MS&AD Holdings Conference Call (August 10, 2022)

- Acquisition Agreement on Transverse Insurance Group, LLC,

a Fronting Insurance Company in the US MGA Market -

Q&A Summary

Below is a summary of the Q&A session held on August 10, 2022.

The following abbreviations of company names are used in this document.

MS Amlin: Sum of business segments including AUL (MS Amlin Underwriting Limited), AAG (MS Amlin AG), AISE (MS Amlin Insurance SE), ACS (MS Amlin Corporate Services Limited)

Transverse: Transverse Insurance Group, LLC

Q1: I understand that Transverse is a fronting company under a capital-light model that does not take risks in principle(or takes a certain amount of risk). How much risk do you expect to retain and how much underwriting profit do you expect against the gross written premiums of $2 billion in 2025? Also, when a fronting company becomes a member of your Group, can the relationships with the existing business partners or clients be affected? For example, if there are any transactions with reinsurance companies outside your Group that may be affected, please let us know.

A1: The current level of risk retention at Transverse is no more than 10%, and we expect to maintain this level in fiscal 2025.

Rather than expanding the risk retention at Transverse itself, we are considering group synergies such as expanding transactions with MGAs which have a good portfolio and underwriting their reinsurance through MSMM, AUL and AAG, as described on page 12 of the handouts. We have not factored this ripple effect into our current earnings plan, but we would like to use Transverse as a platform to develop transactions with MGAs having a good portfolio and expand group synergies.

We think that joining our Group will basically have no negative impact on reinsurance transactions. When our Group enters this business area with the acquisition of Transverse, we will continue to respect Transverse’s existing reinsurance transaction policy and make reinsurance arrangements in accordance with its retention/ceding policy, as well as each reinsurer's risk appetite, so we do not expect any negative impact on Transverse’s existing business relationships with reinsurance companies.

Q2: After this acquisition, what are the areas that are lacking and what is their scale in your North American business, including Canada?

A2: As of 2025, Transverse is expected to contribute a little less than 10 billion yen to profits, and we will continue to build up various synergies. However, we believe that there are still many opportunities for business investment and profit opportunities in the North American region because of the size of the market, so we will continue to keep a close eye on it.

Q3: Regarding the revenue structure, is it correct to understand that approximately 2% to 3% of gross written premiums are booked as fronting fees? Also, are these fees a one-time or recurring item?

A3: The fronting fee level averages around 5%. A fronting fee is charged against the premiums handled. The term of insurance coverage is usually one year, and in this revenue structure, each renewal brings a fronting fee as a certain percentage of premiums.

Q4: Regarding the earn-out clause, what percentage of the amount above the profit plan on page 9 of the handouts will be paid, according to the contract? Please also let us know how you will respond if the profit is below the plan. Also, is there a specific period while the earn-out clause will be applied?

A4: According to the contract, there will be no payment at a level to be reported on, unless there is a substantial excess over the conservative estimate of Transverse's business plan that we made. We have a deferred earn-out clause for a conservative business plan, so there is no condition of imposing a negative penalty if the profit falls below the plan. The earn-out clause will be applied until fiscal 2025. Due to Non Disclosure Agreement, we will refrain from disclosing details.

Q5: Regarding the growth outlook of Transverse described on page 9 of the handouts, you say that you have a high degree of certainty for fiscal 2022 and fiscal 2023, but could you be more specific about the growth prospects up to fiscal 2025? Also, you said that the earn-out clause would not be applied if the conservatively estimated plan was not exceeded. Is the plan described on page 9 of the handouts conservative?

A5: Year-on-year premium growth in fiscal 2024 and 2025 is based on an average MGA market growth rate of around 15%. We think we can achieve this reasonably by increasing premiums from existing policies, increasing rates, and improving Transverse's competitive advantage. The outlook on page 9 of the handouts is a conservative estimate made by us. If this figure will not be significantly exceeded, there will be no payment at a level to be reported on.

Q6: It seems to me that the percentage of goodwill included in the acquisition price is large. There is no problem if the profit is in line with the outlook, but the goodwill impairment loss has occurred at MS Amlin. Please tell us about the appropriateness of goodwill and your internal assessment of this M&A.

A6: There have been internal discussions about the amount of goodwill. Transverse is three years old, and our company is buying its future growth. At first glance, the goodwill seems to be large, but we expect it to be highly achievable by around 2025, and we will also be adding in various synergies that we have not taken into consideration at this time. Through the successful use of Transverse, we will build up its profit contribution to our Group, while avoiding the impairment of goodwill, and we expect it will move in that direction.

Q7: What type of shareholder is the seller, Virgo Transverse Core LLC?

A7: It is a private equity fund established by an investment fund called Virgo.

Q8: On page 7 of the handouts, strength 3 is indicated as “selective retention of profitable risks.” What are these risks?

A8: Retention of profitable risks means holding the risks that Transverse wants to retain in light of its risk appetite. For example, among the programs where Transverse is engaged as a fronting company, there are transactions dealing with natural catastrophe risks. However, according to Transverse's risk appetite, it should not retain natural catastrophe risks in principle, so it's holding profitable risks other than natural catastrophes. These include property, liability, workers' compensation, and automobiles.

Q9: I think there were media reports in the past that Transverse had tried to IPO through a SPAC, using a blank check company called Lakeview. Is it correct to understand that this plan is now gone? Or are you thinking of using a SPAC to merge with someone else or something like that? Please tell us how it is currently handled.

A9: As for Transverse, there is no listing plan using a SPAC. We will check and get back to you regarding the media reports.

[Supplementary explanation]
As part of its asset management, Transverse invests in VCs and SPACs, and in May 2021 and January/February 2022, it tried to invest in SPACs using Lakeview Acquisition, which it established as a founder, but gave up because the market environment for SPAC investments was bad and funds could not be raised. That was not an attempt to list Transverse itself, but to support the listing of other unlisted companies and to gain listing profits.

Q10: Could you give us some specific examples of the areas in which the deals expected in 2022 and onward are centered? Also, what are the strengths and characteristics of Transverse?

A10: Transverse currently has 14 transaction programs with 12 MGAs and intends to expand them in the future. Areas, such as regions or lines, are diverse, and underwriting is not centered on any specific region or line.

Transverse's strength is that it shares risks with MGAs as well. An MGA that is confident in underwriting will not hesitate to retain a risk portion of the insurance program it has designed, thus allowing the MGA, Transverse and the reinsurer to share the same risks and returns. Also, carefully selecting MGAs to do business with and communicating to them what reinsurance companies expect is another source of trust from reinsurance companies. The operation of matching these MGAs with reinsurers is a strength of Transverse.

Q11: You said that you had been discussing the acquisition for about a year. Could you tell us whether the deal was exclusive or why your company was chosen among various options? Also, regarding the P/E ratio of 12, can you please tell us if this index is the valuation that should be looked at the moment?

A11: The process behind the acquisition was not a competitive bid. Johan Slabbert, AUL's CEO, and Eric Matson, Transverse's CEO, were old friends from their time at AIG, so Johan got contacted first, which led to a negotiation. We view the P/E ratio of 12 as reasonable compared to the valuations of other MGAs and fronting companies, but above all, we assess the valuation internally based on the discounted present value of future cash flows, and we also see it as reasonable in terms of ROI.

SQ1: Is it your company's view that the valuation does not include much of the sort of premium that comes from taking control, for example, but that it includes a naturally-looking premium based on a three- to four-year plan, and that you did not make this acquisition at an excessively high price?

SA1: Your understanding is correct. In retrospect, I think we will be able to say that it was a reasonable deal, because we can expect to achieve immediate growth and expand group synergies by freely using this platform to expand our business in the United States.

SQ2: Was the relationship they had with Mr. Slabbert the main reason they chose your company, after all?

SA2: Since our Group has almost no presence in the non-Japanese direct insurance business in the U.S. and there is no competition within the Group, Transverse has an opportunity to efficiently expand its business by joining our Group while adhering to the Group's appetite and policies. In addition, given the prospect of a higher rating and the enjoyment of various synergies within the Group, I heard that they considered our company to be the most suitable partner, also taking into account our company's Japanese management style aimed at the long-term stability.

Q12: I think that the growth toward 2025 will be based on a combination of 2 factors: overall growth in the fronting market and the growth of Transverse's share. Could you tell us how much you expect the fronting market to grow toward 2025?

A12: As for the future expansion of the fronting market, first of all, the MGA market will continue to expand. On the other hand, there are many reinsurance companies and ILS funds that want to increase their access to profitable direct policies instead of regular reinsurance transactions. We expect transaction needs to continue to grow for MGAs that require underwriting capacity and for fronting companies that broker reinsurance companies and ILS funds that want to provide capacity.

Q13: I understand that the profit plan itself is very conservative, but I think it's a business model with a very high operating leverage where profits grow as the top line grows. What is the relationship between the top-line growth and costs?

A13: In terms of the top line and costs, the normal expansion of the business requires internal infrastructure for internal management, but we can utilize the infrastructure of the existing management companies under our U.S. subsidiaries, so we expect to be able to grow the top line without much additional cost.

Q14: What are the variables factors to achieve the profit plan of USD 30 million for fiscal 2023 and USD

60 million for fiscal 2025? Not to mention the growth rate of the market, the speed of development, the volatility of the commission rates, and the hardening of the market can be considered. You said that you made a conservative profit plan for 2023 to 2025. Could you tell us more about these variables?

A14: The hardening of the market can be considered as one of the factors that could cause the profit to exceed the plan. Rates are still hardening in some lines, and depending on the capacity of the reinsurance market could further harden the rates, which would be a positive factor for the profit. In addition, if the number of MGAs increases in the future, the fronting market will expand accordingly, which will lead to an upswing in Transverse's revenue structure. As the level of fronting fees is stable, we don't expect this to rise or fall significantly. On the other hand, since Transverse does not retain much risks according to its business model, we do not think that underwriting profits will lead to an increase in the bottom line. In the future, we expect an increase in Transverse's fronting fee income and an increase in underwriting profits among group companies as a result of the acquisition of a variety of profitable contracts by Transverse as the Group's platform.

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