

Acquisition of HCC Insurance Holdings, Inc. by Tokio Marine Holdings, Inc. Call - Second Call

Company Participants

- Christopher J. B. Williams
- Kunihiro Fujii
- Masashi Oba
- Shiro Sasaki
- Tsuyoshi Nagano
- Unverified Participant

Other Participants

- Amit Kumar

MANAGEMENT DISCUSSION SECTION

Operator

Thank you so much for waiting. Ladies and gentlemen. Thank you so much for participating this Joint Conference Call of the Tokio Marine Holdings and HCC. During the presentation all the lines other than the speakers' line will be put on mute. Please understand that we won't be able to hear your voice even if you speak to the phone.

Now, I'd like to begin the explanation from Tokio Marine Holdings. Mr. Sasaki, would you please start.

Shiro Sasaki {BIO 19269575 <GO>}

Let us begin the conference call regarding the acquisition of HCC, the American specialty insurance group, which was announced today. I'd like to facilitate this conference call. My name is Sasaki from Corporate Communications and Investor Relations Group, Corporate Planning Department of Tokio Marine Holdings. When we go through the presentation we are going to use the material called acquisition of HCC - significant international expansion by Tokio Marine which has been uploaded to the company's homepage. So please prepare the material in front of you and please turn to page two.

On page two, we have cautionary statements regarding forward-looking statements. Additional important information about the proposed merger and where to find it, and participants in solicitation. And prior to this conference call, please agree to the contents on this page.

Without further ado, I'd like to introduce our speakers for this conference call. First, Mr. Tsuyoshi Nagano, President and Representative Director. Mr. Masashi Oba, Executive Vice President and Representative Director. Mr. Kunihiko Fujii, Senior Managing Director and Mr. Hirokazu Fujita, Managing Director. And today for this conference call we have also Mr. Christopher J. B. Williams, CEO of HCC participating from the U.S. today.

For this conference call, we have the simultaneous interpretation within Japanese and English. In line with the presentation material, Mr. Nagano is going to go through the presentation for about 25 minutes followed by the Q&A session. We plan to finish this conference call after an hour, which is 11 PM, Japan Time, at the latest 11:10 PM, Japan Time. We may start receiving questions past 11 PM, Japan Time. We appreciate your understanding in advance.

Now, Mr. Nagano, opening comments please.

Tsuyoshi Nagano {BIO 16141096 <GO>}

Good evening, ladies and gentlemen. Thank you for joining us on this historic day. I am pleased to announce the acquisition of HCC Insurance Holdings, a world leading specialty insurer with operations in the United States and Europe. The transaction has been unanimously approved by both the Board of Directors of HCC and Tokio Marine.

As a global insurance group, Tokio Marine has been pursuing continued expansion of its international business in size and profits as a driving force for growth strategy. This acquisition accelerates the growth in scale and profit of our international business and significantly strengthens our presence in the United States. Complementing the solid foundation, we have in the whole market, Japan.

Combined with a three top-rated specialty group companies, Kiln, Philly, and Delphi. The acquisition solidifies Tokio Marine's standing as a truly global insurer with premier specialty franchises. Under the leadership of its experienced management team, HCC has a proven track record of disciplined growth and best-in-class underwriting profitability.

Having met the management team, I'm convinced that there is a strong cultural fit between our companies. With complementary strength, I am truly excited by the business prospect, which we can create jointly in the future across the globe.

Now, it is my great pleasure to introduce Chris Williams, CEO of HCC who has very kindly joined us today by phone in the early hours from Houston. Chris has been the CEO of HCC since 2012 and have exceptional experience in the insurance industry. His superb leadership and clear vision has made HCC one of the best property and casualty companies in the United States. We are delighted to welcome this remarkable company to the Tokio Marine Group.

Chris, it is great to have you with us today. Would you please start by providing a brief introduction of HCC to the audience?

Christopher J. B. Williams {BIO 3491995 <GO>}

Thank you, Nick (sic) [Tsuyoshi]. Good morning, everyone. I'm pleased to be joining Tokio Marine with this exciting announcement for both of our companies. HCC is a leading specialty insurer with a focus on generating best-in-class results regardless of market cycles.

Over a number of years, we've purposely built portfolio of over 100 diversified, largely non-correlated lines of business, each with a common goal generating consistent top-tier underwriting profits. The vast majority of our lines of business are considered specialty lines requiring specific underwriting skills and judgment as we believe these lines allow us to differentiate ourselves and in turn generate superior profits. This intense underwriting discipline and diversification has resulted in an average combined ratio in the mid-80%s for the past 10 years with minimum volatility around the results year after year.

Nick (6:58) will take you through our various businesses in a moment. This transaction provides HCC with a worldwide footprint and the financial foundation on which to compete with larger insurers. We're excited about the opportunities it brings to our businesses, and in particular to our employees. For me personally, I'm very excited to be continuing as HCC's CEO and our existing management team has enthusiastically agreed to work with me in their current roles.

With that, I'll turn it back over to Nick (7:42). Thank you.

Unverified Participant

Now, let me speak in Japanese from here onwards. I'd like to explain the acquisition of HCC. Please turn to page three of the presentation material. There is a table of content, I will explain the overview, key strength of HCC, followed by strategic rationale of this transaction.

Please turn to page four. HCC is the world leading specialty insurance group who has the technical expertise, such as sophisticated underwriting capabilities. For your information, specialty insurance is not a well known general term in Japan, but it means a type of insurance product that often covers risks that are not covered by standard insurance policy and requires specific underwriting capabilities and technical expertise as we can see at the bottom of this page.

It's highly profitable since it requires high level of expertise and it's a growing area among corporate insurance lines. HCC's business portfolio is diverse and highly profitable that has proven to be highly profitable, growing, stable, and sound over the long-term over its peers. I will explain the key strengths of HCC in more detail later on.

There are mainly three rationale of this transaction. First one is to establish more solid group business foundation, which you might be - is the most critical rationale behind this transaction. Second one, is to expand the scale and profitability of international business by strengthening business foundation furthermore. Third one is to endeavor into new

businesses and expand earnings by complementing strength of each other, meaning to generate synergies. I will come back to those points in more details later on.

Please turn to page six. Let me explain this transactional structure and the key terms. TMNF acquired 100% of HCC shares, which are listed on New York Stock Exchange in cash to make it a wholly-owned subsidiary.

Acquisition price is \$78 per share and a total consideration will be about \$7.5 billion or around ¥940 billion at the exchange rate of ¥125 to the dollar. Acquisition price was determined based on HCC's high profitability, growth potential, and stability and also on the intrinsic value that we prudently evaluated. Price to book of this transaction is 1.9 times based on the book value per share as of the end of March 2015.

It means premium we have put on is around 35% to the HCCs other share price over the past one month. Final evaluation will be decided after the accounting treatment at the time of the closing, but the goodwill associated with this transaction is now estimated to be around maximum ¥560 billion. We plan to finance this transaction by cash on hand in our group together with external funding and we do not raise equity for this transaction.

This acquisition is subject to approval at general shareholders meeting of HCC and from the regulators, and upon receiving approval from those parties, we plan to proceed with necessary procedures immediately and we plan to complete the transaction in October-December quarter of 2015.

Please turn to page eight. On this slide we are explaining the key strengths of HCC. HCC is specialized in the area of specialty insurance, where they have the leading edge, such as sophisticated underwriting capabilities, and have established a strong leading position, as the market leader in many of the areas, where they participate.

Specifically speaking they're selling over 100 classes of largely non-correlated business lines of A&H, D&O, aviation, surety and credit, agriculture and so on. At the same time the mix of businesses, which are relatively immune to general rate cycle or P&C business, such as A&H is high and exposure to super large catastrophes is also limited.

As I have outlined HCC's business portfolio is highly profitable and diversified at the same time. As a result they've achieved profitability, growth, stability, and soundness which are superior to those of peers consistently.

They have been highly evaluated as a top in class American specialty insurance group.

Please turn to page nine. On this slide, I will explain the overview of HCC. HCC was founded in 1974, and headquartered in Houston, Texas of the United States. It's a world-leading specialty insurer, operating worldwide, not only in the U.S., but also various countries in the world, such as UK, Spain and Ireland.

FINAL

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Under the leadership of well experienced management with good track record, we have realized consistent high profitability, growth, stability and soundness consistently, since its establishment in 1974. Total number of employees is around 2,500.

Major business segments are mainly three areas, North America P&C, accident & health, and international. Specific products they distribute in each of the three business segments are as shown on this page. Earnings mix of three businesses is also shown in the pie chart, on the right-hand side at the bottom.

Please turn to page 10. From this page onwards, I will elaborate on the key strengths of HCC. First strength is diverse and highly profitable portfolio. As you can see on this page, they sell more than 100 classes of specifically products. As you can see in the pie chart on the left, that's A&H, B&O, aviation, surety and credit, agriculture and so on.

The key strength here is the fact that they have low correlation to each other. The second key strength is the fact that the mix of businesses that are immune to the pricing cycle of general P&C represents 58%, the majority as we can see in the left yellow box.

The third key strength as we can see in the graph on the right hand side is the limited exposure to super large catastrophes of the scale - of the risk that happens once in 250 years, which is only 2% of their net asset value. As a result of these key strengths, HCC's business portfolio is highly profitable and diverse.

Please turn to page 11. This shows the track record of net earnings of HCC over the past 10 years. Because of the stable underwriting expertise and (16:58) industry, low expense ratio, they have achieved disciplined growth of average 11.1% over the past 10 years.

Please turn to page 12. Four graphs here show combined ratio over the past one year, three years, five years and 10 years respectively compared with that of other specialty companies that HCC benchmarks. As you can see, in any time horizon, HCC has a very good underwriting track record, which is consistently way better than their peers.

Please turn to page 13. This page shows the average combined ratio over the past 10 years and its variance or standard deviation compared with those of peers. The higher on the vertical axis is the lower combined ratio, in other words, higher profitability.

(18:17) axis is the variation of combined ratio or standard deviation. As it goes more right, the lower valuation, in other words, more stable in business. Therefore, the space in the right hand side corner represents the most excellent company where HCC is exactly (18:37).

I have already explained the low combined ratio of HCC compared with its peers on page 12 already, but it has also the lowest valuation of combined ratio too. It shows that they are maintaining stable underwriting profit.

Please turn to page 14. This graph shows the CAGR of tangible net asset per share including dividend of major P&C companies listed in the U.S. market for the past 10 years. This indicator is a straight forward way to show corporate total value creation, and HCC is second in rank at 15.4%.

When you look at the past 15 years, HCC has ranked number one in the industry, which reflects how we have realized top of class corporate value creation over a long period of time.

Please turn to page 16 now. From here on, I will explain the strategic rationale of this transaction. As a global insurance group, we have been positioning the international insurance business as the entire group's growth driver in order to grow our size and earnings.

By reinforcing organic growth together with the promotion of strategic M&As in both developed and emerging markets, we have been pursuing opportunities to grow globally and to establish a diversified portfolio. Under this strategy, we have realized substantial earnings growth.

In developed markets, we have acquired Kiln in the UK and Philadelphia in the U.S. and Delphi in the U.S. For emerging countries, we have been active in building out P&C and life insurance businesses in the Southeast Asian region as well as in Latin America.

In order to realize further growth of international insurance businesses and from a capital efficiency point of view, we will continue to consider premium acquisitions - we have constantly been considering premium acquisition deals.

Next, please turn to page 17. To be more specific, we have considered quality companies as shown on the upper left hand side, which match our acquisition principles. In other words, companies which have management strength and compatibility, a robust business model and high growth potential. During this process, we regarded HCC as the most promising acquisition target as it was the best company in the U.S. specialty insurance field. We were in talks with HCC management and others, I would like to say with conviction that HCC is a partner which best fits all three principals and that is why we have reached an agreement for the acquisition.

Please turn to page 18. As explained earlier, in addition to HCC having a diversified portfolio, the Tokio Marine Group's existing business and HCC's business complements one another. And the trust there is limited overlap, that Tokio Marine Group's portfolio will be increasingly diversified, leading to better capital efficiency and sustainable profit growth. Ultimately, we believe that an increasingly solid group business foundation can be realized.

Please turn to page 19. This page shows the 2015 forecast for the Tokio Marine Group and the forecast for HCC on a purely added basis, estimating both acquisition impact. Adjusted ROE will increase by 1.5%. Adjusted net income will increase from ¥327 billion to ¥370 billion and adjusted EPS will rise by 12%.

So, as we explained earlier, this transaction is likely to close in the October-December quarter this year. So, HCC's full-year consolidation through our group will start from fiscal 2016.

Now, please turn to page 20. The numbers shown on this page has also been derived by simply adding our group's 2015 full-year forecast with HCC. However, post acquisition, insurance premium fees - insurance premiums from the international business will increase from approximately 32% pre-acquisition to about 38%. As for business profits, the international business' contribution will increase from 38% premerger to about 46%.

Now, please turn to page 21. Since 2007, three major acquisitions were made. All three companies, Kiln, Philadelphia and Delphi are all leading premium insurance companies in the specialty insurance field. As you can see on this slide, they all have realized substantial growth even after they have become a part of our group. With the addition of HCC, we will be able to solidify Tokio Marine's standing as a truly global insurer with premier specialty insurance franchises, which we have focused on in the Western market to-date.

Please turn to page 22. We will be expanding into new lines of business in the specialty insurance field, such as A&H or D&O and agriculture insurance and others, which we haven't entered in an earnest manner and international market before. However, as you could see on this slide's ranking, we will be able to establish market leading positions in each of the lines.

Please turn to page 23. The last part I'd like to cover regarding the strategic rational of this acquisition is creating synergies by leveraging the strengths of the two companies and further earnings growth. We would like to leverage HCC's sophisticated underwriting expertise in diverse classes of business with Tokio Marine's global footprint, financial strengths, underwriting capacity, and investment expertise to promote new businesses and measures.

First of all, by leveraging Tokio Marine's global footprint which covers not only Japan but developed countries and emerging countries, we would like to sell HCC's mainstay products, such as A&H and D&O insurance and other.

Secondly, by leveraging Tokio Marine's financial strengths, we will engage in efforts to expand HCC's underwriting capacity and optimize outward reinsurance treaty programs.

Finally, we will utilize Delphi's investment expertise to enhance HCC's investment return. Of course we would like to make efforts so as to generate synergies other than these on a group wide basis.

That concludes my presentation. I would like to thank you for your kind attention. Now we would like to take any questions that you may have. Thank you very much.

Q&A

Operator

We would like to now move on to Q&A. I would like to explain how we're going to take your questions. We would like to take the first question JBW being confirmed. (29:06) Would you please start with your question?

Hi. Good evening and good morning and congratulations on the deal. The first question is as you look forward are there are others areas in the U.S. market where you could potentially see synergies that would support incremental acquisitions and then I'm curious to what extent HCC could access the platform for any of those future deals?

Your question is being translated.

Thank you.

Your question is being translated still.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Thank you so much for your question. My name is Nagano, the President of Tokio Marine Holdings. To your first question. Other than HCC transaction, are there any M&A possibilities, in what area, for example in the U.S., are there potential - further potential M&A acquisitions? As we've explained earlier, for a long time, we have listed up the acquisition candidates and we had studied that list many times repeatedly and we tried to find a company that matches the chemistry of the company. And from the perspective of fitness, I think HCC is the best fit with a second to none. We won't be to find any other deal as excellent as HCC transaction.

So other possibilities, for the time being, I don't think there will be any additional transaction or opportunity like this. First priority is to focus on HCC transaction. However, as you may know, in the past HCC has repeated bolt-on acquisition and they have prospered through repeated bolt-on acquisitions in the history.

So going forward there are organic bolt-on M&A's. It can be possible, it can happen as possibilities. And because of that we'll be able to take on more diversified appetite. It is the appetite to diversify the business portfolio in the United States or enhance the stability of our business in the United States. And HCC will be utilized as a base for us to realize those objectives.

Q - Operator

Thank you very much. After that, just a second follow up if I could. In this low interest rate environment part of HCC's investment return has been quite satisfactory in what's a challenging environment. So I am curious how much yield benefit you're currently thinking about that it might be able to be derived from the Delphi synergies on the investment management side, and thank you very much.

Your question is being translated.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

Thank you very much for your follow on question. This is Nagano again with regards to your question we've been - Mr. Fujii, Senior Managing Director who is deeply involved with Delphi's operation will answer your question.

A - Kunihiro Fujii {BIO 17943918 <GO>}

Hi. My name is Fujii. I am in-charge of international operations. With regards to the investment management synergies, HCC's investment management has a rather conservative portfolio, but Delphi expertise are very advanced. So we believe that we can generate investment management synergies as well. And this was explained in the presentation today. So this is what we would like first look upon.

Q - Operator

Thank you very much.

Let's move to the next question. Mr. Greenhill (34:23), would you please start with your question?

Yeah, sure. Thanks. Thanks very much and thanks for the call. I just want - the indicated 9.3% post-deal ROE is above the medium-term target, will we'll be revisiting that target as a result of this deal? And you mentioned, it's obviously nice to hear that there'd be no equity financing. You mentioned cash and external financing. I just wonder if this is an opportunity to accelerate the disposal of marketable securities on the balance sheet as a way of funding this deal rather than having to raise debt for instance?

Your question is being translated.

Well, I would like to hand over to Oba, the Executive Vice President.

A - Masashi Oba {BIO 16818076 <GO>}

It's Oba, the Executive Vice President. So as you can see on page 19, after this transaction, ROE will be increased to 9.3%, that's our estimate after this transaction and we have announced our medium-term management plan at the end of May and that assumes around 9% in 2017, and that did not assume this transaction. And because of this acquisition of HCC, are we going to re-visit that medium-term management plan or target in that plan.

Well, we are off to a good start in this medium-term management plan. Therefore, at this point in time, we do not have any plan to review and revisit the medium-term management plan. Of course, going forward, if the environment changes on the ad hoc basis, as necessity arises, we are going to review the plan.

And your second question relating to the financing needs. We are not going to do equity financing, but are we going to sell - accelerate the sale of the business related equities? Are we going to sell more business related equities to fund this transaction?

To that question, and I'd say, that in the mid-term management plan, every year, we have a plan to sell more than ¥100 billion business related equities per year. And we like to achieve the target in this plan. So for the sake of this transaction, we don't think we're going to change this plan because of this acquisition.

Of course going forward, if Japanese environment changes then we may have to sell or we'll be able to sell more business related equities depending on the situation.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

May I - I'm Tsuyoshi Nagano the president again. To your first question, let me give you an additional comment. The numbers in the mid-term plan, are we going to change those numbers because of this transaction? As Mr. Oba mentioned, in my opinion, we'd like to give you the status of the post merger integration. In the plan period, we'd like to review flexibly by reviewing the situation of the post merger integration.

Operator

The next question is Mr. Chard from Albert Field (39:23). Please go ahead.

Good morning, good evening again. Just a couple of questions. I did hear you say synergies but just wanted to find out what they were, number one. Number two, I know the slide says 125 Japanese yen, the yen is little bit lower now. So, just wanted to find out if there are any hedges in place for a possible dollar strengthening because this is such a large U.S. deal?

Number three is, slide 28 focuses on the Munis and the MSBs being a large percentage of the asset allocation for HCC. Just wanted to find out if you had any concerns about that with interest rates increasing? And the last one is, the Japanese FSA. Is that the last approval that you need, so you need all the approvals before looking far for that? Thank you.

Your questions are now being translated into Japanese.

So, I think that was four questions. Thank you very much. First of all, with regards to specific examples of synergies Mr. Fujii, the Senior Managing Director will answer that question. With regards to the standard dollar and what we think about hedging, Mr. Oba will explain and with regards to your third question, with respect to assets, such as Munis and MSBs, and concerned - whether we have concerns around holding them - whether we have concerns around it, I would like to ask Chris to answer that question. With regards to your fourth question about - if the FSA is the last entity to make the approval, that is correct. So I would like to first transfer - pass it over to Mr. Fujii

A - Kunihiro Fujii {BIO 17943918 <GO>}

Hello, this is Fujii, in charge of International Business. Please refer to page 23 where I have explained about synergies. So there are three large areas where we are expecting synergies. The first is related to revenue synergies, as you can see here people like to leverage our complementary strengths, so that we can generate revenue synergies.

Secondly is capital synergies. If you see Tokio Marine, both have strong financials. So by coming together we believe that from a capital point of view, we could pursue higher grounds. So third area is investment synergies, as explained earlier, basically we're expecting investment synergies, we did this at Delphi and Philadelphia as well. So we are going to expect this with HCC as well. And cost synergy-wise, we hardly have overlapped businesses. We will be able to expect a certain level of cost synergies, but we are focusing more on growth strategies. That concludes my remarks.

A - Masashi Oba {BIO 16818076 <GO>}

So this is Oba speaking. With respect to your second question, with regards to the money required for the transaction within the group yen money as well as dollar-denominated investments are going to be made. That's the majority of our funding. However, we'll be funding yen-denominated funding externally as well as dollar-denominated funding. But we are not going to do any equity financing.

You were talking about FX hedging, but - for the yen-denominated portion we are not able to forecast how the currency market is going trend, so we would like consider if hedging is required or necessary.

The closing of the transaction is likely to happen between the October-December period. So if we were to hedge, we will like to do it in phases?

A - Operator

So, Chris can you answer the third question.

A - Christopher J. B. Williams {BIO 3491995 <GO>}

Certainly. Excuse me. Regard to the investment portfolio, we are very satisfied with where we sit. Our portfolio is matched to our liabilities. We would not be forced to sell into a raising interest rate environment. And in fact, we very recently did a sensitivity testing to this and we're very pleased with the results of that, and in fact we would welcome a raising interest rate environment. So the short answer is we are quite comfortable with where we sit.

Q - Operator

Great. Thank you, guys. Congratulations again.

Thank you very much. I think there is no question being raised so let me repeat . We'd like to move to the next question. (47:00) from Macquarie Capital.

Q - Amit Kumar {BIO 19777341 <GO>}

Hey, it's Amit Kumar from Macquarie. Just one quick question. Can you sort of give some background on how this acquisition sort of came together, and this is for Tokio Marine. Were you evaluating several companies and HCC emerged at the top of the list or was HCC always in your site and finally things came together at this juncture, maybe just give some background as to how it led you to HCC? Thanks.

Operator

Your question is being translated.

A - Tsuyoshi Nagano {BIO 16141096 <GO>}

It's Nagano. Thank you so much for your question. Let me explain the background of this transaction, of this deal. HCC is a world leading accident specialty company, which is a well known company in the world. So for a long time, we have been recognizing this company as an excellent company. And I take every opportunity I have to talk about the screening process of the company for the M&A's. And we have a list of candidates of companies and we have been monitoring business trends of those candidates and HCC has been one of them. Hence there is some confidentiality as to the specific background of this transaction. So let me refrain from talking about specifics, but let me share with you some of the information. We have been negotiating with HCC since a few month ago specifically and we made a proposal to them.

We went to them and made a proposal to them. And when we make an acquisition, always we have the acquisition principles – basic acquisition principles, sound business fundamentals. We can share the value in excellent management and a solid business model. And high potential growth for the future and high profitability. So those are the basic acquisition principles, and in a word, HCC means all of those conditions, all of those principles. And further more in other words, we really wanted to partner with the management of HCC, that's the most critical point for us to make this acquisition decision. And HCC was a type of the company that we wanted to definitely work with. And based upon their sound business model, they have excellent profitability, stability, growth potential and the soundness. And they've been achieving those over the years.

So that caught our eye and if we partner with them, with those, we will be able to enhance the capital efficiency and enhance the stability of our group. And we'll be able to generate synergies with HCC. Those were the factors that led to this decision.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. Thanks. Thanks for background and good luck for the future.

Operator

The closing time is approaching. The next person will be the last person. From (51:02) please.

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Sorry. I am participating from Tokio. I have two questions. First, with regards to HCC's acquisition strategy going forward, what are your thoughts? Are you going to use Tokio Marine's capital or are you going to use the liquidity that HCC has.

Second question, if you have any updates through your medium-term management plan, I would like to know, ¥350 billion to ¥400 billion and it isn't just net income, is your recurring guidance but are there any changes? And CAGR of 8% was the target rate for the international business, but has there been any changes to that as well?

Thank you for your question. With regards to your first question. So HCC has continued to do bolt-on acquisitions in the past. So what are their future strategies? If they're going to make any acquisitions or are they going to use Tokio Marine's money or are they going to use their own liquidity?

Next, are you going to do any updates to the medium-term management plan?

So with regards to your second question, if HCC were to diversify their business portfolio going forward, and pursue new risk appetite by acquiring new companies or acquire a distributor, of course that is one of the possibilities that can be considered.

In principal, their excess capital will be funding the deal. Of course, it depends on the scale and size of the deal or transaction, but they will be doing it within their own capital. That's what we assume. That is my response to your first question. Did you understand that?

Yes, very well.

With regards to an update to our medium-term management plan, we actually received the similar question earlier and this is what I said. So ¥350 billion to ¥400 billion, this target. We have been assuming some M&A transactions as part of this guidance, but the assumption of the deal size was not as significant. So first of all, we would like to focus on post merger integration. And we would like to see how business is promoted, and we would like to revise the plan if necessary, accordingly in a flexible manner.

Thank you very much. I understood your comment very well.

If there are no questions, I'd like to hand this over to Mr. Sasaki

A - Shiro Sasaki {BIO 19269575 <GO>}

Now, the finishing time has come. So we would like to close the conference call today. Thank you so much for your participation. If you have follow-up questions, please do not hesitate to contact IR group of the company. Thank you so much for your participation.

Operator

This concludes the conference call today. Thank you so much for staying on the call for long time. Thank you. Please cut your line.

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