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## MetLife, Inc.

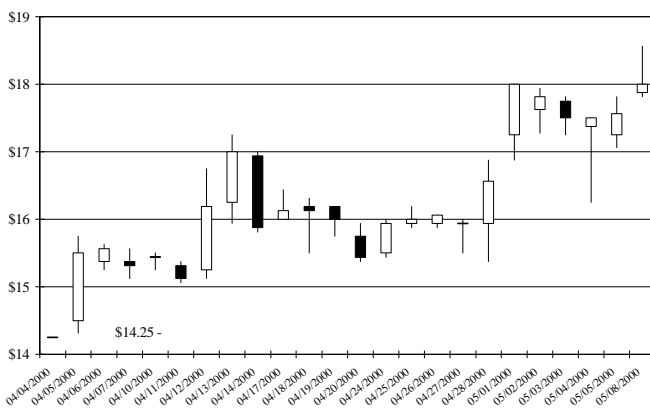
### Industry: Life Insurance

### MET: Initiating coverage with a new Buy rating.

**Description:** MetLife provides insurance and financial services to 9 million individual households and 33 million employees and members of companies and institutions. The 132-year-old company is the largest life insurer in the US with \$1.7 trillion of policies in force. MetLife had FY1999 revenues of \$25.426 billion and net income of \$617 million while consolidated assets totaled \$225.200 billion and equity totaled \$13.700 billion. MetLife had \$429.000 billion in assets under management as of March 31, 2000.

May 8, 2000

MetLife - Daily Chart



### Market Data

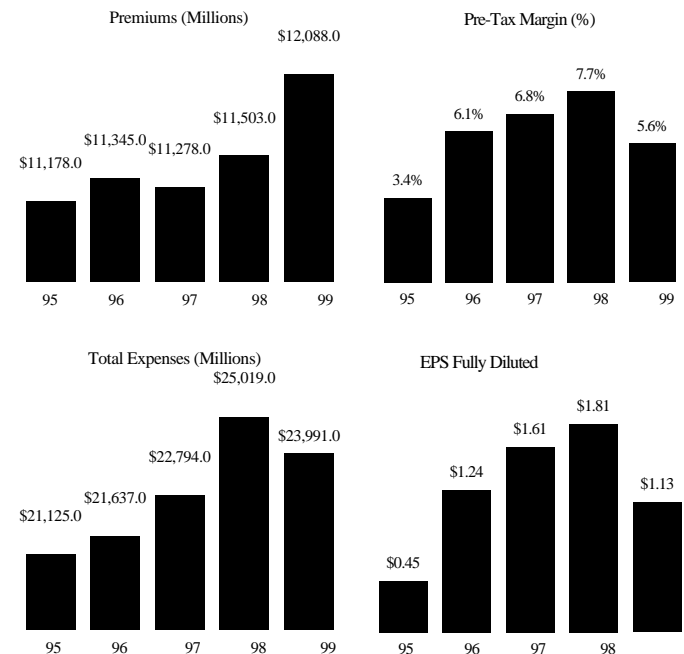
Market Cap.	\$14.162 Bln	Price To Book	.76
Shares Out	786,767M	S&P 500 Trailing P/E	28.8
Last Price (5/8/00)	\$18	12M Trailing P/E	15.9
52W High (5/8/00)	\$18-9/16	Estimated P/E (FY 2000)	11.8
52W Low (4/4/00)	\$14-1/4	Dividend Yield	TBA

### Financial highlights (FY 1999)

Sales (\$ Billions)	\$25.426	ROE	9.5%
Y/Y Sales Growth	-6.2%	Earnings Per Share	\$1.13
Y/Y Premium Growth	+5.1%	Gross Margin	32.4%

### Overview

MetLife converted from a mutual life insurance company to a publicly owned stock company on April 5th, 2000, raising a total of \$4.8 billion in the process. The company sold 202 million shares at an initial price of \$14.25 per share to raise \$2.879 billion. MetLife also privately placed 60 million shares with Banco Santander Central Hispano, S.A., Credit Suisse Group, and their affiliates. In addition, the company sold 17.5 million equity security units at \$50 per share. The exercise of over-allotment options given to underwriters resulted in an additional 30.3 million shares. MetLife now has a total of 786,766,664 shares outstanding which includes those from the IPO as well as the 494,466,664 shares distrib-



uted to eligible policy holders in exchange for their ownership. That leaves the company's market capitalization at approximately \$14.162 billion. With nine million shareholders, MetLife is the most widely held stock in North America.

MetLife's conversion to a publicly owned company through the demutualization process was done in response to changes in the marketplace for financial services. The Gramm-Leach-Bliley Financial Services Modernization Act, which took effect in mid-March, significantly rolled back Depression-era walls between banks, brokerages, and insurance companies. Now, the formerly staid life-insurance companies are facing intense competition from larger and more diversified financial services companies. By going public, MetLife is hoping to adopt a more competitive corporate culture, have publicly-traded stock available to make acquisitions, and enjoy more flexible access to the capital markets.

MetLife's IPO in April followed the January demutualization of John Hancock which raised \$1.734 billion. Later this year, Prudential Insurance Company of America plans to convert to shareholder ownership in an IPO expected to be larger than MetLife's. The trend towards demutualization, however, is not confined to the US as Sun Life Financial Services of Canada raised US\$1.200 billion in March when it converted to public ownership. In general, the last two years has seen many of the world's largest mutual insurers restructure themselves as stock companies or announce their intention to do so in the future.

### Valuation

MetLife's IPO came to the market following the worst year for the insurance stocks in a decade. The insurance sector has been hit by rising interest rates, increased com-

petition from established financial services providers, and investors' preference for high-growth technology stocks. MetLife also went public just after investors digested the John Hancock deal and just ahead of the upcoming Prudential IPO. Existing public insurance companies are already trading at favorable valuations, making the reception of new companies more difficult. Therefore, MetLife scaled back its IPO plans to make it more attractive while money was also raised through a private placement and debt sale.

MetLife and its underwriters offered the stock at a price that represented only about 76% of book value. That compares very favorably to American General which trades with a market capitalization of \$12.944 billion and 2.2 times book value. MetLife stock was also offered at a lower multiple to 12-month trailing earnings of 12.6 than the overall insurance industry's average of 17.5.

MetLife is trading at a discount to its peers largely because it is less profitable. Its 5-year pace of revenue growth (+3.8%) is well below the industry average (+11.7%) as revenue and net income have come under pressure due to litigation-related charges. MetLife also has lower margins and less revenue and income per employee than the industry average. More importantly, the company's return on equity (ROE), a key measure of profitability, is low in relation to its public peers. MetLife's ROE has averaged under 10% in recent years which is about half the industry average. American General, to which the market has attached higher valuations, is much more profitable with a ROE of 16%.

MetLife's underperformance in comparison to its peers is not surprising. The ROE of a newly demutualized company often lags the ROE of established public companies for the first several years. Policyholder-owned insurance companies have historically been more stable but less profitable than publicly-owned companies. This is because a key goal of policyholder-owned

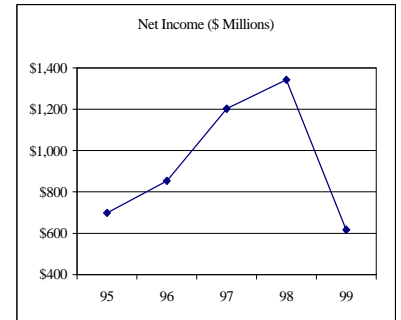
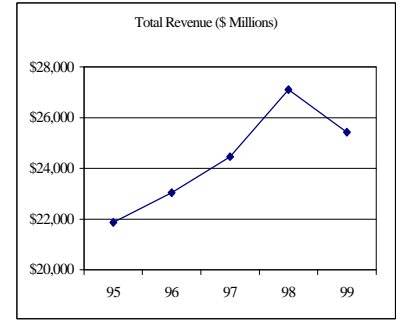
Selected Peer Group Companies With Publicly Traded Stock

Peer	Symbol	Recent Price	Market Cap (\$ Millions)	Consensus: 1 sell / 5 buy	12-M Trailing PE	Beta	1-year Total Return (%)	Yield (%)	Est. EPS (\$)
Aetna	AET	58-1/8	8,201	3.9	12.0	1.01	-37.92	1.4	4.91
Allstate	ALL	23-3/8	17,573	3.8	9.2	1.01	-36.40	2.9	2.73
American General	AGC	53-15/16	13,442	4.2	11.4	.94	-25.79	3.1	5.19
Conseco	CNC	5-7/16	1,768	3.5	2.4	1.00	-83.57	3.6	2.67
Hartford Life	HLI	49-13/16	6,971	4.1	13.9	1.10	+0.01	0.8	3.96
Jefferson-Pilot	JP	61-7/16	6,334	3.5	15.7	.87	-10.25	2.2	4.21
Lincoln National	LNC	33-3/8	6,399	3.7	14.8	.93	-31.80	3.3	3.47
The MONY Group	MNY	29-3/16	1,372	3.6	6.7	N/A	+6.31	1.3	2.53
Nationwide Financial Services	NFS	26-13/16	3,446	4.9	8.5	1.3	-39.68	1.4	3.47

insurance companies is to minimize insurance premiums to their policyholders rather than to produce large profits. That emphasis has now changed, however, with the switch to a shareholder culture.

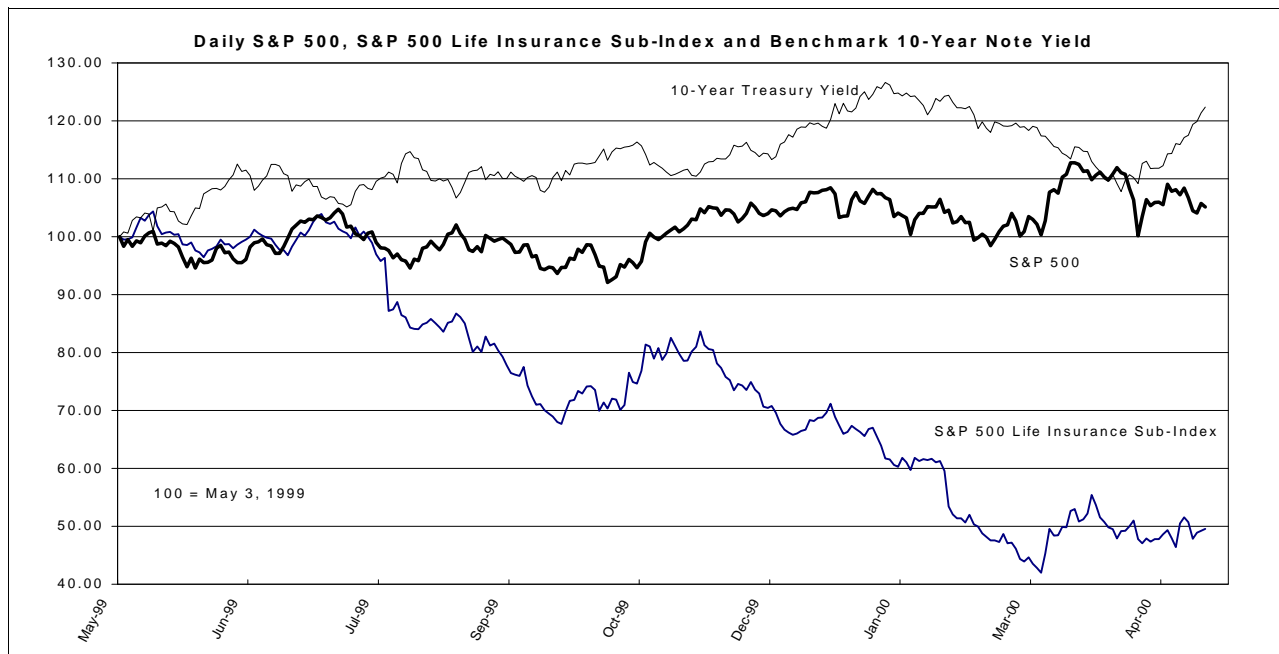
MetLife says its goal is to boost its ROE to 11.5% by 2002 and to increase earnings per share at a 15% annual rate over the next three years. To close the gap with its peers, MetLife has identified several opportunities to cut expenses. The company is planning to trim operating costs by \$250 million over the next three years by reducing the number of employees and by increasing the use of technology (the firm has invested \$925 million in IT over the last three years). The company reduced the number of non-sales positions in FY1999 by 7% on top of 1998's 11% reduction. MetLife also believes that the switch to a shareholder culture will boost employee performance through new compensation programs as well as new measurement and review programs for employees. A publicly traded stock may also strengthen MetLife's rate of agent retention.

To meet its earnings goals, the company is planning to build on one of the best known brand names in US business. With over 9 million US households as customers, MetLife has a broad customer base for offering new financial products. Among its plans, MetLife said that it will start a bank by Q1-2001 in order to garner a bigger share of its existing customers' savings. The company also plans a broad range of new product initiatives including long-term care insurance and voluntary insurance products for employees of its institutional business. The company plans to be a major provider and distributor of financial products through other financial institutions and independent intermediaries (NASD firms, regional investment companies, banks, etc.). To this end, MetLife purchased Security First Group in 1997, Nathan & Lewis in 1998 and GenAmerica in January 2000. The company is also focusing on expanding its international emerging country operations, a market where it believes it can capture significant market share. MetLife has divested itself of substantial portions of its operations in the UK and Canada that did not fit into high-growth objectives.



Note: The drop in net income in 1999 was due in part to a non-recurring charge of \$225 million in demutualization expenses and a \$499 million pre-tax charge related to settlement of improper sales practice litigation.

The chart below shows the S&P 500 Life Insurance Index versus the S&P 500 and the yield on the benchmark 10-year Treasury Note. The life insurance sub-index is composed of (in order of weighting, highest to lowest) Lincoln National, Jefferson-Pilot, UnumProvident, Torchmark, and Consec. The sell-off in the sector that began last year bottomed in early April when investors snapped up cheaply valued insurance stocks as the technology sector plunged. Since then, the sector has moved sideways. Treasury yields have been drifting lower this year, lending some support, while Lincoln National reported a 9.0% y/y gain in Q1 earnings which beat expectations. Torchmark reported April 20th that its Q1 earnings rose 6.0% y/y which was at the top end of expectations. Dragging down the sub-index has been Consec which just had its credit rating cut to "junk" by Moody's after a disastrous foray into consumer lending. As seen in the chart, the life insurance stocks (with a trailing P/E of 15.3) have lagged badly behind the S&P 500 (with a P/E of 28.8) over the past year, leaving them very cheap in comparison.



**Business Review**

MetLife just released results for the quarter ended March 31, 2000, its first results as a public company. After-tax operating profits rose 20% year-on-year to \$379 million from \$315 million in the year-ago quarter. Earning per share of 48 cents were mildly better than expectations for 46 cents per share. Net income in Q1-2000 rose 3% y/y to \$236 million from Q1-1999 income of \$229 million. Q1 net income included a realized capital loss of \$72 million versus a \$47 million loss in the year earlier quarter as well as \$41 million in demutualization expenses. Total revenues rose 29% y/y to \$7.778 billion from \$6.019 billion in the year ago quarter. Revenue growth in Q1 was tied to increased sales of mutual fund products as well as higher individual and group insurance sales. The better than expected results were mainly due to strength in individual life insurance sales.

MetLife organizes its business into six segments. The *Individual Business* segment offers insurance and asset accumulation products to individuals through life insurance and annuities. Q1-2000 operating earnings for the *Individual Business* segment were up 10% y/y to \$196 million, reflecting continued strong premium growth in life insurance products. MetLife's sales in this segment are benefiting from the acquisition of GenAmerica. Earnings were also boosted by a 68% y/y increase in mutual fund sales.

The *Institutional Business* segment offers a range of insurance, retirement, and savings products. Operating earnings in Q1 fell 9% y/y to \$140 million, reflecting in part the extraordinary underwriting results seen in Q1-1999. The *Auto & Home* segment offers auto, homeowners, casualty and personal property insurance products, primarily through employer-sponsored programs and retail distribution channels. The *Auto & Home* segment saw Q1 operating profits of \$8 million, up 33% y/y. The *Reinsurance* segment, established in Q1, had operating earnings of \$22 million. The *Asset Management* segment (\$11 million in Q1 operating profits) provides asset management products and services primarily to third party institutions and individuals. The *International* segment represents operations in ten countries overseas offering life insurance, retirement products, and casualty insurance to individuals and groups. Q1 operating profits totaled \$10 million.

Balance Sheet (\$ Millions)	1995	1996	1997	1998	1999
General Account Assets	144,277	145,877	154,444	157,278	160,291
Separate Account Assets	38,861	43,399	48,338	58,068	64,941
Total Assets	183,138	189,276	202,782	215,346	225,232
Policy Holder Liabilities	122,220	122,895	127,358	124,203	124,955
Long-Term Debt	2,345	1,946	2,884	2,903	2,514
Separate Account Liabilities	38,861	43,399	48,338	58,068	64,941
Total Liabilities	171,384	177,293	188,775	200,479	211,542
Policyholder's Equity	11,754	11,983	14,007	14,867	13,690

Income Statement (\$ Millions)	1995	1996	1997	1998	1999
Premiums	11,178	11,345	11,278	11,503	12,088
Policy Fees	1,177	1,243	1,418	1,360	1,438
Net Investments Income	8,837	8,978	9,491	10,228	9,816
Other Revenue	834	1,246	1,491	1,994	2,154
Realized Invest. Gains	(157)	231	787	2,021	(70)
Total Revenue	21,869	23,043	24,465	27,106	25,426
Benefits/Claims	0	0	12,403	12,638	13,105
Interest Credited	0	0	2,878	2,711	2,441
Dividends. To Policy Holders	0	0	1,742	1,651	1,690
Other Expenses	0	0	5,771	8,019	6,755
Total Expenses	21,125	21,637	22,794	25,109	23,991
Income Before Taxes	744	1,406	1,671	2,087	1,435
Income Taxes	407	482	468	740	593
Income After Taxes	337	924	1,203	1,347	842

**MetLife's Outlook**

MetLife has laid out an effective plan to boost its ROE and narrow the performance gap against its peers. The marketplace has attached a low valuation to MetLife's new publicly-traded stock, which may be undeserved given the company's dominance in the life insurance industry. The firm is the largest individual life insurer (with \$11.500 billion in premiums and deposits in 1999) and the largest group-life insurer (with \$5.300 billion of premiums in 1999). The firm has a well-known brand name and plans to aggressively expand distribution channels. MetLife is well positioned to take advantage of favorable demographics as the baby-boomer generation ages and moves into its peak earning years, thus requiring more insurance and financial services. In order to remain competitive with larger and more diversified financial services companies, MetLife is in the process of restructuring itself to resemble its more profitable peers by reducing expenses and accelerating asset and revenue growth. The Q1 earnings report already reflected an improvement in sales agents' performance. Combined with its low valuation, coverage on MetLife is therefore initiated with a Buy rating.

**MetLife Office:** One Madison Avenue, New York, New York, 10010-3690. **Phone:** 212-578-2211. **Fax:** 212-679-5806. **Website:** <http://www.metlife.com>. **SIC code:** 6311 Life Insurance. **Chairman, President & Chief Executive Officer** Robert H. Benmosche, **Vice Chairman/Chief Investment Officer** Gerald Clark, **Vice Chairman & Chief Financial Officer** Stewart G. Nagler, **President Individual Business** James M Benson, **President Institutional Business** C. Robert Henrikson, **President Client Services** William J. Toppeta. **Assets Under Management:** \$429 billion as of Q1 2000. **Employees:** 42,300.