



NYSE: MET  
Close Price (3/16/21): \$59.31  
Position: Long

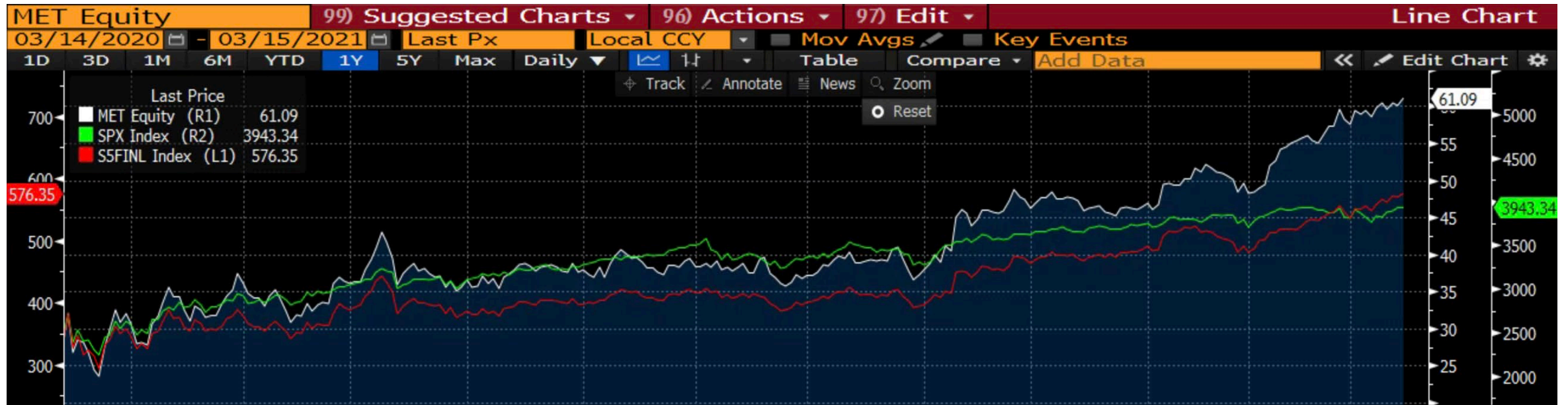
Alexandra Stamboulis, Katelyn Desautels, Karolina Tarnacki, Rory Smith  
2021 William & Mary Stock Pitch Competition

# Table of Contents

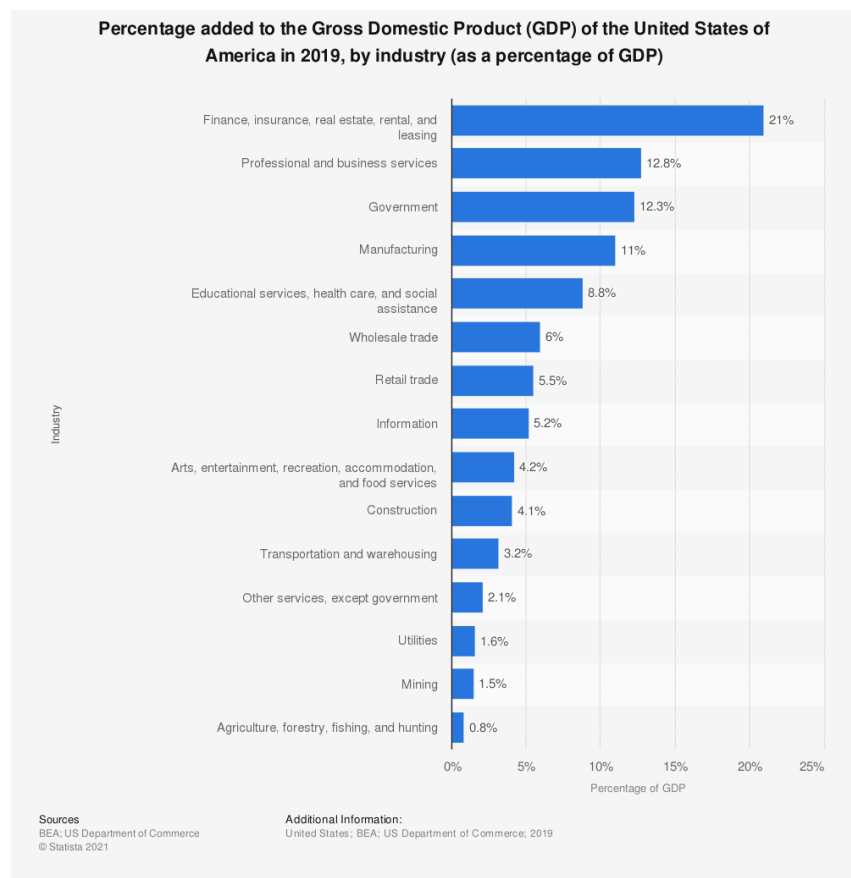
---

-  Introduction
-  Industry Analysis
-  Company Overview
-  Investment Thesis
-  Risk & Mitigants
-  Valuation
-  Conclusion

# Introduction



# Macroeconomic Trends



- Activities in the insurance market, insured people and insurance companies, have a positive impact on economic growth
  - Increases GDP
    - Insured people pay insurance premiums to use the wide variety of insurance products offered
    - Insurance companies use the premiums collected to engage in financial and investment activities
  - Increases Employment Levels
    - Insurance companies hire new employees to work for the company
  - Improve Economic and Financial Stability
    - Big taxpayers of the state
    - Large portion of state's budget comes from taxes



# Growth Drivers

U.S. insurance analytics market size, by application, 2016 - 2027 (USD Billion)



Source: www.grandviewresearch.com

1. Customer satisfaction is a more important key performance indicator than operational efficiency
2. Highly automated insurance platforms
3. Claims settlement are expected to become one of the most important elements in customer engagement

## ➔ Annuity Providers

- Rebrand to improve public perception

## ➔ Life Insurers

- Improve customer experience, streamline the sales process, engage with policyholders
- Alter pricing and marketing strategies (ie. Fitness trackers)

## ➔ Property Insurers

- Growing premium volume by raising rates

## ➔ Pricing

- Prioritize flood insurance as a result of exacerbated effects from climate change
- It is estimated that only 3% of homeowners are covered



# InsurTech Analysis

## InsurTech Startups

Companies within the insurance sector, who take advantage of new technologies to improve industry efficiency and increase an insurer's customer value



## MetLife Digital Accelerator Powered by Techstars

- Developed 8,700 square-foot research facility to host annual classes of startups
- Focused on fast-tracking startups with potential to transform insurance industry
- Collaboration connects founders with MetLife leaders and Techstars mentors
- Investment of up to \$100 million through MetLife Digital Ventures to accelerate partnerships with strategically aligned companies



# InsurTech Analysis

## No Displacement of Incumbents

- **91%** of InsurTech startups **collaborate** with incumbents
- **80%** of insurers surveyed gauge their **competitive advantage** by the strength of InsurTech **partnerships**
- InsurTechs struggle to develop and understand traditional insurance functions without expert partnerships

## Insurer Investment

- U.S. investment into InsurTechs totaled **\$2.5 billion** of which **\$630 million** was from corporate VCs (2018)
- Majority of incumbents limit involvement to venture investments; few **collaborate** with startups in innovation

## InsurTech Value-Add

- Improving insurance industry's **antiquated**, hardwired systems of **60+ years**
- Enabling **individualized** data collection
- Helping insurers keep up with **emerging markets**
- Utilizing technology to enable areas along the **value chain**, with majority (17%) focused on **distribution**

Narrow window for insurance companies to digitize their business; adapt to the technological shift and realize benefits



# Company Overview

---

## Group Benefits

- Life insurance (term/variable/universal) dental, group disability (short/long-term), individual disability, accidental death, and dismemberment insurance, vision, and accident & health insurance, prepaid legal plans

## Property & Casualty

- 2020 – MetLife entered into an agreement with Farmers Group to sell the Metropolitan Property and Casualty Insurance Company, and subsidiaries “The MetLife P&C”
- 10-year strategic partnership where Farmers Insurance Group will offer its personal line products on MetLife’s platform

## Retirement & Income Solutions

- Stable value products, pension risk transfers, institutional income annuities, structured settlements, capital markets investment products

## Global

- Asia: life insurance, accident & health insurance, retirement and savings
- Latin America: life insurance, retirement and savings, accident & health insurance, credit insurance
- EMEA (Europe, Middle East, Africa): life insurance, accident & health insurance, retirement and savings, credit insurance





# Management

---



**Michel A. Khalaf**  
President and Chief  
Executive Officer



**Steven J.  
Goulart**  
Executive Vice President  
and Chief Investment  
Officer, MetLife, Inc.,  
and President, MetLife  
Investment Management



**Bill Pappas**  
Executive Vice President  
and Head of Global  
Technology and  
Operations



**Marlene Debel**  
Executive Vice  
President and Chief  
Risk Officer



# ESG

## Sustainability Plan

- In 2019, MetLife created a new sustainability plan and devised a comprehensive approach to environmental, social, and governance (ESG) issues. MetLife strives to create value by advancing inclusivity, protecting and conserving the environment, and building an optimistic future.

## Environmental Impact

- MetLife is dedicated to reducing waste and emissions while increasing renewable sources of energy and increasing volunteerism. For the fourth year in a row, MetLife achieved carbon neutrality and reduced its annual energy consumption by 33% between 2012 and 2019.

## COVID-19

- In reaction to the COVID-19 pandemic, the MetLife Foundation is providing \$25 million in grants to support global relief efforts to support those with urgent needs for food, financial assistance, and healthcare. Thousands of face masks, bottles of hand sanitizer, and disinfection wipes were donated to help those in need.



# Next Horizon Strategy

---



## FOCUS

Generate strong free cash flow by developing capital and resources to the highest value opportunities



## SIMPLIFY

Simplify our business to deliver operational efficiency and an outstanding customer experience



## DIFFERENTIATE

Drive competitive advantage through our brand, scale, talent, and innovation



# Investment Thesis

---

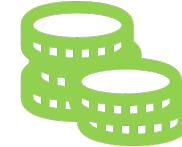
## Recommendation:

We strongly believe that MetLife is undervalued by the market with a substantial 3-12-month upside and forecast a price target of **\$81.17** over a 5-year projection period. Therefore, we recommend a buy at a price of **\$59.31** (as of market close 3/16/21), providing a **37%** margin of safety for the following reasons:

- 1 Strong brand recognition
- 2 Diversified globally
- 3 Innovative product offerings



# Risks & Mitigants



## RISKS

### Low Interest Rates

- May reduce MetLife's investment spread & equities
- Creates a need to reinvest proceed from certain investments at a lower yield

### Weak Equity Markets

- May decrease the variable annuity business
- Harms the pension plans and other postretirement benefit obligations

### Currency Exchange Rate

- May adversely affect non-U.S. dollar investments
- Makes certain products less attractive to customers which increases the level of early policy terminations

## MITIGANTS

- Low interest rates are temporary as a result of the COVID-19 pandemic
- MetLife has a legacy life businesses to mitigate the big interest rate tail risk, keeping the company trading at a tangible book value year over year

- Sustained decline in long-term equity returns is temporary as a result of the COVID-19 pandemic
- Downturns or volatility in the equity markets may decrease early next year

- Currency ETFs have become a popular means to mitigate risk related to currency exchange rates
- MetLife utilizes hedging strategies to protect foreign investment from currency risk



# Valuation



	Historical Period					Projected Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenues	60,787	62,308	67,941	69,620	67,842	73,759	77,882	82,692	87,919	93,008
<i>% growth</i>	-	3%	9%	2%	-3%	9%	6%	6%	6%	6%
Policyholder Benefits & Claims	36,358	38,313	42,656	41,461	41,461	44,255	46,729	49,615	52,751	55,805
<i>% Revenue</i>	60%	61%	63%	60%	61%	60%	60%	60%	60%	60%
Interest credited to policyholder account balance	5,176	5,607	4,013	6,464	5,214	5,901	7,009	7,442	7,034	6,511
<i>% Revenue</i>	9%	9%	6%	9%	8%	8%	9%	9%	8%	7%
Policyholder Dividends	1,223	1,231	1,251	1,211	1,090	1,475	1,558	1,654	1,758	1,860
<i>% Revenue</i>	2%	2%	2%	2%	2%	2%	2%	2%	2%	2%
Other expense	13,749	13,621	13,714	13,689	13,150	14,014	14,798	15,711	16,705	17,671
<i>% Revenue</i>	23%	22%	20%	20%	19%	19%	19%	19%	19%	19%
Total Expense	56,506	58,772	61,634	62,825	60,915	65,645	70,094	74,422	78,248	81,847
<i>% Revenue</i>	93%	94%	91%	90%	90%	89%	90%	90%	89%	88%
EBT	4,281	3,536	6,307	6,795	6,927	8,113	7,788	8,269	9,671	11,161
Taxes	693	-1470	1179	886	1509	1,781	2,101	2,479	2,926	3,452
<i>% effective tax rate</i>	16%	-42%	19%	13%	22%	18%	18%	18%	18%	18%
NOPLAT	3,588	5,006	5,128	5,909	5,418	6,333	5,687	5,790	6,745	7,709
Less: Dividends	103	103	141	178	202	230	260	290	320	350
Less: Acquisitions	0	211	0	32	1684	500	0	0	200	0
Less: Stock Based Comp.	195	167	89	206	160	166	173	180	187	195
<i>% EBT</i>	4.6%	4.7%	1.4%	3.0%	2.3%	4%	4%	4%	4%	4%
<b>FCF</b>	<b>3,290</b>	<b>4,525</b>	<b>4,898</b>	<b>5,493</b>	<b>3,372</b>	<b>5,436</b>	<b>5,254</b>	<b>5,320</b>	<b>6,038</b>	<b>7,164</b>



# Valuation

Sensitivity Analysis of Implied Share Price						
		Discount Rate				
		8.00%	8.50%	9.00%	9.50%	10.00%
Perpetuity Growth Rate	2.0%	96.2	88.99	82.77	77.38	72.65
	2.5%	96.24	88.55	82.04	76.44	71.58
	3.0%	96.24	88.03	81.17	75.36	70.36
	3.5%	96.24	87.41	80.16	74.10	68.95
	4.0%	96.24	86.64	78.93	72.60	67.30



Continuing Value Assumptions	
Net Income t+1	\$7,378.96
Growth	3.00%
Discount Rate	9.00%
ROE in Perpetuity	8.00%
Continuing Value	\$76,864.13
Discounted Continuing Value	\$49,956.41
PV Cash Flow to Equity	22,452
Equity Value	72,408
Shares Outstanding	892
Implied Share Value	\$81.17
Current Share Price	\$59.31
Margin of Safety	37%





# Conclusion

---



NYSE: MET  
Close Price (3/16/21):  
\$59.31  
Position: Long





# Appendix

# InsurTech x MetLife

## DISTRIBUTION, CLAIMS, & UNDERWRITING



## RISK MITIGATION



## EMERGING MARKETS



## AGENTS & BROKERS



## TELEHEALTH



## SOCIAL & FINANCIAL WELL-BEING



- In MetLife's approach of staying ahead of emerging technologies and trends, they have partnered with leading research organizations, VC funds, and top universities
- MetLife's additional investment into social and financial well-being platforms helps to transform financial services
- More than 50% of startup graduates implemented a proof of concept or pilot
- 30% have signed a contract with MetLife
- MetLife's global growth is also enabled in partnerships with these startups
- Collaboration combines Techstars' startup growth strategy and MetLife's industry expertise; aspects that will propel insurance technology to the finish line

# Covid-19 Impact on MetLife

---

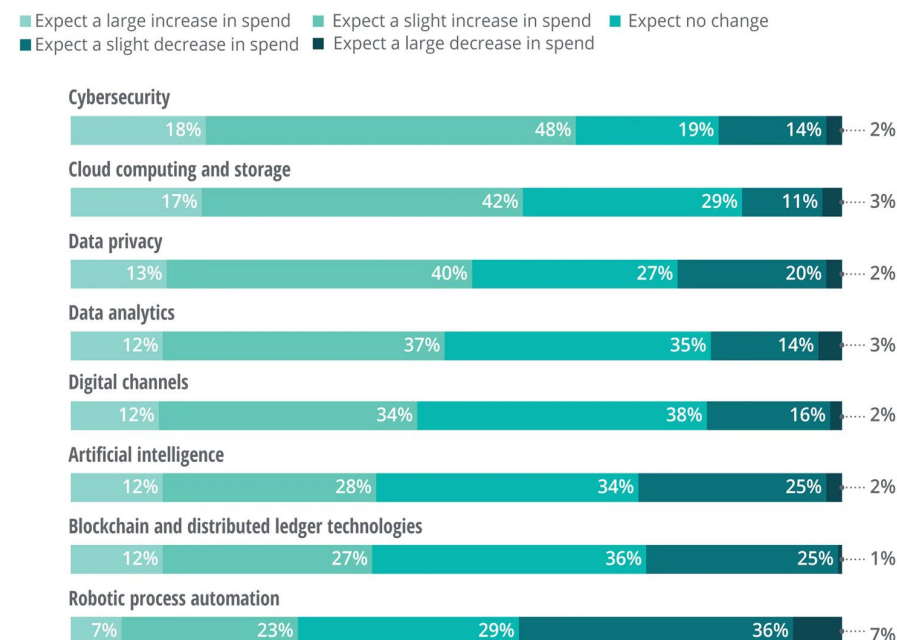
- Increased regulations, bulletins, directives and guidance in connection with COVID-19
- Granted concessions to commercial, agricultural and residential mortgage loan borrowers in the form of rent deferrals
- Potential for increase in reinsurance costs due to policy changes related to Covid-19
- Adjusted premiums, fees and other revenues for 2020 decreased \$7 million, or less than 1%, compared to 2019
- Adjusted premiums increased \$340 million, or 1%, compared to 2019
  - Due to an increase in U.S. segment, despite negative impacts from COVID-19 and related restrictions
- Expenses, including interest credited expenses, declined
- Unfavorable mortality in Group Benefits business resulted in a decrease in adjusted earnings of \$407 million
  - Driven by the impact of COVID-19 claims
- P&C business: adjusted earnings increased \$62 million
  - The decrease in non-catastrophe claims costs resulted from lower frequencies, driven by the impact of lower mileage driven due to the impact of COVID-19
- \$8.9 billion collateralized obligations securities portfolio initially decreased in value but, as a result of credit spread tightening in the fourth quarter of 2020, these securities increased in value from an unrealized loss position of \$54 million at December 31, 2019 to an unrealized loss position of \$16 million at December 31, 2020
  - actively repositioning this portfolio into higher quality, higher rated securities primarily collateralized by first line senior secured loans
- Unfavorable mortality in our Group Benefits business resulted in a decrease in adjusted earnings of \$407 million
- A favorable change in net derivative gains (losses) over 2019 was primarily the result of a decline in long-term interest rates

# Covid-19 Impact on Insurance Industry

- Overnight shift to remote work exposed gaps in digital capabilities and raised cybersecurity concerns.
- The impact on global insurance markets is largely felt through asset risks and weaker premium growth prospects.
  - Expect most COVID-19-related losses to be picked up by reinsurers
- Strict lockdown measures helped maintain satisfactory performance
  - Motor and medical satisfactory claims had a positive impact on loss ratios
- Economic slowdown will shrink developed markets, particularly life ones
- Developing markets will likely experience more declines in ROE
- Ultralow interest rates mean that the most significant source of risk to insurers is the performance of investments
- Pandemic losses hurt the property-casualty bottom line

FIGURE 8

Cybersecurity, cloud, data privacy, and analytics were identified as tech investment priorities



Note: Percentages may add up to more than 100% due to rounding.

Source: The Deloitte Center for Financial Services Global Outlook Survey 2020.

Deloitte Insights | [deloitte.com/insights](https://deloitte.com/insights)

# Assumptions

- Balance Sheet

	Historical Period						Projected Period				
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	877933	898764	719892	687538	740463	795146	819000	835380	852088	869130	886512
<i>% growth</i>		2%	-20%	-4%	8%	7%	3%	2%	2%	2%	2%
Total Liabilities	809437	831062	661022	634580	674081	720329	741939	756778	771913	787351	803098
<i>% growth</i>		3%	-20%	-4%	6%	7%	3%	2%	2%	2%	2%
Total Equity	68496	67702	58870	52958	66382	74817	77062	78603	80175	81778	83414
<i>% growth</i>		-1%	-13%	-10%	25%	13%	2%	3%	3%	2%	2%

- Total Investments

	Historical Period					Projected Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Investments	420,911	444,067	436,210	473,795	508,519	533,945	560,642	599,887	641,879	673,973
<i>% growth</i>		6%	-2%	9%	7%	5%	5%	7%	7%	5%

# Assumptions

- Segmented Revenues

	Historical Period					Projected Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Premiums	37,202	38,992	43,840	42,235	42,034	43,295	45,893	48,646	51,565	54,659
<i>% growth</i>		5%	12%	-4%	0%	3%	6%	6%	6%	6%
<i>% total assets</i>	4%	5%	6%	6%	5%	5%	5%	6%	6%	6%
Universal Life	5,483	5,510	5,502	5,603	5,603	5,715	5,829	5,888	5,947	6,006
<i>% growth</i>		0%	0%	2%	0%	2%	2%	1%	1%	1%
Net Investment Income	16,790	17,363	16,166	18,868	17,117	21,358	22,426	23,995	25,675	26,959
<i>% Investment</i>		3.9%	3.7%	4.0%	3.4%	4.0%	4.0%	4.0%	4.0%	4.0%
Other Revenue	1,685	1,341	1,880	1,842	1,849	1,941	2,039	2,161	2,290	2,405
<i>% growth</i>		-20%	40%	-2%	0%	5%	5%	6%	6%	5%
Net Investment/Derivative Gains	-373	-898	553	1072	1239	1,450	1,696	2,001	2,442	2,979
<i>% growth</i>		141%	-162%	94%	16%	17%	17%	18%	22%	22%
Total Revenues	60,787	62,308	67,941	69,620	67,842	73,759	77,882	82,692	87,919	93,008
<i>% growth</i>		3%	9%	2%	-3%	9%	6%	6%	6%	6%



# Assumptions

---

- Supplemental Information

	Historical Period					Projected Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Net Income	3,290	4,525	4,898	5,493	3,372	5,436	5,254	5,320	6,038	7,164
Change in Equity	(794)	(8832)	(5912)	13424	8435	2245	1541	1572	1603	1636
Cash Flow to Equity	4,084	13,357	10,810	(7,931)	(5,063)	3,192	3,713	3,748	4,435	5,528
Total Equity	67702	58870	52958	66382	74817	77062	78603	80175	81778	83414
Total Profit from Insurance Arm	3290	4525	4898	5493	3372	5436	5254	5320	6038	7164
ROE	5%	8%	9%	8%	5%	7%	7%	7%	7%	9%

# Comparable Analysis

---

Company	Ticker	Mkt Cap (USD)	Price	P/E	EPS
MetLife	MET	54.03	59.31	11.37	5.40
Aflac	AFL	35.70	51.84	10.59	4.91
Allstate	ALL	35.05	115.74	7.78	15.05
Prudential	PRU	37.27	93.87	6.51	14.46
Sun Life	SLF	30.25	51.70	17.11	2.82
Travelers	TRV	39.46	156.47	14.87	10.52
Median		38.63	88.16	11.37	8.86



## MetLife (NYSE: MET)

**Sector: Financial Services**

**Industry: Insurance**

Target Price	Current Price	52w High	52w Low	P/E	Market Cap	Dividend Yield	Beta
\$81.17	\$59.31	\$62.05	\$22.85	10.55	\$155.03B	3.07%	1.35

### **Business Description:**

MetLife is one of the world's leading financial services companies, providing its clients with insurance, annuities, employee benefits, and asset management. With varying products and services to offer their clients, these range from group benefits of life insurance, dental, disability, accidental death, and dismemberment insurance. MetLife also provides retirement and income solutions with major products such as stable value products, pension risk transfers, institutional income annuities, and structured settlements. Lastly, MetLife has established a ten-year strategic partnership with Farmers Insurance Group to sell its property and casualty division along with its subsidiaries. Overall, MetLife has an expanding global presence in twenty countries, with leading market positions in the United States, Japan, Latin America, Asia, Europe, and the Middle East.

### **Industry Trends & Competitive Positioning:**

From a macroeconomic point of view, the COVID-19 pandemic impacted health on a global scale, increasing the respective claims in health and life insurance paid out by carriers. It is expected, however, that global life premiums, one of MetLife's main lines of insurance, will recover to pre-pandemic levels in 2021, in all markets, benefitting life insurers. In other areas impacted by COVID-19, individuals remaining at home due to strict lockdowns translated to the reduced motor and medical claims, which positively impacted loss ratios. Zeroing in on Insurance, the industry has previously been antiquated with carriers running the same hardwired systems for over 60 years. Like with any sector that holds great growth potential, though, innovators have been racing to create profitable solutions with insurtech, the use of technology innovations to make insurance models more efficient. Digitization is becoming increasingly popular within the insurance industry and the adoption of new technology is crucial to maintain a competitive advantage. The arrival of insurtech companies will not displace incumbent carriers, as 91% of insurtech startups focus on collaboration with insurers, whether through an agency, brokerage, or improvements along the value chain. A partnership between entrepreneurs and

professionals are critical through this industry movement as changes to core insurance systems cannot be made without guidance from those who have worked extensively in the industry.

In the insurance industry, MetLife is well-positioned to capitalize on the improved profit margins and increased streams of revenue as a direct result of their investment and involvement with the insurtech movement. While most of their competitors, including AIG, Allstate, AXA group, operate corporate venture capital arms investing into insurtech startups, MetLife is the only organization that operates a digital accelerator in partnership with a startup growth powerhouse, Techstars. The MetLife Digital Accelerator boasts a robust research facility to collaborate with strategically positioned, early-stage startups. Participating startups can be located anywhere in the world, are connected with MetLife leaders, Techstars mentors, and provided potential investments of up to \$100 million. While MetLife's competitors have jumped on the insurtech investment bandwagon with venture investments, MetLife is best positioned to realize the growth and benefits of the insurtech movement by not limiting themselves to monetary contributions. In the operation of their accelerator, MetLife can best identify transformative, early-stage startups and provide any resources necessary for further growth and innovation. From the accelerator's implementation in 2018, more than half of participating startups graduated with a pilot product and 30% signed a contract with MetLife, propelling insurance technology to the finish line and, therefore, providing MetLife with a competitive advantage.

### **Investment Thesis:**

MetLife has proven itself to be resilient equity to invest in since overcoming initial challenges presented last March due to the Covid-19 pandemic. MetLife saw its stock value plummet 52.33% from its high on February 14th, however, it has since recovered 100% of its losses and continued to grow. Our reason for investing in MetLife is its well-recognized brand, expanding global presence, and adaptation to changing technologies. They hold leading market positions globally including throughout the United States, Japan, Latin America, Asia, Europe, and the Middle East. Additionally, they are one of the largest institutional investors in the United States. MetLife has a well-recognized brand, globally-diversified and

**Corporate Social Responsibility:**

MetLife is dedicated to improving the long-term sustainability of its company while achieving a positive societal impact. In 2019, MetLife created a new sustainability plan and devised a comprehensive approach to environmental, social, and governance (ESG) issues. This function is focused on strengthening the value propositions for stakeholders while enhancing the MetLife brand. The sustainability efforts are dedicated to reducing waste and emissions while increasing renewable sources of energy, increasing philanthropy and volunteerism by contributing millions of dollars and more than 100,000 hours of time to support communities, and overall being a market leader in their industry by tailoring financial plans to the specific needs of their clients. For the fourth year in a row, MetLife achieved carbon neutrality and reduced its annual energy consumption by 33% between 2012 and 2019. In reaction to the COVID-19 pandemic, the MetLife Foundation is providing \$25 million in grants to support global relief efforts to support those with urgent needs for food, financial assistance, and healthcare. Thousands of face masks, bottles of hand sanitizer, and disinfection wipes were donated to help those in need. The foundation also provided over \$1 million in grants to organizations such as local soup kitchens, child health funds, and housing services in which their efforts have benefitted many families and businesses during the pandemic. The value of the MetLife COVID-19 relief provided totals to over a quarter of a billion dollars. MetLife strives to create value by advancing inclusivity, protecting and conserving the environment, and building an optimistic future.

**Valuation Assumptions:**

In producing a valuation of the company, we used a growth rate of 3.00% and a discount rate of 9.00%. In listening to earning calls, and further review of the company, we made conservative assumptions of the growth over the 5-year projection period. We forecast an implied share value of \$81.17 with a 37% margin of safety.

market-leading businesses, competitive and innovative product offerings, and financial strength and expertise that should help drive future growth and enhance shareholder value. Over the course of the next several years, MetLife will continue to execute its Next Horizon strategy, creating value that centers around the following three pillars: focus, simplify, and differentiate. This plan includes a focus on generating strong free cash flow by deploying capital and resources to the highest value opportunities. They are also looking to simplify their business to deliver operational efficiency and an outstanding customer experience. The final part of the next horizon strategy is to differentiate by driving competitive advantage through their brand, scale, talent, and innovation.

The insurance industry appears to be at a key inflection point with many experts viewing the digitization of insurance as the next big opportunity after FinTech. As the insurance industry undergoes technological advancements in the coming years, companies' success will be defined by their ability to adapt. MetLife has proven they are committed to automation efforts in the insurtech space. This year alone MetLife has partnered with ten tech startups dedicated to improving and digitizing different areas of the business. The Digital Accelerator, a component of MetLife's comprehensive innovation ecosystem, was designed to provide a first-mover advantage on capabilities that address critical customer needs in the financial and insurance services sector.

**Risks:**

Some risks that may impact this investment are low-interest rates, weak equity markets, and fluctuations in currency exchange rates. Low-interest rates impact MetLife because they reduce its investment spread and equities, while also creating a need for the company to reinvest proceeds from certain investments at a lower yield. Similarly, currently, weak equity markets decrease the variable annuity business and harm the pension plans and other postretirement benefit obligations. And fluctuations in currency exchange rates adversely affect the non-U.S. dollar investments which may also make certain products less attractive to customers, as a result, increasing the level of early policy terminations.