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MS&ADホールディングス
MS&AD INSURANCE GROUP

Acquisition Agreement on Transverse Insurance Group, LLC
A fronting carrier serving the US MGA market

MS&AD Insurance Group Holdings, Inc.

Hello, everyone.

Thank you very much for taking the time out of your busy schedule to participate in today's conference call regarding the agreement to acquire Transverse, a fronting company in the U.S. MGA market, despite the short notice.

In this conference call, I will explain the background of recently announced acquisition of Transverse, its strategic significance for our group, and the expected effects.

The acquisition will give our company access to a wider range of products and channels in the U.S. market, where it is seeking to expand its business base, and we believe that acquiring a strong platform to capture the growth of the U.S. property and casualty insurance market, which is expected to continue to expand in the future, is another step for our company in its quest to become one of the world's leading insurance and finance groups.

Now, let me explain.

MS&AD Group Overview

Holding company

MS&AD MS&AD Insurance Group Holdings, Inc.

Domestic Non-Life

MS&AD Mitsui Sumitomo Insurance 

MS&AD Aioi Nissay Dowa Insurance 

MS&AD Mitsui Direct General Insurance 

International

Non-Life Insurance

Regional Business

Asia

Europe

Americas


Telematics and Mobility

Head Office Reinsurance

Life Insurance

Domestic Life

MS&AD Mitsui Sumitomo Aioi Life Insurance 

MS&AD Mitsui Sumitomo Primary Life Insurance 

Financial Services

Risk-Related Services

Abbreviations of company names used in this presentation

MS&AD Holdings, Holding Company:	MS&AD Insurance Group Holdings, Inc.
MS&AD:	MS&AD Insurance Group
Mitsui Sumitomo Insurance, MS:	Mitsui Sumitomo Insurance Co., Ltd.
Transverse:	Transverse Insurance Group, LLC
AUL:	MS Amlin Underwriting Limited
AAG:	MS Amlin AG
TIMS:	Toyota Insurance Management Solutions USA, LLC
MSMM:	Mitsui Sumitomo Marine Management (U.S.A.), Inc.

Caution about forward-looking statements

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1. Executive Summary

● Background and Overview of the Acquisition

- Our group aims to expand its U.S. business other than non-cat risks. Our particular focus is on the U.S. MGA* market whose importance as a significant underwriting and distribution channel is rapidly growing.
- We have decided to acquire 100% of ownership interest in Transverse, a hybrid fronting insurance carrier that partners with MGA and other producers and reinsurers, and will consolidate it as a wholly owned subsidiary under our Group.
- Transverse holds a strong business network with a variety of distinguished MGAs and will serve as a platform for our group to incorporate the growth of the U.S. MGA market.
- The acquisition price is US \$400 million (around ¥53.8 billion).
- The acquisition will be funded through Cash on hand.

● Strategic significance

- Expand our business base in the U.S. by capturing growth opportunities in the U.S. MGA and other markets covering a wide range of industries and lines of business. Gain stable fee income from fronting commissions.
- Enhance operational efficiency through group synergies and leverage profit opportunities within the Group.
- Strategic allocation of group capital to high growth potential businesses



Financial impact

• Group adjusted profit / IFRS net profit:	FY2023	around + US \$30 million
	FY2025	around + US \$60 million
• Group adjusted ROE / IFRS adjusted ROE:	FY2023	around + 0.1pt
	FY2025	around + 0.2pt

* MGA (Managing General Agent): Agency that has delegated authority from insurance company for underwriting etc. and performs operations that are substantially similar to those of insurance company, such as insurance solicitation, contract management, and reinsurance arrangements. They are strong in specific areas and has unique earnings base.

Please refer to page 4 of the handout.

In our group, we currently have a well-balanced portfolio in Asian, European and American markets, but given that the U.S. market accounts for more than 40% of the global non-life insurance market and continues to grow, we believe it is necessary to strengthen our business base in the U.S. With this in mind, we have been looking for business investment opportunities that would allow us to capture a good portfolio of U.S. specialties and niche markets.

In the United States, the Managing General Agent, "MGA," which is authorized by insurance companies to conduct underwriting activities such as insurance sales and contract management, has been increasing its presence as an underwriting and sales channel in recent years. The market size of MGA has also expanded to about 9 trillion yen in 2021 by picking up needs by segments such as various industries and regions and offering a wide variety of products, and we expect to see significant growth in the future.

The CEO of AUL, Johan Slabbert, is from AIG and has knowledge and contacts in the U.S. MGA market, while the CEO of Transverse is also from AIG and has a long relationship with Johan. Using Johan's knowledge and personal connections, we have been including Transverse in our monitoring list for more than a year to follow its trends and performance.

As a result, based on the fact that the company's business was on track and growing rapidly in 2021, that the company is on track to meet its plans in 2022, and that the company's shareholders intend to sell the company, we have initiated direct negotiations and have now reached an agreement to acquire the

company.

Transverse itself is not an MGA, but an insurance company that intermediates MGA underwritten policies to reinsurers, referred to in the industry as a fronting insurance company. with a strong network of many MGAs and deep knowledge of the MGA market, it will become a platform to underwrite a wide variety of industries, regions and categories.

The strategic significances of this acquisition are thee points

- ① strengthening and expanding our business base in the United States
- ② Increase operational efficiency and revenue opportunities through group synergies
- ③ Allocating capital to high-growth businesses

For the details, I'll explain more later.

2. Overview of the Acquisition

Form of acquisition	Mitsui Sumitomo Insurance (or its U.S. subsidiary) acquires 100% of units from unitholders of Transverse and consolidates it as a wholly-owned subsidiary	
Price	Unit price of Transverse:	US \$400 million (around ¥53.8 billion) ^{*1}
	Advisory Fees etc:	around ¥0.4 billion
	Total acquisition cost:	around ¥54.2 billion P/E ratio of around 12 (based on FY2023 earnings forecast)
Terms	US \$400 million (around ¥53.8 billion)* ¹ upon conclusion of Unit Purchase Agreement Adjustments to be made based on net assets as of end of December 2022 Additional payments to be made subject to post-acquisition performance (earn-out provision)	
Source of Funds	Cash on hand	
Timing	Planned completion in December 2022, subject to regulatory approval	

*US \$1 = JPY ¥134.61

Next, see page 5.

Let me give you an overview of the acquisition of Transverse.

MSI or its U.S. subsidiary will acquire the entire units from Virgo Transverse Core and other unitholders to make Transverse a 100% subsidiary.

The purchase price is 400 million US dollars, approximately 53.8 billion Japanese yen. There is a balance adjustment clause based on net assets as of the end of December 2022, when the acquisition is expected to close, and a so-called earn-out clause, in which additional payments are made if the business is performing well after the acquisition.

The P/E ratio based on the 2023 profit forecast is about 12.

Cash on hand will be used to finance the acquisition.

Today, our company reached a basic agreement to acquire Transverse, which is expected to close at the end of December 2022, subject to approvals from related regulators.

3. Corporate profile of Transverse

Date of incorporation	June 26, 2018
Registered Office	Delaware, USA
Management	Erik Matson, Chairman and CEO
Number of employees ^{*1}	around 40
Gross Written Premiums ^{*2}	US\$222 million (around ¥29.9 billion ^{*3})
Net Earned Premiums ^{*2}	US\$3 million (around ¥0.4 billion ^{*3})
Net income ^{*2}	US-\$5 million (around -¥0.7 billion ^{*3})
Net assets ^{*2}	US\$88 million (around ¥11.9 billion ^{*3})
Rating ^{*1}	A- (A.M. Best)
Major Unitholders and Unitholding ratio	<div> <div>Virgo Transverse Core LLC</div> <div>: 99.2%</div> </div> <div> <div>Other</div> <div>: 0.8%</div> </div>



^{*1} As of end of June 2022 ^{*2} As of end of December 2021 ^{*3} US \$1 = JPY ¥134.61

Next, I will give an overview of Transverse.

See page 6.

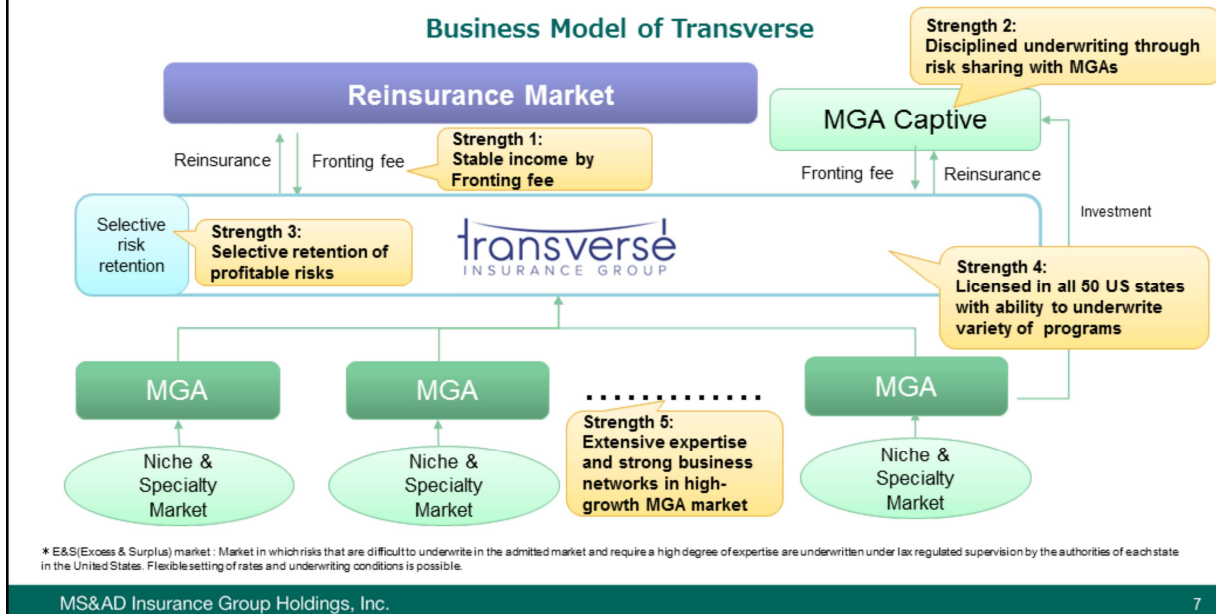
The company was founded in June 2018 and started operations in 2019, with gross premiums growing to US \$222 million in 2021.

On the other hand, unlike regular insurance companies, the business model is to cede most of the risks to reinsurers, so the net earned premium is only \$3 million.

In addition, 2021 is third year of operation, a growth period, and Transverse is still at a stage before the bottom line emerges positive, but we will discuss the earnings outlook later.

4. Strengths of Transverse (1) Business Model

- Transverse is one of the leading fronting companies in the U.S. MGA market.
- The U.S. MGA market is rapidly growing with key drivers being: Continued market hardening in the E&S* market and insurance professionals newly setting up or transferring to MGAs. Under these circumstances, hybrid fronting insurance carriers providing flexible and tailored fronting and business matching services with reinsurers have emerged and are undergoing significant growth.



Then, see page 7.

Transverse is one of the leading fronting companies in the U.S. MGA market.

In the United States, there is the admitted market and Excess & Surplus, the so-called E & S market, which underwrites risks that are difficult to underwrite in the admitted market and require high levels of expertise under more lenient supervision.

In recent years, the MGA market has been expanding rapidly due to the continued hardening of the E & S market, the transfer of professional talent to MGA, and a number of moves to create MGA independently. There is also a burgeoning number of fronting companies that connect MGA with reinsurance capacity, with insurance licenses in states across the country.

For more on the growth of the MGA market, see page 17.

It grew at a CAGR of 12% between 2010 and 2021, and with it, the underlying premiums written by fronting companies grew rapidly at a CAGR of 32% between 2016 and 2021.

Transverse is one of the major players in that market. A fronting company can generate a stable profit with an earnings structure in which most risks are ceded to reinsurers and fee income is earned without much risk-taking of insurance risks.

To deal with MGA, Transverse has introduced a mechanism whereby a MGA establishes a captive insurance company to underwrite its own risks and the MGA retains some of those risks through reinsurance. As a result, MGA shares a

portion of the risk and underwriting profit from the policies designed and offered by MGA itself, which provides an incentive for disciplined underwriting, thereby providing underwriting capacity and making it easier for MGA to gain the trust of reinsurance companies that ultimately take most of risks, and building a win-win-win relationship between MGA, Transverse and the reinsurance companies.

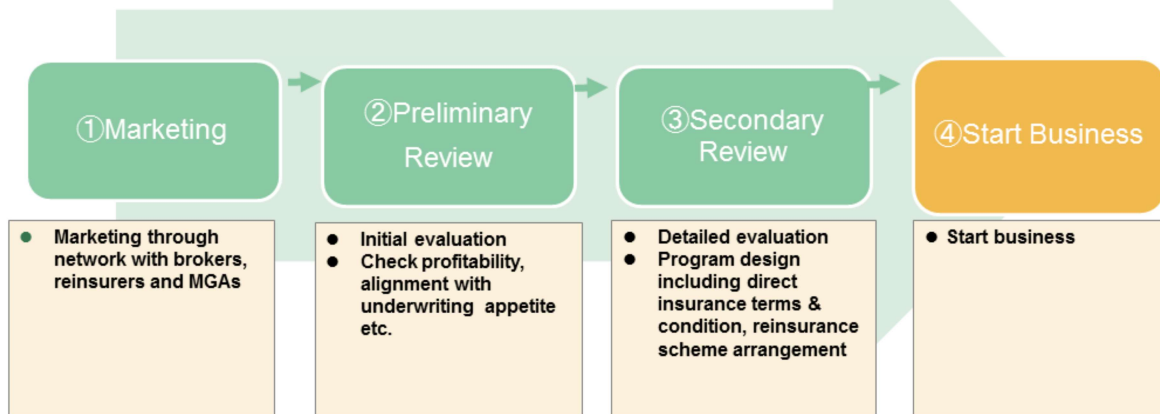
Transverse's main source of earnings is fronting fee income, but of the risks underwritten, it is possible to hold a limited portion of the good risks and earn an underwriting profit.

With its insurance licenses in all 50 states, Transverse is highly competitive as a fronting company in being able to take on risk in a variety of lines of business in each state.

And Transverse's greatest strength is its deep knowledge of the MGA market and its strong network of relevant parties. The top management of Transverse is outlined in a 19 page supplement, but CEO Erick Matson, who served as head of the MGA division of the Lexington, AIG Group, has a very robust network in the inner circle of the U.S. MGA industry. Transverse's top management will continue to be in charge after the acquisition.

4. Strengths of Transverse (2) Selection Process of MGAs

- Has a strong network of MGAs/programs by leveraging Transverse's highly experienced and knowledgeable team for the US MGA space.
- Builds a robust underwriting process and carefully selects MGAs/programs through rigorous Due Diligence, pursuing growth and diversifying its portfolio.



- Approx. 10-20% of initial candidates pass through the process and start business.
- Prudent selection of MGA through internal process is highly evaluated by reinsurers

Next, I will talk about the process of selecting an MGA that will be the cornerstone of Transverse's business acquisition.

See page 8.

While Transverse already has a network with many MGAs through its top management networks, it also has new routes to explore MGAs based on strong relationships with brokers and reinsurers.

In particular, by instilling Transverse's business model in reinsurance brokers in the years since its establishment, we have established a mechanism for bringing in many referrals.

With regard to the cases referred, careful screening will be arranged.

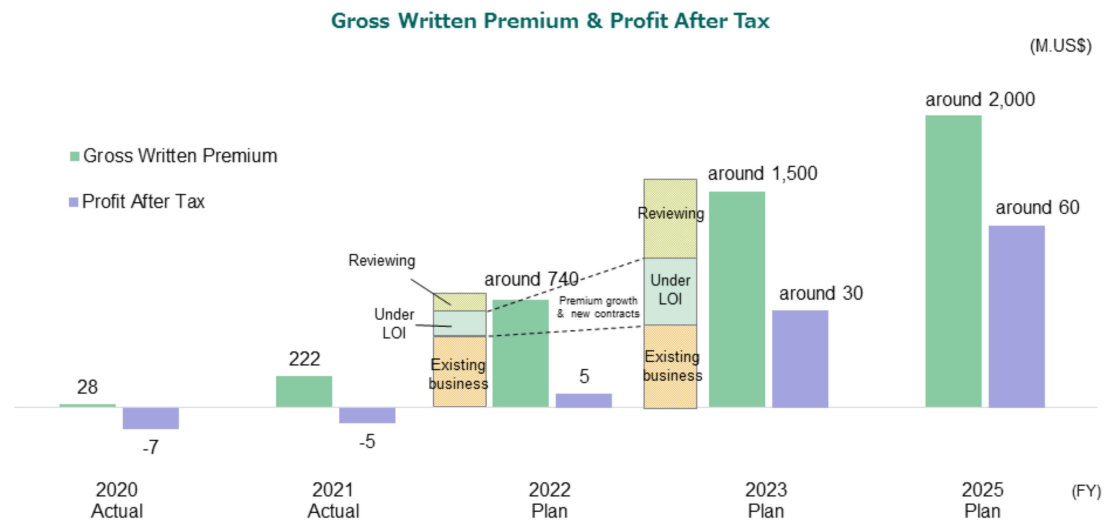
In the first screening, Transverse check whether each case matches the underwriting appetite, whether Transverse can expect stable income premiums, the orientation of the MGA, etc.

In the second screening, further detailed due diligence is carried out to finalize the reinsurance scheme and arrange underwriting guidelines, and the final contract is concluded.

This careful process reduces the number of deals that are actually closed to about 10% to 20% of those that are referred , but it keeps Transverse in good standing with quality MGAs. and possible to expand.

5. Transverse's Growth Going Forward

- Transverse is expected to grow rapidly with the market growth of MGA/fronting and its strong network with MGAs and brokers.
- Accelerate Transverse's growth by increasing business opportunities backed by the group's strong credit rating and leveraging the group's network and corporate resources.



Transverse's top-line and bottom-line outlook is shown on page 9.

Since the company was established in 2018, it did not make enough profit to cover operating expenses until fiscal 2021, but we expect steady profit growth from fiscal 2022.

Because fronting fee income is determined by a percentage of premiums, growth in gross premiums is key to the company's profit growth.

In fiscal year 2022, Transverse aims to write about US \$740 million in gross premiums, and as of the end of June, approximately 80% of the premium had been or were close to being concluded, so it is likely to achieve the business plans.

In addition, if you count on its existing pipeline, including expected premium growth of the existing programs and estimated new contracts with normal discount rates depending on the selection phase, Transverse is already on the track to achieve its gross premium target for fiscal 2023.

6. Strategic Significance of the Acquisition of Transverse

(1) Expand business foundation in the United States

- **Capture business opportunities in U.S. MGA and other markets with remarkable growth as a surface not a point**
- **Enhance profit increase in the U.S. and diversification of revenue sources** by gaining both commission and underwriting income from selective risk retention

(2) Group Synergies to strengthen the business foundation and expand business opportunities

- **Enhance creditworthiness of Transverse and gain new business opportunities** backed by the Group's strong financial credit.
- Gain new sources for profit by **incorporating new MGA businesses into the Group**, while **leveraging market intelligence on the MGA market and promising MGAs**.
- **Enhance operational efficiency** by outsourcing and shared service within the Group .

(3) Investment in high-growth businesses

- Allocate capital to businesses with high growth potential

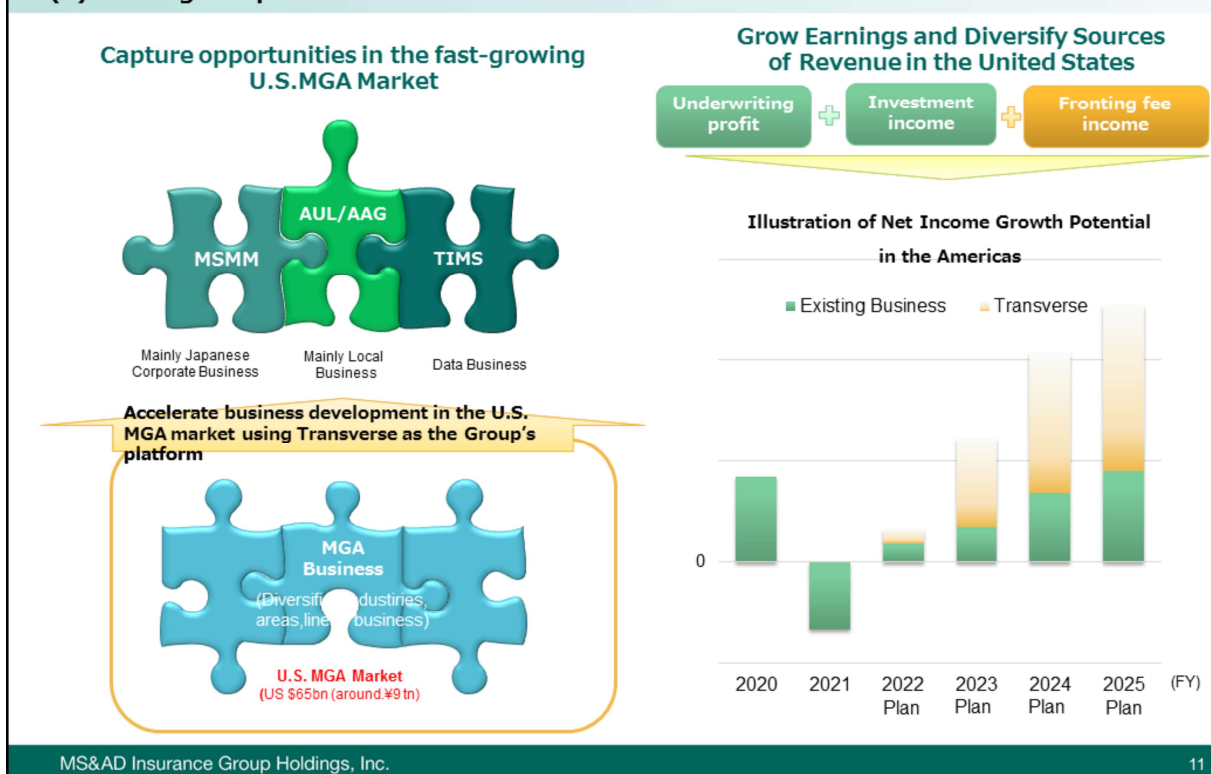
Next, I would like to discuss the strategic rationales of the acquisition of Transverse.

See page 10.

The strategic significance of the acquisition of Transverse is to expand our business base in the United States, increase earnings through group synergies, and allocate capital to high-growth businesses.

6. Strategic Significance of the Acquisition of Transverse

(1) Strategic expansion into the U.S.



First, I would like to talk about expanding our business base in the United States.

See page 11.

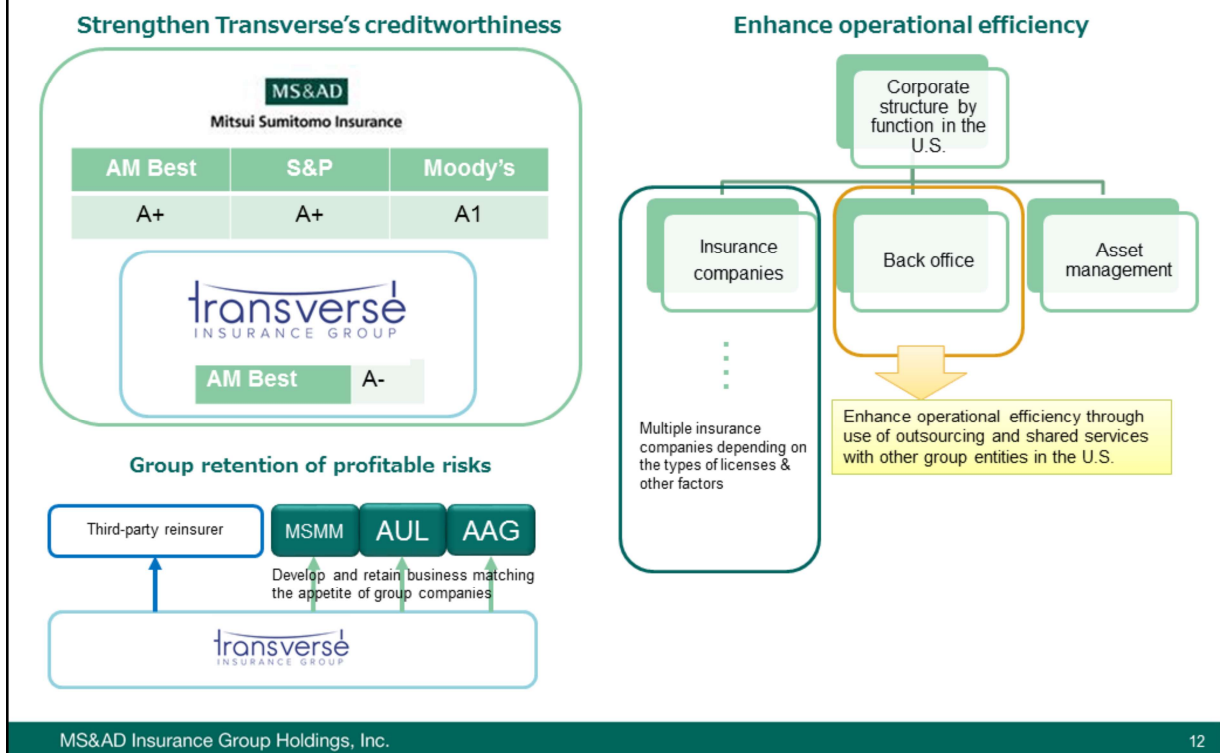
Currently, our group's U.S. operations are primarily focused on Japanese corporate clients' businesses underwritten by MSMM, MSI's U.S. subsidiary, MS Amlin's local businesses underwriting mainly through reinsurance, and data business through TMS, which is jointly established with Toyota. As a result, we had limited underwriting channels for small, high-quality local risks that did not flow into the reinsurance market.

The acquisition of Transverse will give us access to MGA's product and portfolio in a wide variety of industries and regions, allowing us to capture the growth of the MGA market.

Transverse's main source of profit is fronting fee income, which is not based on insurance risk-taking. The addition of a new component, fronting fee income, to our existing profit structure, which generates profits from underwriting and investment, will enable us to steadily increase profits in our U.S. business.

6. Strategic significance of the acquisition of Transverse

(2) Group Synergies to strengthen the business foundation and expand business opportunities



The second effect is to strengthen our base and expand our profit opportunities through group synergies.

See page 12.

Currently, Transverse is rated A- by AM Best. Being a member of our group with A + rating by AM Best is expected to enhance the company's creditworthiness and strengthen its competitiveness as a fronting company.

In addition, we will use Transverse as a platform to grow in the MGA market and gain access to an outstanding portfolio that meets our group's risk appetite, with the aim of increasing underwriting profits in our group.

In addition, insurance companies in the United States often have multiple insurance companies in their group that have various underwriting licenses in each state, and those are managed by a management company in a centralized manner. Our company's current U.S. entity and Transverse have a similar structure, and we hope to improve operational efficiency by utilizing the functions of management company and introducing shared services.

We are not yet at the stage to show the quantitative effects of group synergies in this regard, but after the completion of the acquisition, we will plan specific initiatives with Transverse and realize many synergies.

7. Expected Financial Impact

	FY2023 (Outlook)	FY2025 (Outlook)
Impact on Group Adjusted Profit (FY2023), IFRS Net Profit (FY2025)*1	around +US\$30 million	around +US\$60 million
Impact on Group Adjusted ROE (FY2023), IFRS Adjusted ROE(FY2025)	around +0.1pt	around +0.2pt

*1. Included in the estimated profit increase of overseas businesses in the Medium-Term Management Plan (2022-2025).

End of FY2022 (Outlook)
Impact on ESR
-2pt

Goodwill (including intangible fixed assets) : around 40 billion yen.

- Estimation by subtracting Transverse's net assets at the end of 2021 from total value of acquisition.
This is subject to change due to price adjustments based on net assets at of the end of December 2022.

Finally, we will discuss the impact on Group Adjusted profit /IFRS net profit and adjusted ROE.

See page 13.

We expect an impact of approximately US \$30 million on Group Adjusted profit in fiscal 2023 and approximately US \$60 million on IFRS net profit in fiscal 2025.

The adjusted ROE is estimated to increase by 0.1% in fiscal 2023 and by 0.2% in fiscal 2025.

Comment from Erik Matson, Chairman and CEO of Transverse Insurance Group



We are all very excited about this development, and what it will mean for our future growth opportunities. This is a significant milestone for everyone involved in our growth journey and we're delighted to have found a home in MSI. Its balance sheet strength, rating, and international network will exponentially fast-track our development and innovation. This acquisition cements the success of our business and reiterates the value of our hybrid fronting model as a valuable tool that allows our partners to maximise the market cycle

Erik Matson
Chairman and CEO
Transverse Insurance Group LLC

As I said at the beginning, Transverse will be a platform that gives our company access to MGA's specialty niche markets in the United States.

We included Transverse CEO Erick Matson's comments on this transaction on page 14 of our materials, and Transverse is very excited to be a part of and grow with our group.

As the head of international business, I am very pleased and encouraged to welcome Transverse to our group, a company with trustable top management who have built strong relationships with us, and can discuss our group's future growth together.

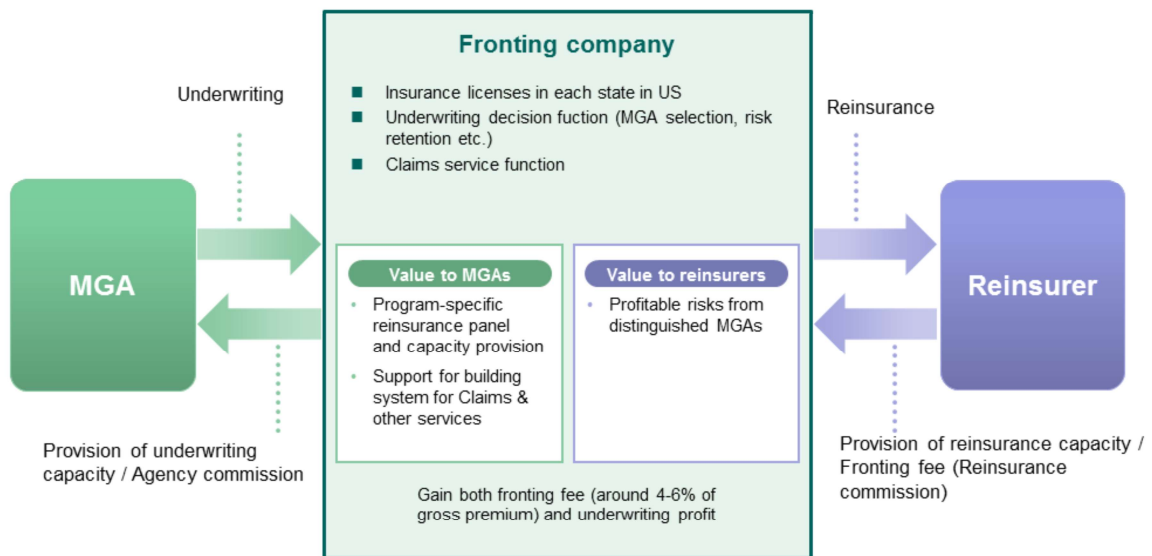
With this acquisition, I believe we have made another significant step toward becoming one of the world's leading insurance and financial groups.

As our group strives to further enhance its corporate value by taking advantage of this U.S. expansion platform, we ask our shareholders and investors for their continued support.

That concludes my explanation.

Appendix

[Reference] Fronting Business Model (Illustration)

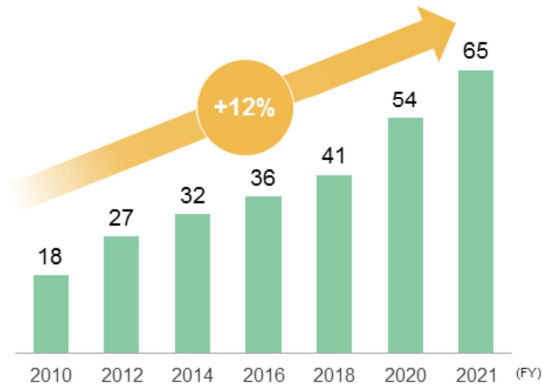


[Reference] Overview of U.S. MGA & Fronting Business

- The size of the U.S. MGA in 2021 was **US\$65 billion** (around JPY 9 trillion), around **3.6x** growth from 2010.

MGA market gross written premium

(B. US\$)

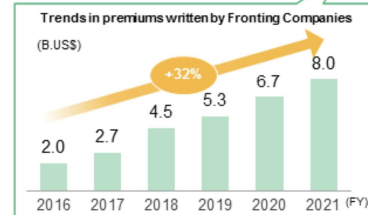
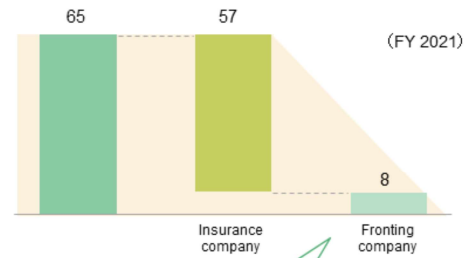


- There are more than 700 MGAs in the U.S. market, showing rapid growth.
- The E&S market, a key market for MGAs, has grown significantly.

Source: Dowling's U.S. Fronting Market Overview History & Evolution 2021 Report
Conning Managing General Agents Rising to the Challenge 2021 Report

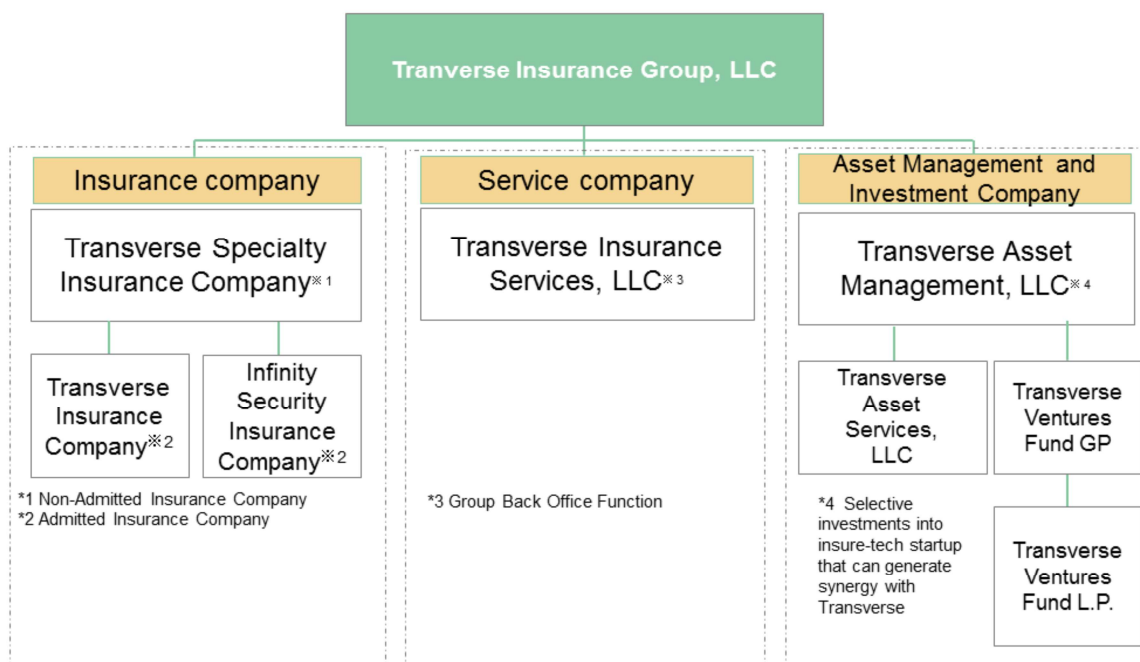
MGA Premium written by Fronting Companies

(B. US\$)





- The fronting market with its flexible capabilities is expanding rapidly in line with continued risk diversification.
- Whilst premium written by fronting companies is still small (US\$8Bil) compared to the overall size of the market, there is high potential for growth.

[Reference] Structure of the Transverse Group



[Reference] Transverse senior management

- Transverse's management holds unique expertise and extensive contacts in the U.S. MGA market.
- Committed to continue managing the company post-acquisition.

Senior Management		Background
Erik Matson Chairman and CEO		<ul style="list-style-type: none">• Co-founder• 30 years of experience in the (re)insurance industry. Former President of AIG Americas (SME/all commercial lines) including Lexington Program Division. He has extensive network in the U.S. MGA market.
David Paulsson President		<ul style="list-style-type: none">• Co-founder• 17 years of experience at Alternative-investment companies (Paragon Outcomes, Weston Capital, MayerCap, etc.)• Founded Cedilla Capital in 2015, an investment and advisory firm.