.07	N/A	N/A
7-Dec-03	Khoom Khao Insurance PCL	Narai International Insurance Co	1.61%	98.73%	0.13	N/A	N/A
22-Nov-02	Pornpat Insurance Co	Assicurazioni Generali SpA	25.00%	25.00%	N/A	N/A	N/A
25-Jan-02	Thai Commercial Insurance	Navakij Insurance PCL/The	100.00%	100.00%	N/A	N/A	N/A
Median						1.9 x	12.5 x
Mean						1.9 x	13.6 x

3 Transaction structure: Transactional Issues

	1 Asset-Deal	2 Share-Deal	3 Amalgamation
Cash-needs (bridge financing)	Yes, for payment and subscription of new shares and may required cash to repay loan/debenture	Yes, for payment and subscription of new shares issued only	None (unless bond-redemption is considered)
Ease of Implementation			
Liquidation and Tax audit	Required for dissolved entity	Not required	Tax audit required, but not liquidation
Need creditor's consent	Yes	No	Yes
Utilization of tax loss carried forwards	Yes for Buyer, No for Seller	Yes for both	No for Both
Tax to companies	Transfer tax on Seller's assets	No	No
BOI tax benefit	Need BOI approval	No need for BOI approval	Need BOI approval

3 Transaction structure: Structure

All transactions will involve a number of issues which will need identifying and structuring to ensure that the execution is as smooth as possible.



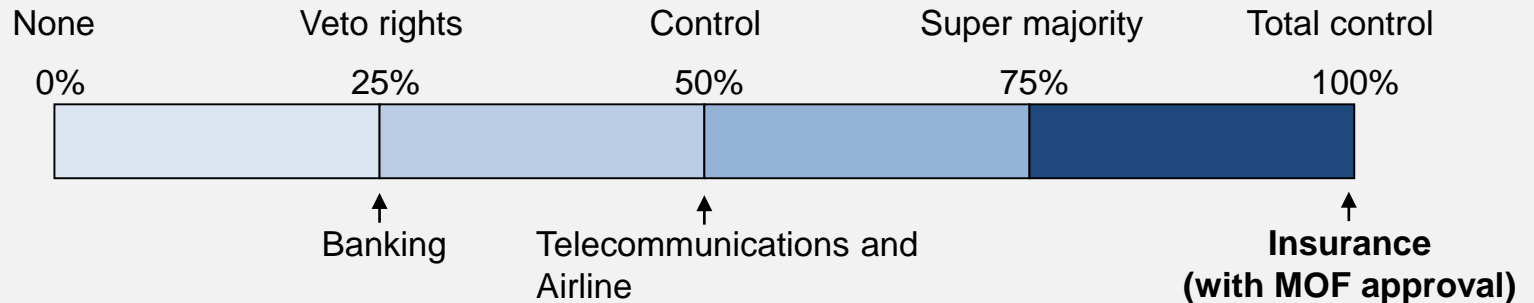
3 Transaction structure: Shareholding Issues

- The single most important thing when assessing the potential of a target is the owners' identification and whether these shareholders are willing to sell:
 - Ownerships can be shared by group of shareholders rather than one individual shareholder
 - Fragmented ownership would make completion more difficult
- From time to time, there will be limits set for foreign shareholding as dictated by either article of association (can be changed) or law

Rights:

Ownership:

Examples of Industries subject to foreign limits




3 Transaction structure: The authority relaxed the foreign ownership limit

Amended regulations	<p>The recently amended Non-Life Insurance Act has permitted non-life insurance companies in Thailand to request to:</p> <ul style="list-style-type: none"> (1) increase its foreign shareholding to >49% (and up to 100%); (2) increase its foreign directorship proportion to more than half; <p>Such request will be subjected to further approval from MOF (upon recommendation from the OIC)</p>
Conditions for MOF's permission	<p>The MOF may grant such permission only under the following circumstances:</p> <ul style="list-style-type: none"> (1) It would improve the insurance company's standing or operations, which exists in such a state that may cause damage to the insured or the public; (2) It would enhance the stability of the insurance company; or (3) It would enhance the stability of the insurance industry as a whole in Thailand
Qualification of the insurance company	<p>In order to seek the MOF's permission, the insurance company must meet the following qualifications:</p> <ul style="list-style-type: none"> (1) Have a CAR ratio at the level required by the respective regulation on the calculation of the capital fund; (2) Have a business plan for enhancing the stability of the insurance company and enhancing the overall stability of the insurance industry
Qualification and capabilities of the Non-Thai shareholders	<p>The non-Thai shareholders must have the following qualification and capabilities:</p> <ul style="list-style-type: none"> (1) At least ten years' expertise and experience related to or supporting insurance business; (2) Financial and operational stability, where by the non-Thai shareholder or its parent company must receive at least an A rating from a recognized international credit rating agency, as well as having the business operation network at the international level (3) Policy for the business operation and a concrete plan for the transfer of the technology and expertise in order to develop management systems and to enhance the business potential and competitive capabilities; (4) The capability to provide financial support in order to allow the company to implement the business plan
Other key note	<p>A non-Thai shareholder will be subject to a single presence policy - meaning that a non-Thai shareholder and entities under the same group of such non-Thai shareholder will not be permitted to operate an insurance business in Thailand, either through a branch of a foreign insurer or by holding shares in other licensed insurance companies in Thailand.</p>



4 Financing: Acquisition Package

Source	Cost	Consideration
▪ Internal Cash	Least expensive 	▪ Tenor mismatch
▪ Internal Debt Capacity		▪ Cost mismatch
▪ Target Debt Capacity		▪ Currency mismatch
▪ Sub. / Lev. Debt Capacity		▪ Covenant / Collateral
▪ Mezzanine Debt		▪ Ring Fence (Project vs. Corp. Finance)
▪ Convertible Bonds		▪ Refinance risk
▪ Equity	Most expensive	



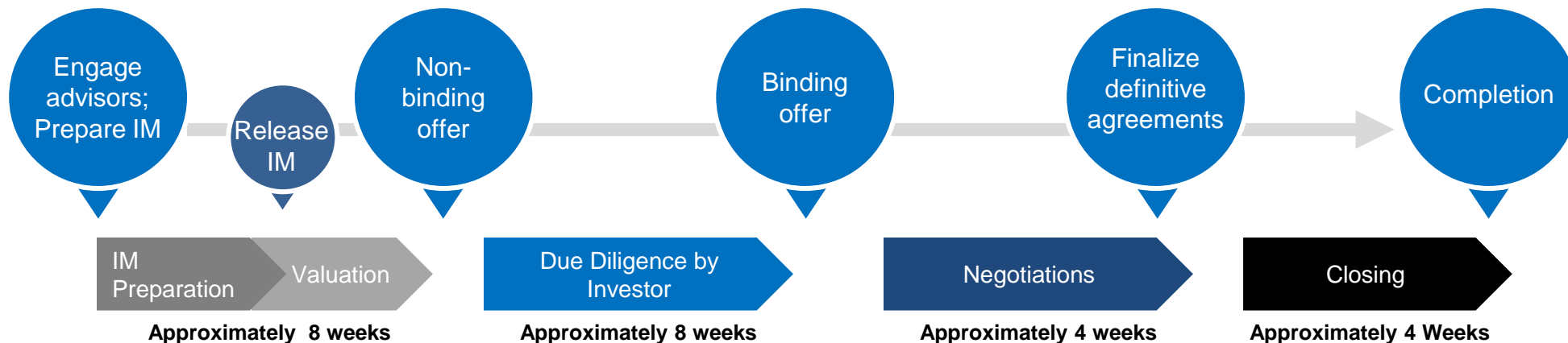
3. M&A Process and Roles of Advisors



Right Approach to the Transaction

	Benefits	Considerations
Pre-emptive Approach to One Bidder ("Bilateral")	<ul style="list-style-type: none">▲ Speed and simplicity if successful▲ Least disruptive to the business▲ Greater confidentiality▲ Preserves options	<ul style="list-style-type: none">▼ Having no competitive tension (1 bidder at a time), thus might not achieve the highest valuation▼ Less certainty of closure▼ If the deal is off, overall process will be delay as the process will have to start all over again
Targeted Process ("Limited Auction")	<ul style="list-style-type: none">▲ Approach most committed potential partners (5-10)▲ More certainty than one-on-one▲ Limited disruption of business▲ Clear competition between rivals creates price tension	<ul style="list-style-type: none">▼ Maintenance of confidentiality is a challenge relative to One-on-one▼ Great demand on management time▼ Possibility of missing less obvious partners
Controlled Process ("Full Auction")	<ul style="list-style-type: none">▲ Potentially maximize price▲ Most certainty of closure	<ul style="list-style-type: none">▼ Greater risk of loss of confidentiality (highest possible number of bidders)▼ Higher depress of disruption▼ Time-consuming process

Generic Transaction Process Timeline



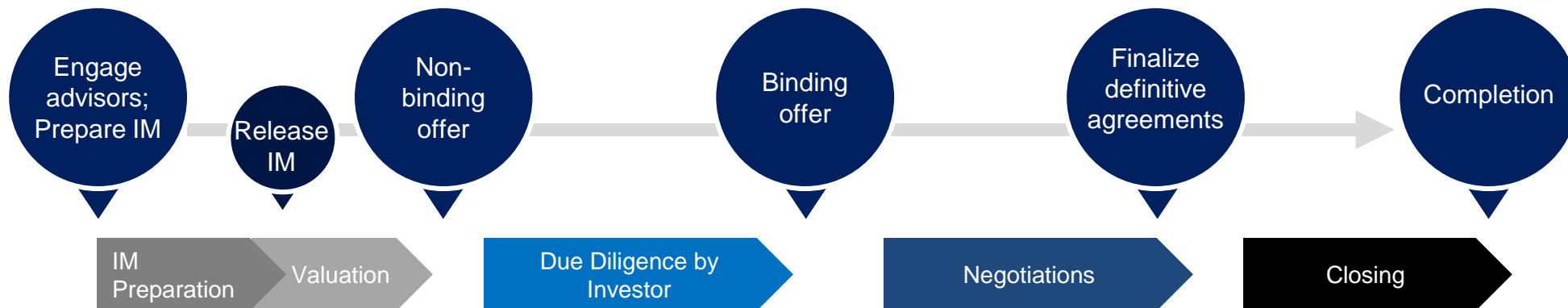
Buy Side

- Preliminary valuation, strategic rationale and business due diligence
- Negotiation and preliminary agree on valuation, major terms and conditions
- Thorough due diligence
- Q&As from investor, management interview and / or site visit
- Finalize pricing
- Arrange financing and post-acquisition plan
- Review and negotiate terms and conditions on definitive agreements (DA)
- Finalize acquisition package
- Fulfilling Conditions Precedent
- Sign DA
- Tender offer (if required)
- Transaction Completion

Sell Side

- Perform Vender Due Diligence
- Data collection and perform the valuation exercise
- Identify transaction rationales
- Identify suitable structure
- Conduct internal reorganization (if required)
- Provide necessary document in the dataroom
- Q&As from investor, management interview and / or site visit
- Finalize pricing terms and conditions
- Prepare Definitive Agreements
- Review and negotiate terms and conditions on definitive agreements (DA)
- Fulfilling Conditions Precedent
- Sign DA
- Tender offer (if required)
- Transaction Completion

Transaction Process Timeline: Financial Advisor's Roles



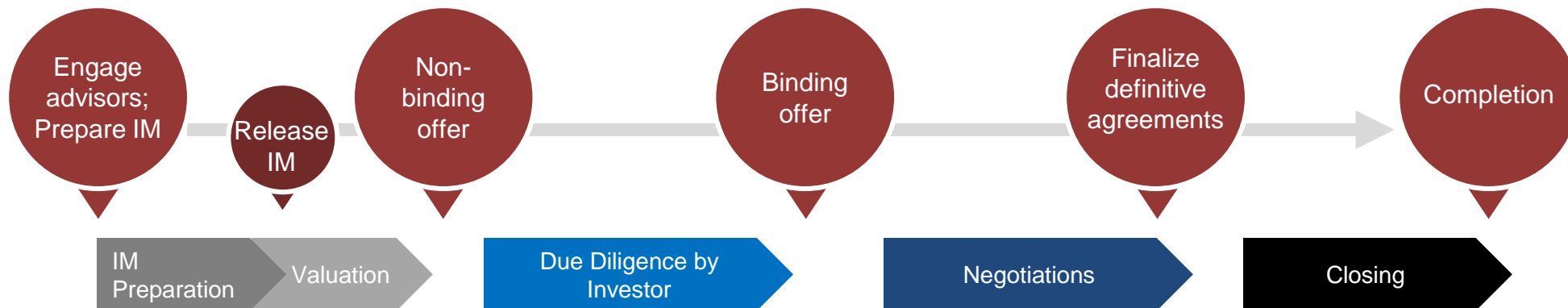
Buy Side

- Preliminary valuation, strategic rationale and business due diligence
- Negotiation and preliminary agree on valuation, major terms and conditions
- Solicit and appointment of advisors (i.e. Legal, Tax)
- Commercial due diligence
- Q&As from investor, management interview and / or site visit
- Finalize pricing and economic model
- Financing plan (if required)
- Post-acquisition plan
- Assist with any required approvals
- Review and negotiate terms and conditions on DA
- Finalize acquisition terms and conditions
- Assist with any required approvals
- Check Conditions Precedent
- Transaction Completion
- Prepare disclosure documents (if required)
- In case of Tender offer, submission of T/O statement of intention, report of T/O result and solicit an IFA (if required)

Sell Side

- Data collection, review company business
- Perform the valuation exercise and recommend pricing range
- Discuss transaction rationales
- Solicit and facilitate discussion with the Investor(s)
- Assist in dataroom preparation and manage the flow of information and requests from investor(s)
- Assist in arranging management interviews and/or site visits
- Assist with any required approvals
- Liaise with the Company and legal advisor in preparation of DA
- Assist the Company in reviewing and negotiating terms and conditions on DA
- Assist with any required approvals
- Assist the company in corporate formalities and fulfilling Condition Precedent
- Assist the Company in steps leading to the signing of DA
- Transaction Completion
- Prepare disclosure documents (if required)

Transaction Process Timeline: Accounting and Tax Advisor's Roles



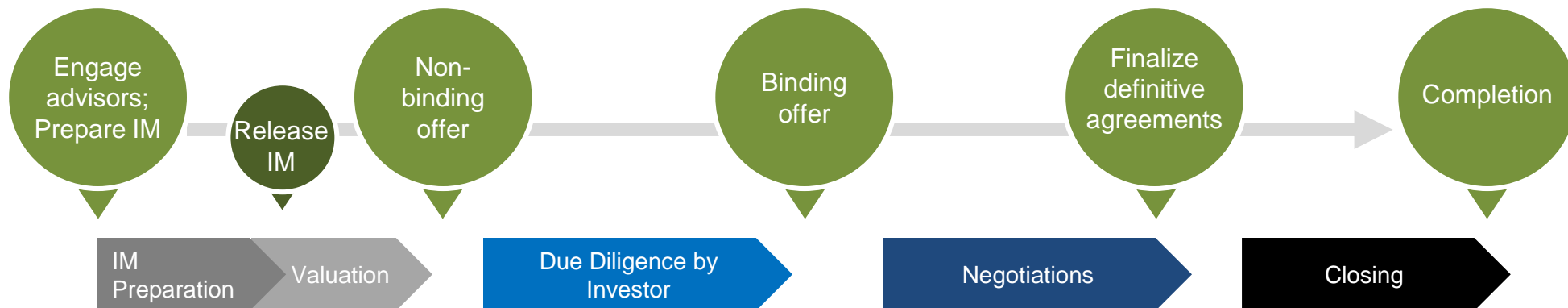
Buy Side

- Perform a thorough due diligent review accounting and tax
- Prepare a due diligence report
- Advice a suitable and tax efficient structure for the transaction
- Check the Conditions Precedent (if needed)

Sell Side

- Data collection
- Conduct accounting and tax vendor due diligence (if required)
- Advice a suitable and tax efficient structure for the transaction
- Dataroom and Q&A support on financials and tax (if required)
- Assist in fulfilling Conditions Precedent (if needed)

Transaction Process Timeline: Legal Advisors's Roles



Buy Side

- Prepare and review NDA (if required)
- Perform a thorough due diligent review accounting and tax
- Prepare a due diligence report
- Review and negotiate terms and conditions on DA
- Finalize acquisition package
- Assist in checking Conditions Precedent

Sell Side

- Data collection
- Conduct legal vendor due diligence (if required)
- Prepare a summary report of the key issues and suggest on possible solutions
- Prepare and review NDA
- Dataroom and Q&A support on financials and tax (if required)
- Prepare Definitive Agreements
- Review and negotiate terms and conditions on DA
- Assist in fulfilling Conditions Precedent



Key Success of M&A Transaction Factors

Sell-side

- Identify key issues and prepare possible solutions in advance
- Provide relevant documents in a timely manner
- Disclose the right information to the right parties
- Provide the clear process timeline and expectations to the potential buyers
- Stick to the timeline and maintain a competitive environment
- Review and negotiate all terms in all definitive agreement before signing
- Avoid insider trading
- Be aware of each party's interest and limitation
- Comply with rules and regulation

Buy-side

- Do not overpay and / or over-financing
- Hedge information asymmetry with earn-out types of agreement
- Identify transaction rationales and potential synergies
- Thorough Due Diligence on the Target
- Be realistic about information availability and plan to bridge the gaps between seller and buyer
- Review and negotiate all terms in all definitive agreement before signing
- Stick to the given timeline
- Avoid insider trading
- Comply with rules and regulation

1

Be prepared

2

Be well supported

3

Don't bite more
than you can chew



4. Case Study

Case Study: ACE Insurance acquired Siam Commercial Samaggi Insurance

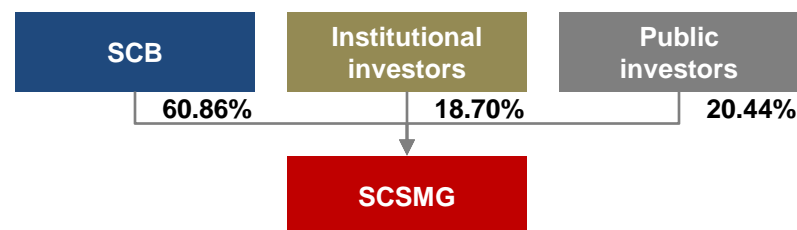
In 2013 Siam Commercial Bank (SCB) divested a majority stake in its non-life insurance arm to ACE Insurance in a transaction valued at THB 5,723mn (USD 180mn) which allowed ACE To secure 5-year distribution agreement with SCB

Key Highlights

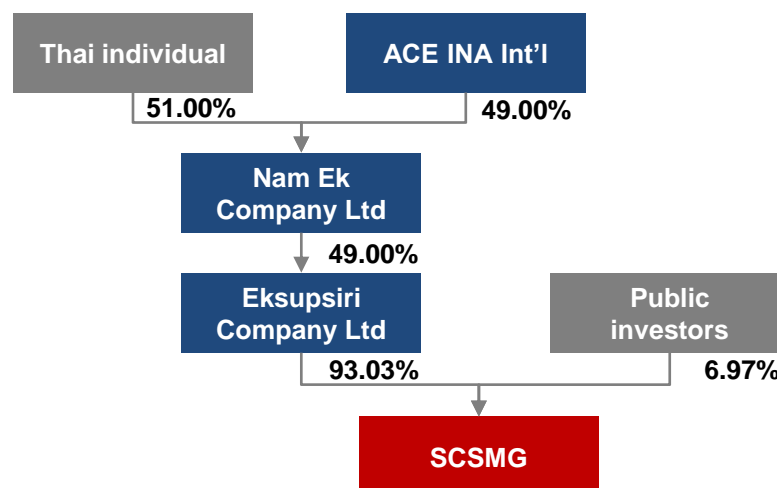
- The Siam Commercial Samaggi Insurance PCL ("**SCSMG**") is a non-life insurer in Thailand listed in the SET and was originally the non-life insurance subsidiary of Siam Commercial Bank ("**SCB**") prior to the transaction
- ACE Group ("**ACE**") is a global insurance group with presence in 54 countries and has one of the world's largest multi-line P&C operations; previous to the transaction, ACE has a life insurance business in Thailand under ACE Life Assurance, and operates its non-life business under branch office presence
- In January 2014, SCB entered into a SPA to sell its 60.86% stake in SCSMG to an affiliate of ACE at THB 27.60 per share (implies 2.32x 2013 BV, 9.2x 2013 EPS), which closed in April 2014
- Following the stake acquisition, ACE is obliged to launch a mandatory tender offer to buy the rest of the listed shares at the same price, from which ACE was able to increase shareholding up to 93.03% at the end of the tender offer period
- SCB continues to be SCSMG's broker for the sale and distribution of non-life products through its branch network under a 5-year ROFR clause in the SPA
- In order to maintain listing status of SCSMG, ACE has proposed plan to reduce potential conflict of interests which include preventative measures which has since been implemented

Shareholding Structure: Before & After

Before



After



Case Study: Leapfrog/Lombard consortium acquired 22% in Synmunkong

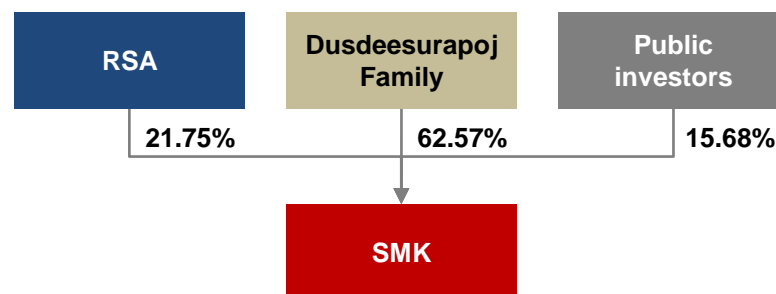
The regulatory requirement in RSA's home country opened up the opportunity in Synmunkong Insurance for Leapfrog and Lombard, who aim to capture growth in Thailand where insurance penetration remains low

Key Highlights

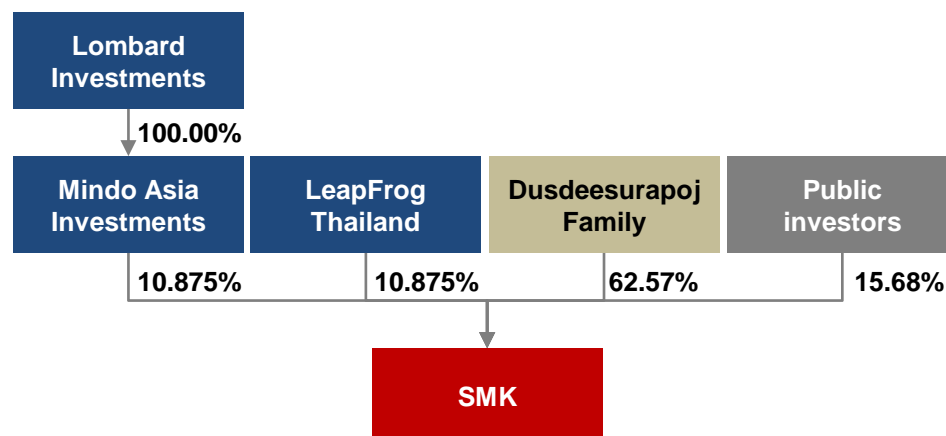
- Synmunkong (“**SMK**”), listed in the SET, is Thailand’s second largest automobile insurer and fifth largest non-life insurer in Thailand
- In Dec 2014, SMK announced that, Royal & Sun Alliance Group (“**RSA**”), one of its major shareholder with 21.75% stake, agreed to sell its entire stake to the strategic partners Lombard Investments and LeapFrog Thailand Holdings Limited, each acquiring 10.875%
- RSA divested its stake at the price of THB 435 per share, or c.9% discount to market, in the transaction worth THB 1.9 bn as it needed to raise substantial fund to meet the British regulator’s requirement on their capital fund
- Post-strategic investment, SMK can leverage LeapFrog’s experience in non-life insurance business in emerging markets and Lombard’s deep local market expertise in Thailand to enhance growth of the family business

Shareholding Structure: Before & After

Before



After



THEQUANTGROUP

The Quant Group Co., Ltd.

18th Floor, Unit 1802, Athenee Tower
63 Wireless Rd, Lumpini, Pathumwan
Bangkok 10330 Thailand

T: +662.168.8488
F: +662.168.8489
www.thequantgroup.com