



DATE: October 11, 2021

TO: Amy J. Malm
Mark McNabb

FROM: Christopher Martin

SUBJECT: The Acquisition of Control of State Auto Insurance Company of Wisconsin by Liberty Mutual Holding Company Inc., LMHC Massachusetts Holding Inc., and Liberty Mutual Group Inc. (Case No. 21-C44135).

Form A Filing Contact(s)

Primary Contact:

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Secondary Contact:

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Liberty Mutual Group
175 Berkeley Street
Boston, MA 02116

Form A Exhibit(s)

<u>Exhibit:</u>	<u>Description:</u>
A	Merger Agreement
B-1	Organizational Chart of the Applicants Before the Proposed Transaction
B-2	Organizational Chart of the Applicants After the Proposed Transaction
B-3	Abbreviated Organizational Chart of the Domestic Insurer Before the Proposed Transaction
B-4	Abbreviated Organizational Chart of the Domestic Insurer After the Proposed Transaction
C-1	Current Directors and Executive Officers of LMHC
C-2	Current Directors and Executive Officers of MHI
C-3	Current Directors and Executive Officers of LMGI
D-1	Proposed Directors and Executive Officers of the Domestic Insurer
D-2	Proposed Directors and Executive Officers of SAM
E-1	Audited Consolidated Financial Statements for LMHC for the Year ended December 31, 2020
E-2	Audited Consolidated Financial Statements for LMHC for the Year ended December 31, 2019
E-3	Audited Consolidated Financial Statements for LMHC for the Year ended December 31, 2018

E-4	Audited Consolidated Financial Statements for LMHC for the Year ended December 31, 2017
E-5	Audited Consolidated Financial Statements for LMHC for the Year ended December 31, 2016
E-6	Consolidated Statements of Income of LMHC for the Quarter ended March 31, 2021
F-1	Annual Report of STFC for 2020
F-2	Annual Report of STFC for 2019
CE-1	Biographical Affidavits of Directors and Executive Officers of the Applicants (Confidential)
CE-2	Biographical Affidavits of Proposed Directors and Executive Officers of the Domestic Insurer and SAM (Confidential)
CE-3	Three-Year Financial Projections of the Domestic Insurer (Confidential)

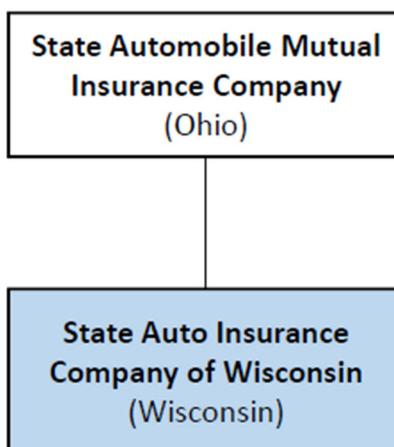
Executive Summary

On August 5th, 2021, Liberty Mutual Holding Company Inc (“LMHC”), LMHC Massachusetts Holding Inc. (“LMHC MA”), and Liberty Mutual Group Inc. (“LMGI”) (collectively, the “Applicants”) filed a Form A application requesting permission to acquire State Auto Insurance Company of Wisconsin (“State Auto”, “Domestic Insurer”). The proposed acquisition of the Domestic Insurer is part of a broader transaction governed by the terms and conditions set forth in an Agreement and Plan of Merger Combination, dated as of July 12, 2021, by and among LMHC, State Auto Mutual Insurance Company (“SAM”), State Auto Financial Corporation (“STFC”) and two wholly owned subsidiaries of LMHC which were formed to facilitate the proposed transactions.

As part of the July 12, 2021 merger, LMHC, Pymatuning, Inc., an Ohio corporation and wholly owned indirect subsidiary of LMHC (“Merger Sub I”, “Pymatuning”), and Andover, Inc., an Ohio corporation and wholly owned direct subsidiary of LMHC (“Merger Sub II”, “Andover”), entered into an Agreement and Plan of Merger and Combination (the “Merger Agreement”) with STFC, a publicly traded Ohio corporation, and SAM, pursuant to which LMHC has agreed to acquire SAM and STFC (the “Proposed Transaction”).

Transaction

Domestic Insurer Organizational Chart Before Proposed Transaction:



Domestic Insurer Organizational Chart After Proposed Transaction:



Identity and Background of the Domestic Insurer

Identity of the Domestic Insurer:

State Auto Insurance Company of Wisconsin
1425 Memorial Drive
Manitowoc, Wisconsin 54220

Background of the Domestic Insurer:

State Auto Insurance Company of Wisconsin

The Domestic Insurer is a direct, wholly owned subsidiary of State Automobile Mutual Insurance Company, a property and casualty mutual insurance company domiciled in Ohio. SAM is a mutual insurance company, and as such, the membership interests in SAM are held by its policyholders.

Identity and Background of the Applicants
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Identity of the Applicants:

Liberty Mutual Holding Company Inc.

175 Berkeley Street
Boston, Massachusetts 02116

LMHC Massachusetts Holding Inc.

175 Berkeley Street
Boston, Massachusetts 02116

Liberty Mutual Group Inc.

175 Berkeley Street
Boston, Massachusetts 02116

Background of the Applicants:

Liberty Mutual Holding Company Inc.

LMHC was formed in 2001 as part of the mutual holding company reorganization of Liberty Mutual Insurance Company, a Massachusetts stock property and casualty insurance company founded in 1912 ("LMIC"). LMHC is a Massachusetts mutual holding company and, through its direct, wholly owned subsidiary, LMHC Massachusetts Holding Inc. ("MHI"), the ultimate parent company of LMGI and its subsidiaries, including insurance operating subsidiaries. The Liberty Mutual group is a diversified global insurer and the fourth largest property and casualty insurer in the U.S. based on 2020 direct written premium. It ranks 71st on the Fortune 100 list of largest corporations in the U.S. based on 2020 revenue. As of December 31, 2020, LMHC had approximately \$145.38 billion in consolidated assets, \$119.42 billion in consolidated liabilities, and \$43.8 billion in annual consolidated revenue. LMHC employs more than 45,000 people in 29 countries and economies around the world. LMHC, through its subsidiaries and affiliated companies, offers a wide range of property and casualty insurance products and services to individuals and businesses alike, including personal automobile, homeowners, accident & health, commercial automobile, general liability, property, surety, workers compensation, group disability, group life, specialty lines, reinsurance, and individual life products. Functionally, LMHC conducts substantially all of its business through two business units, with each operating independently of the other in certain areas such as sales, underwriting and claims, but, as appropriate, collaborating in other areas such as actuarial and financial. Management believes this structure provides increased synergy to LMHC and permits each business unit to execute its business strategy and/or to make acquisitions without impacting or disrupting the operations of the other business unit.

LMHC Massachusetts Holding Inc.

MHI, a Massachusetts stock holding company, was formed in 2001 as part of the mutual holding company reorganization of LMIC, and it is a direct, wholly owned subsidiary of LMHC. As a holding company, MHI has no operations of its own and its assets consist primarily of investments in subsidiaries.

Liberty Mutual Group Inc.

LMGI, a Massachusetts stock holding company was formed in 2001 as part of the mutual holding company reorganization of LMIC, and it is a direct, wholly owned subsidiary of MHI. As a holding company, LMGI has no operations of its own and its assets consist primarily of investments in subsidiaries.

Directors and Executive Officers of Liberty Mutual Holding Company Inc.:

Name	Positions Held
David H. Long*	Director, Chairman of the Board, Chief Executive Officer
Francis A. Doyle*	Director
Joseph L. Hooley*	Director
John P. Manning*	Director
Thomas J. May*	Director
Myrtle S. Potter*	Director
Nancy W. Quan*	Director
Ellen A. Rudnick*	Director
Angel A. Ruiz*	Director
Georgios Serafeim*	Director
Martin P. Slark*	Director
Eric A. Spiegel*	Director
William C. Van Faasen*	Director
Annette M. Verschuren*	Director
Vlad Y. Barbalat*	Chief Investment Officer, Executive Vice President
Neeti Bhalla Johnson*	Executive Vice President
Alison B. Erbig*	Comptroller, Executive Vice President
Melanie M. Foley*	Chief Talent & Enterprise Services Officer, Executive VP
James F. Kelleher*	Chief Legal Officer, Executive Vice President
Dennis J. Langwell*	Executive Vice President
James M. MacPhee*	Executive Vice President
Anthony G. Martella, Jr.*	Corporate Actuary, Executive Vice President
James M. McGlennon*	Chief Information Officer, Executive Vice President
Christopher L. Peirce*	Chief Financial Officer, Executive Vice President
Edward J. Pena*	Treasurer, Executive Vice President
Timothy M. Sweeney*	President
Mark C. Touhey*	Secretary, Executive Vice President

Directors and Executive Officers of LMHC Massachusetts Holdings Inc.:

Name	Positions Held
David H. Long*	Director, Chairman of the Board, Chief Executive Officer
James F. Kelleher*	Director, Chief Legal Officer, Executive Vice President
Christopher L. Peirce*	Director, Chief Financial Officer, Executive Vice President
Edward J. Pena*	Treasurer, Executive Vice President
Timothy M. Sweeney*	President
Mark C. Touhey*	Secretary, Executive Vice President

Directors and Executive Officers of Liberty Mutual Group Inc.:

Name	Positions Held
David H. Long*	Director, Chairman of the Board, Chief Executive Officer
James F. Kelleher*	Director, Chief Legal Officer, Executive Vice President
Christopher L. Peirce*	Director, Chief Financial Officer, Executive Vice President
Vlad Y. Barbalat*	Chief Investment Officer, Executive Vice President
Neeti Bhalla Johnson*	Executive Vice President
Alison B. Erbig*	Comptroller, Executive Vice President
Melanie M. Foley*	Chief Talent & Enterprise Services Officer, Executive VP
Dennis J. Langwell*	Executive Vice President
James M. MacPhee*	Executive Vice President
Anthony G. Martella, Jr.*	Corporate Actuary, Executive Vice President
James M. McGlennon*	Chief Information Officer, Executive Vice President

Edward J. Pena*	Treasurer, Executive Vice President
Timothy M. Sweeney*	President
Mark C. Touhey*	Secretary, Executive Vice President

Proposed Directors and Executive Officers of State Auto Insurance Company of Wisconsin.:

Name	Positions Held
Mark C. Touhey*	Director, Chairman of the Board, Secretary, Executive Vice President
James M. Czapl*	Director
Matthew P. Dolan*	Director
Alison B. Erbig*	Director, Comptroller, Executive Vice President
Michael J. Fallon*	Director
Julie M. Haase*	Director
James M. MacPhee*	Director, President, Chief Executive Officer
Elizabeth J. Morahan*	Director
Francis W. Robinson, Jr.*	Director
Vlad Y. Barbalat*	Chief Investment Officer, Executive Vice President
Damon P. Hart*	Chief Legal Officer, Executive Vice President
Christopher L. Peirce*	Chief Financial Officer, Executive Vice President
Edward J. Pena*	Treasurer, Executive Vice President

Proposed Directors and Executive Officers of State Auto Mutual Insurance Company.:

Name	Positions Held
Mark C. Touhey*	Director, Chairman of the Board, Secretary, Executive Vice President
James M. Czapl*	Director
Matthew P. Dolan*	Director
Alison B. Erbig*	Director, Comptroller, Executive Vice President
Michael J. Fallon*	Director
Julie M. Haase*	Director
James M. MacPhee*	Director, President, Chief Executive Officer
Elizabeth J. Morahan*	Director
Francis W. Robinson, Jr.*	Director
Vlad Y. Barbalat*	Chief Investment Officer, Executive Vice President
Christopher L. Peirce*	Chief Financial Officer, Executive Vice President
Edward J. Pena*	Treasurer, Executive Vice President

Note: * indicates that the biographical affidavit was provided for the individual and no significant concerns remain.

The structure of the board of directors and management of the reorganized SAM entity will change as of the closing, as SAM will no longer serve as the ultimate controlling entity of the SAM and SFTC group of insurers. In order to align with the slate of directors of the other insurance companies within the Liberty Mutual group of companies, it is expected that none of the current directors serving on the board of directors of SAM will continue as directors of the reorganized SAM. Although the current executive officers of SAM will no longer serve as executive officers as of the closing, it is currently anticipated that a number of SAM's current executive officers will hold leadership positions in the combined organization after closing.

On July 12, 2021, SFTC agreed to provide stay bonuses to eight members of SFTC's senior leadership team. The stay bonuses are to be paid to each recipient in a lump sum on the closing, subject to their continued employment through the closing or involuntary termination of their employment prior to the closing, and other terms as included in the stay bonus agreement.

Nature, Source, and Consideration
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The proposed transaction's cash consideration is approximately \$1 billion. The calculation of the purchase price is described in the paragraph below. Consummation of the Proposed Transaction is not conditioned on receipt of financing by LMHC. LMHC intends to fund the cash consideration for the Proposed Transaction using available funds, including cash on hand and, potentially, available lines of credit. LMHC may also utilize proceeds from ordinary dividends to be declared and paid prior to the closing by one or more of its insurance company subsidiaries or loans funded prior to the closing from one or more of its insurance company subsidiaries the amount of which does not meet or exceed the threshold for approval or non-disapproval pursuant to a Form D (Prior Notice of a Transaction) filing. Other than available lines of credit, no new third-party loans or other external financing will be utilized for the sole purpose of funding the purchase price. The stock and assets of the Domestic Insurer will not be pledged or hypothecated in any way as part of the funding of the purchase price of the proposed transaction by LMHC.

Along with the Form A filing, the Applicants have submitted Form D filings with OCI for a number of agreements. These agreements have been reviewed and non-disapproved. OCI will request that executed copies of the management services, cash management, investment management, federal tax sharing, commutation of reinsurance, and reinsurance pooling agreements be provided after close.

With respect to the STFC merger, pursuant to the merger agreement, each share of STFC's common stock, no par value per share, that is issued and outstanding immediately prior to the effective time of the STFC Merger (other than (i) shares owned by SAM, STFC (as treasury shares or otherwise) or that may be owned by LMHC and (ii) dissenting shares) will be converted into the right to receive an amount in cash, without interest, equal to \$52.00, and will be automatically cancelled and retired and cease to exist.

The basis and terms of the Merger Agreement, including the nature and amount of consideration, were determined through arms' length negotiations among the representatives of LMHC, on the one hand, and the representatives of SAM and STFC, on the other hand, and their respective legal and other advisors. Following due diligence by LMHC, the amount and type of consideration was determined by taking into account the consideration paid in other recent acquisitions of similar types of businesses, as well as the financial position and results of operations of the entities to be acquired, including the past and present business operations, historical and potential earnings, financial condition and prospects, assets, and liabilities and such other factors and information as LMHC considered relevant under the circumstances. In addition, the board of directors of LMHC received two fairness opinions in connection with the proposed transaction, one from Waller Helms Advisors LLC to the effect that the Proposed Transaction is fair, from a financial point of view, to LMHC's members (excluding SAM's members which become LMHC's members as a result of the proposed transaction), taken as a group, and the other from Goldman Sachs & Co. LLC to the effect that the aggregate merger consideration to be paid, taken together with the aggregate equity rights to be issued, by LMHC pursuant to the merger agreement is fair, from a financial point of view, to LMHC. Both opinions are as of the date of such respective opinion and are based on and subject to the assumptions, limitations, qualifications, and other matters set forth in such written opinion.

A special committee of independent SAM directors also received a fairness opinion from BofA Securities, Inc. to the effect that the exchange of equity rights in SAM for equity rights in LMHC in the proposed transaction is fair, from a financial point of view to SAM's members, taken as a group. A separate special committee of independent STFC directors also received a fairness opinion from Houlihan Lokey Capital, Inc. to the effect that the merger consideration to be received by the holders of STFC's shares, other than SAM or any of STFC's subsidiaries, in the STFC Merger pursuant to the merger agreement is fair, from a financial point of view, to such holders (other than SAM or any of STFC's subsidiaries). Both opinions are as of the date of such respective opinion and based on and subject to the assumptions, limitations, qualifications, and other matters considered in connection with the preparation of such opinion.

Financial Highlights

Highlighted Financial Data of the Applicant:

Financial Highlights (in millions)	Unaudited	Consolidated Financial Statement				
	Q1 2021	2020	2019	2018	2017	2016
Total Revenue	11,815	43,796	43,228	41,568	39,409	35,451
Consolidated Net Income	857	760	1,038	2,161	19	1,069
Total Assets	148,809	145,377	133,635	125,989	142,502	125,592
Total Liabilities	123,157	119,420	110,016	105,227	121,814	105,205
Total Equity	25,652	25,957	23,619	20,762	20,688	20,387
Net Cash Provided by Operating Activities	1,046	6,448	3,477	3,775	2,704	3,017

Financial Projections of the Domestic Insurer [CONFIDENTIAL]:

The financial projections of the Domestic Insurer are confidential. OCI reviews these projections as part of the Form A review process.

611.72 (3) Standard

Wisconsin Statute s. 611.72(3)(am) creates a five-part test for the Commissioner to use when evaluating the merger or acquisition of a domestic stock insurance company. It reads, in relevant part:

(am) The commissioner shall approve the plan if the commissioner finds...that it would not violate the law or be contrary to the interests of the insureds of any participating domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation and that:

1. After the change of control, the domestic stock insurance corporation or any domestic stock insurance corporation controlled by the insurance holding corporation would be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed;
2. The effect of the merger or other acquisition of control would not be to create a monopoly or substantially to lessen competition in insurance in this state;
3. The financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic stock insurance corporation or its parent insurance holding corporation, or prejudice the interests of its Wisconsin policyholders;
4. The plans or proposals which the acquiring party has to liquidate the domestic stock insurance corporation or its parent insurance holding corporation, sell its assets, merge it with any person or make any other material change in its business or corporate structure or management, are fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest; and
5. The competence and integrity of those persons who would control the operation of the domestic stock insurance corporation or its parent insurance holding corporation are such that it would be in the interest of the policyholders of the corporation and of the public to permit the merger or acquisition of control.

These five requirements are analyzed below.

s. 611.72(3)(am)1: After reviewing the documents provided by the Applicant in their Form A filing, OCI Staff believes that the Applicant is able to satisfy s. 611.72(3)(am)1. In reaching this decision, OCI staff has relied heavily on the proposed business plan and financial projections.

s. 611.72(3)(am)2: OCI's determined that a Form E analysis was necessary. OCI's examination of the potential competitive effects concluded that approving the acquisition would not violate the competitive standards set forth in s. Ins 40.025(4), Wis. Adm. Code.

s. 611.72(3)(am)3: Paragraph three requires that the financial condition of any acquiring party is not likely to jeopardize the financial stability of the domestic insurance corporation or its parent insurance corporation, or prejudice the interest of its Wisconsin policyholders. After reviewing the documents provided by the Applicants, the concern that affiliated non-insurance operations would jeopardize the financial condition of State Auto Insurance Company of Wisconsin is deemed minimal. OCI, however, will monitor compliance with s. 611.72(3)(am)3, Wis. Stat., going forward.

s. 611.72(3)(am)4: Paragraph four requires that the post-transaction plans to change the business structure be "fair and reasonable to policyholders of the domestic stock insurance corporation or in the public interest." The Form A filing notes that the Applicants have no current plans or proposals to declare any extraordinary dividend, to liquidate the Domestic Insurer, or to sell the assets of the Domestic Insurer. Additional review of the filing by OCI staff do not indicate any significant changes to the operation of the Domestic Insurer. Compliance with s. 611.72(3)(am)4, Wis. Stat., is expected.

s. 611.72(3)(am)5: Paragraph 5 requires that OCI review the Biographical Affidavits of the proposed officers and directors of the Applicants. This review did not raise significant concerns.

Recommendation

The Acquisition of Control in the above-referenced Form A filing will not violate the law or be contrary to the interests of the insureds, and it does not meet any of the disqualifying criteria outlined in s. 611.72 (3), Wis. Adm. Code. Therefore, the transaction should be approved.

Additionally, the related Form D filing, and the agreements reviewed therein, have been non-disapproved following OCI review. The above-mentioned agreements should be filed with the OCI within 10 business days of closing.