AXIS Capital Holdings Ltd. and PartnerRe Ltd. Merger Call

Company Participants

- Albert A. Benchimol
- David K. Zwiener
- Jean-Paul L. Montupet
- Joseph C. Henry
- Michael A. Butt
- Richard T. Gieryn
- William R. Babcock

Other Participants

- Amit Kumar
- Brian Robert Meredith
- Charles J. Sebaski
- Cliff H. Gallant
- Dan Farrell
- Jay H. Gelb
- Josh D. Shanker
- Kai Pan
- Meyer Shields
- Ryan Byrnes
- Sarah E. DeWitt
- Vinay Misquith

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the AXIS Capital Investor Conference Call. All participants will be in listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded.

I would now like to turn the conference over to Rick Gieryn. Mr. Gieryn, please go ahead.

Richard T. Gieryn {BIO 4699487 <GO>}

Thank you, operator. Good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the merger between AXIS Capital and PartnerRE. The associated press release was issued yesterday evening. We set aside an hour for today's call which is also available as an audio webcast through both the AXIS Capital and PartnerRE websites. A replay of the telephone conference will be available by dialing 877-344-7529 in the U.S., international number is 412-317-0088. And the conference code for both replay dial-in numbers is 10059806.

On today's call are Michael Butt, Chairman of the board of AXIS Capital; Jean-Paul Montupet, Chairman of the board of PartnerRE; Albert Benchimol, President and CEO of AXIS Capital; David Zwiener, Interim CEO of PartnerRE; Joseph Henry, CFO of AXIS Capital; and Bill Babcock, PartnerRe's CFO.

I will remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts may be forward-looking statements within the meaning of the U.S. federal securities laws. These forward-looking statements which are subject to risks, uncertainties and assumptions about PartnerRE and AXIS may include projections of their respective future financial performance, their respective anticipated growth strategies and anticipated trends in their respective businesses.

These statements are only predictions based on current expectations and projections about future events. There are important factors that could cause actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including the risk factors set forth in PartnerRe's and AXIS' most recent reports on Form 10-K, Form 10-Q and other documents on file with the SEC and the following factors:

Failure to obtain the approval of shareholders of PartnerRe or AXIS in connection with the proposed transaction; the failure to consummate or delay in consummating the proposed transaction for other reasons; the timing to consummate the proposed transaction; the risk that a condition to closing of the proposed transaction may not be satisfied; the risk that a regulatory approval that may be required for the proposed transaction is delayed, is not obtained, or is obtained subject to the conditions that are not anticipated; AXIS' or PartnerRe's ability to achieve the synergies and value creation contemplated by the proposed transaction; the ability of either PartnerRe or AXIS to effectively integrate their businesses; and the diversion of management time on transaction-related issues.

With that, I'd like to turn the call over to Jean-Paul Montupet.

Jean-Paul L. Montupet {BIO 1453648 <GO>}

Thank you very much, Rick. Good morning, everyone, and thank you for joining us today. As Rick said, I'm pleased to be here today with Michael Butt, Albert Benchimol, David Zwiener and Bill Babcock and Joe Henry.

We are all extremely excited about the truly compelling transaction we announced yesterday and I'm very pleased to be here this morning to share the details with you and answer your questions. The simple fact is that the combination of PartnerRe and AXIS puts together two extremely strong successful organizations, and the combined entity will be one of the world's preeminent specialty insurance and reinsurance companies. We will have a top five market position among reinsurers and a leading position among broker-based reinsurers. We'll have a significant specialty insurance platform with compelling growth prospects across the diversified area of product lines and a strong and growing Life, Accident, and Health franchise.

As you are well aware, in the current competitive market, size, scale and breadth are more important than ever. Although both PartnerRe and AXIS are well positioned on their own, we believe that we will be better positioned to compete and excel in this evolving new global marketplace as a combined entity. In many respects, the transaction accelerates this company's strategy. For PartnerRe, it strengthens our reinsurance franchise and gives us low-risk entry into the primary insurance market as well as Life. For AXIS, this combination elevates its reinsurance business and enables incremental growth in insurance in Accident, and Health.

The financial resources of the combined company will allow us to reach new customers and invest in strategically important growth areas. And the transaction is financially compelling, being meaningfully accretive to both earnings per share and return on equity for both companies, we are expected to have strong cash flows and capital efficiencies to reinvest in its specialty franchises and grow businesses and to return capital to shareholders. This is a unique fit. The two companies mesh well together from a business and financial standpoint, but also from a cultural perspective.

Albert Benchimol has spent many years at PartnerRe, and the management teams know each other well and respect each other immensely. There is a tremendous talent on boards and management teams of both these companies and the combined entity will have a deep bench of smart people making right decisions as the companies turn the page on a new chapter.

As we indicated in our press release, in connection with the transaction, Costas Miranthis stepped down as PartnerRe CEO yesterday. I want to stress the sincere thanks that I and the entire board express to Costas for the exceptional job he has done as CEO. Under his leadership, PartnerRe has enjoyed tremendous success and some of the strongest results in our history. The facts are very straightforward here. Once both boards had determined that Albert will be the CEO of the combined organization, we, along with Costas, felt that it made sense for Costas to step down. We wish him well in his next endeavor.

Without question, we have an extremely capable management team in place as we drive towards the close of the merger. Our board member, David Zwiener, has been appointed Interim CEO of PartnerRe and will guide our company to the completion of the merger. David has a wealth of experience in managing large financial services organization, and he is extremely well prepared to step into this role.

So, with this quick overview, I'll now turn the call to Michael Butt. Albert will give you the specifics on which this is such compelling transaction for both companies, and then David will say a few words. So, Michael?

Michael A. Butt {BIO 1497141 <GO>}

Thank you very much, Jean-Paul, and thank you all for joining us this morning. It's certainly my great pleasure to be here today to discuss this transformative combination. As the AXIS board, we've always been intently focused on addressing the challenges of today's evolving markets and creating value for our shareholders. This merger is a tremendous opportunity for both our companies and one which will benefit our clients, our brokers, our shareholders and our employees.

Over the last 20 years, I've competed with and greatly admired what PartnerRe has achieved and the great franchise it has built in the reinsurance business. These two companies complement each other. And by leveraging their individual strengths, we'll create a global leader in specialty, insurance and reinsurance with the resources, size, products and strategic flexibility to maximize various opportunities and to overcome any challenges in the current market. As the Chairman Emeritus, I am very much looking forward to serving the combined company and working with our talented group of leaders from both of these great organizations.

Now, I'd like to turn the call over to Albert who will discuss the transaction specifics. Albert?

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Michael, and good morning, everyone. First, let me join Jean-Paul and Michael in expressing my excitement about this transformative combination we announced last night. This is truly a merger of equals and represents a tremendous opportunity for our two strong companies to get stronger and better together. We're really looking forward to getting to work.

Now, I'd like to walk you through some of the structural aspects of this merger on slide six. This 100% stock merger of equals is structured as an amalgamation and will create a combined company with a pro forma market capitalization of approximately $11 billion. Per the terms of the agreement, AXIS shareholders will receive one common share, and PartnerRe shareholders will receive 2.18 common shares in the amalgamated company for each share they own. Following the close of the transaction, PartnerRe shareholders will own approximately 51.6% of the amalgamated company, while AXIS shareholders will own approximately 48.4%.

The combined companies' board of directors will have 14 members, consisting of seven AXIS appointees and seven PartnerRe appointees. And as described in the press release, Jean-Paul will serve as the non-executive Chairman, and Michael will continue to serve as Chairman Emeritus. I've worked with both Chairmans over the last several years, and I'm looking very much forward to doing so again. We expect the transaction to close in the second half of 2015, pending shareholder approval and customary regulatory approvals. We believe that we have some of the strongest people in the industry, and as you can see on slide seven, the new management team of the combined companies certainly leverages the deep talent in both organizations. This is a team with whom I'm very familiar. It's also a team with a deep and complementary skill set that will work very well together.

On slide eight, this combination brings together two independently strong companies with a shared focus and similar strengths. The new company will build on the independent track records of excellent value creation, underpinned by underwriting excellence, outstanding service and financial strength underscored by prudent reserving.

On slide nine, you can see that the strategic rationale is highly compelling. The combination of our businesses with nearly $11 billion in total gross premiums provide substantial strategic and marketplace benefits to our company. Upon completion of the merger, P&C reinsurance will comprise about 62% of our business, insurance approximately 24%, and Life, Accident and Health will represent 14%. The two reinsurance businesses combine to form an impressive $7 billion global P&C reinsurance business, the fifth largest P&C reinsurer, and a leading broker based reinsurer. The AXIS Insurance business combined with PartnerRe's insurance Direct and Facultative operations will exceed $2.6 billion.

Finally, the addition of AXIS Accident & Health operations to PartnerRe's Life and Health units, create a meaningful $1.5 billion Life, Accident and Health business with a scale to succeed. Our three major businesses will provide balance and diversification to growth and earnings, as well as enhance capital efficiencies.

Moving on to slide 10, you can see that our merged company will be a global leader with complementary geographic footprints and business segment coverage with operations around the world, including North America, Europe, Asia, Australia, New Zealand, Latin America, the Caribbean, and Africa. As you might expect from established international companies, we have overlapping offices in most key insurance centers and major markets. We view this as an opportunity for savings without sacrificing critical local presence.

This combination significantly enhances our market position in reinsurance. As you can see on slide 11, we will become a top five global reinsurer and a leading broker market reinsurer. This increased relevance is particularly important against the backdrop of consolidation in reinsurance buying. The merged companies will deliver leading positions in specialty reinsurance lines. Both of our companies already have very highly regarded underwriting capabilities and the manageable overlap in current portfolios should result in reasonably modest attrition in the near term, which we expect we will fully recover over time, given our enhanced market presence. We're looking forward to leveraging our combined capabilities and strengths to channel third-party capital to deliver even more solutions to our client base.

As you'll see on slide 12, the AXIS Insurance global specialty insurance platforms, combined with PartnerRe's Direct and Facultative and wholesale insurance business, form a business of $2.6 billion of combined premium, with very little business overlap in the existing books. Our global insurance business will boast a balanced portfolio mix with a strong focus on specialty lines and the potential to accelerate growth in desirable segments as opportunities arise. There is no doubt in my mind that with our combined capital of $14 billion, greater visibility and resources and combined earnings power, we can accelerate profitable growth in specialty insurance, both organically and through intelligent acquisitions.

On slide 13, we turn to the Life, A&H operations, and you can see that the proposed merger will have strategic impact for the combined Life, Accident and Health businesses of our companies, both of whom have delivered very high growth in recent years. The businesses are very complementary, with limited products and market overlap. PartnerRe provides leadership in life and the certain U.S. health reinsurance, and AXIS is a leader in accident, special risk, and U.S. Health. Our global reach would be expanded with AXIS's strong presence in the U.S., London, UK, the Middle East, while PartnerRe is very strong in the U.S. and on the continent.

Additionally, we both have plans for growth in the Middle East, Latin America and Asia, which would be accelerated and benefit from this merger. We expect that the combined companies will be a top three competitor in the U.S. A&H market. And the integration of both of our companies' product portfolios under the leadership of Chris DiSipio will be a serious competitor to the large legacy global writers.

As you can see on slide 14, the merged companies will have a very strong balance sheet with the potential to achieve significant capital synergies. We will have cash and investments of $33 billion, shareholders' equity of nearly $13 billion and total capitalization of over $14 billion, and a very manageable financial leverage of 22.4% including perpetual preferred stock and senior debt. We will have one of the strongest balance sheets in the industry with a high quality liquid investment portfolio and prudent reserves. So that is the overview of the structure of the combined company and should hopefully give you a better understanding of what our new combined company will look like and why we are so excited about this transaction.

We see tremendous opportunity to create value through this combination. As you will see on slide 16 – 15 I mean, with the increased scale, efficiencies and expanded product capabilities, we anticipate sustainable long-term commercial growth prospects over and above what they would have been for each of our independent companies. Our combined company will be ideally positioned to compete and to win in the global market. And as I've said before, we also see meaningful capital synergies that will generate further flexibility to support growth and capital management initiatives.

Further, we're projecting at least $200 million in annual pre-tax cost synergies expected to be realized within the first 18 months of operations. These are identifiable, concrete and actionable. Both companies truly believe that the target integration savings are highly achievable. It's been said before but it's true, this is a transformational merger. We're bringing together two independently strong and well-established companies to create one broadly diversified global specialty insurance and reinsurance company whose scale, capital and enhanced market presence will form a powerhouse within the industry. I could not be more thrilled to be part of a great team on this exciting road ahead of us.

Now, I'd like to turn it over to David Zwiener, who'll discuss some of the attractive financial implications of this transaction. David?

David K. Zwiener {BIO 1494662 <GO>}

Thank you, Albert. Good morning, everyone. Thank you for joining us. I just had a few comments before we open it up for questions. But I want to start by reiterating how excited all of us are at PartnerRe to be merging with AXIS.

Speaking on behalf of the entire board, I can tell you that we have long admired the organization and we're looking forward to working with their team and I personally am looking forward to working with Albert again. I'll also say that I'm looking forward to jumping into my new role as Interim CEO at PartnerRe. I have an understanding of and an appreciation for the PartnerRe team and culture, and I'm really looking forward to working more closely with some of the most talented people in our industry.

I'll wrap up with some comments on the financial implications and then we'll get to your questions and I'll pick it up on page 16. As mentioned earlier, in addition to clear strategic benefits, this transaction is financially very compelling. It will be accretive to EPS and ROE in a very meaningful way. And importantly, we see execution risk as being very limited in this transaction. When you combine two strong companies with solid financial profiles, respected brands and talented leadership teams on both sides, they're already very familiar with each other, it's about as good as it can be.

So in conclusion, turning to slide 17, what we're doing is building on strength to get even stronger. This merger is a compelling opportunity to enhance our scale and also squarely addresses the strategic imperatives that today's markets are demanding. We're not changing our strategies; we're just accelerating them. And as we discussed, the financial benefits are apparent. We believe we share a common vision for growth and risk management and have some of the best talent in the industry. We believe this transaction creates real growth opportunities and will have a significant positive impact on our shareholders, our employees and our policyholders. We expect that you'll share our enthusiasm.

Now, we'd like to open up the call for questions. Operator?

Q&A

Operator

Yes. Thank you. We will now begin the question-and-answer session. And the first question comes from Dan Farrell with Sterne Agee.

Q - Dan Farrell {BIO 4935961 <GO>}

Hi. Thank you and good morning. Albert, a question for you with regard to stuff on AXIS specifically. You've talked a lot about levers to improve AXIS's combined ratio on its own.

I'm wondering when we look at the $200 million or at least $200 million of expense synergies, how much of that might be exclusive or specific to the combination or is any of the improvement that you've articulated in the past specifically for AXIS incorporated in that? Thank you.

A - Albert A. Benchimol {BIO 2023727 <GO>}

That's a great question. The one thing that I want to go through here is the savings that we've identified here are savings related to this merger. And I think probably it makes sense to refresh the Street with what we were looking to achieve in our combined ratio improvement program. Joe, would you want to take us through that, please?

A - Joseph C. Henry {BIO 13390626 <GO>}

Sure. Good morning, Dan. So, if you remember, there were four things that we were focused on to improve shareholder value. The first was the quality of the loss ratio. Second was profitable growth. The third was expense ratio reduction, and the fourth was optimal capital structure.

So, as far as each of those are concerned, on the profitable growth side, this is going to help us with the maturity of our new initiatives: accident and health, new professional lines, primary casualty and agriculture. So, this merger will give us an additional ammunition to accelerate that, specifically accident and health and agriculture, for example, and it also will not distract our insurance initiatives, which will help them grow. Second, quality of the loss ratio. AXIS was investing, Dan, as you know in actuarial and other talent to improve the use of data and analytics. Partner has even more actuarial resources than we do. So, this will accelerate that part of the strategy.

Operational effectiveness, we had plans to bring our G&A expense ratio down from the mid-15%s to 14% or below by 2017. We obviously are continuing with those efforts, but through this process, working arm in arm with Partner, we feel we can achieve expense efficiencies of at least $200 million, possibly more. And finally, as far as optimal capital structure, the combined companies will have a very strong capital position. And while we will suspend share repurchases until closing, we will be in a position to grow our business, return excess capital to investors and/or have capital to pursue alternative investment opportunities.

Q - Dan Farrell {BIO 4935961 <GO>}

Thanks. That's very helpful, and congrats on the announcement.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thanks so much.

Operator

Thank you. And the next question comes from Kai Pan with Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you for taking my call. First question, if you can elaborate a little more about basically how they come together with the deal? Are they each looking for partners or there is other reason behind it?

A - Jean-Paul L. Montupet {BIO 1453648 <GO>}

Well, I will respond – Jean-Paul Montupet here. I will respond from the standpoint of PartnerRe. As we are looking at our strategic opportunities, we were looking at two things. We were looking at the trend towards consolidation in reinsurance particularly in Bermuda and we were also looking at opportunities for us as a pure-play reinsurer to get into the primary market.

And when you look at this transaction, you realize very quickly that it ticks the two boxes for us. We participate in a very significant reinsurance consolidation that will be extremely beneficial and we get into the primary business. If you add to that the fact that the two companies know each other extremely well, are about the same size and are valued by the market in a very similar way resulting in a very doable deal, frankly, you cannot think of a better opportunity or better combination.

I agree with that.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Thank you. And Albert, for you. You have been leading AXIS for some time and you've been at PartnerRe even longer than that. So what's your strategic vision for the combined entity and what would you do differently?

A - Albert A. Benchimol {BIO 2023727 <GO>}

The vision is that we now have an opportunity to create a global powerhouse with very, very strong market presence in three very, very good balanced, diversifying businesses. In this business, if you want to be able to influence the market, if you want to be able to do more for your clients, you absolutely need to have the right resources, the right talent, you have to be able to invest in product development, in analytics, and as an industry leader, we will be able to do all of that.

As you know, from the various conversations that we've had in the past, it's always been very important to me that we have balance and diversification in our portfolio, and we already had at AXIS three very good businesses, and we've shared with you our satisfaction with their growth rates. And it's probably imperative that I say here, I don't believe that either PartnerRe nor AXIS needed to do an acquisition or a merger or any kind of transaction to continue down their path. But every once in a while there's an opportunity that presents itself that just is so compelling that you've got to pursue it.

From our perspective, when we were doing strategic discussions with our board, we were looking, of course, at a lot of potential combinations and you analyze all of those. But what drove me here is that I'm not particularly interested in nondescript premium. Anybody can buy $1 billion of premium here or a $1 billion of premium there. If you want to be a global leader, what you need are leading franchises. And what this combination does is it actually promotes the growth of global leading franchises.

At AXIS, we had a top 15 reinsurer, and the creation of this company now gives us a top 5 global reinsurer and the leading broker reinsurer in the world. We're able to take our very, very fast-growing A&H initiative that we've been so proud of and overnight turn it into a $1.5 billion life, accident and health business. And while we have a very good, very strong in specialty insurance operation, we can add to that with the P&C premiums that PartnerRe writes, and have three very meaningful businesses. When you add to that the earnings power, the cash flow, the visibility and the capital efficiencies available, we will have a very strong budget to invest in growth, make acquisitions where it makes sense, and return capital to our shareholders. I can't think of a better combination.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Very thorough. Lastly, if I may, just a quick number question. Do you have estimates for the restructuring cost to achieve the $200 million synergy?

A - William R. Babcock {BIO 15310119 <GO>}

Hi, Kai. It's Bill. It's a little early in the process to estimate that with any precision and we will give you a number at some point. But generally, with these types of transactions you should think about 1 to 1.25 times the run rate savings.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thank you so much and good luck.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

A - William R. Babcock {BIO 15310119 <GO>}

Thank you.

Operator

Thank you. And the next question comes from Amit Kumar with Macquarie.

Q - Amit Kumar {BIO 19777341 <GO>}

Thanks, and good morning, and congrats on the announcement. I wanted to go back to Dan Farrell's question and get some clarity. So if I understand this correctly, are you saying that expense ratio and other initiatives we've talked about on the past few AXIS conference calls, is that included in this $200 million or is that excluded? I just want to get some understanding on that.

A - David K. Zwiener {BIO 1494662 <GO>}

Yes. Let me go back to it. I think, in reading some of the reports, I was getting the impression that when people were looking at the improvements in the combined ratio, they were thinking that it was coming only from expense cuts and that might lead to some misunderstanding.

The vast majority of the improvement in the combined ratio that we were looking for and the plans that we were discussing with you last year were fundamentally with regards to the balance of the portfolio, the analytics, the growth of existing businesses. And as you know, if you grow existing businesses, you can grow expenses and still improve your expense ratio. So, there were clearly certain expense ratio initiatives within that four points to five points improvement plan, but the vast majority of it was driven by improvements in the loss ratio.

Now if you look at our two businesses, the truth is there's truly overlap only in the reinsurance space and the corporate space. And we believe that the benefits that we've identified for you in the $200 million are substantially supported by the benefits of this transaction. And that doesn't mean that we will not continue to invest in better efficiencies within our insurance operations and elsewhere, but when we look at the incremental benefits of this transaction, we believe that we can find $200 million of benefits from this transaction.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. That's actually very helpful. The only other question I have is, I guess in the timeline of 18 months and will these cost saves be sort of front-loaded, i.e., will we see them in 2015 or would that be – how should we think about the timeline on the cost saves?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Look, we're not expecting to close this thing until probably the second half or maybe even the third quarter of this year. So, I think if we close this year, what you'll very likely see is a lot of PGAAP adjustment and consolidation so that we can start with a clean company in 2016. And whereas we can identify some savings, we cannot do anything until we in fact combine the companies.

And as you can expect, there are some things that we may be able to do immediately, but as we reduce staff, close offices, these things take a little bit of time to roll in. So, I think the way we would think about it, we expect to see maybe half of the savings or a little bit more than that in the first full year of operation. And by the second full year of operation, we would expect to see all of the savings rolling through.

Q - Amit Kumar {BIO 19777341 <GO>}

Got it. That is extremely helpful. That's all I have. Thanks for the answers.

A - David K. Zwiener {BIO 1494662 <GO>}

Thank you.

Operator

Thank you. And the next question comes from Jay Gelb with Barclays.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Thanks. First on sizing the potential for EPS and ROE accretion, it will be extremely helpful if you could put some parameters around that. Thanks.

A - Albert A. Benchimol {BIO 2023727 <GO>}

The easiest thing to look at is this. As Jean-Paul said, we are two essentially equal companies in terms of size and capital and valuation, and each of you have made some independent evaluation of what our profitability should be. We've just told you that we're about to each get in the aggregate $200 million of savings; each of our shareholder base will be getting very close to half of that 51.6%, 48.4%.

So think about the fact that each of our shareholders is going to get the benefit of about $100 million a piece on a pre-tax basis of savings over and above whatever it is that you were estimating for each one of us.

I can tell you that on the AXIS side we have close to 100 million shares outstanding, and so you can very easily estimate some of potential on the savings. And none of this EPS accretion that I've just identified for you speaks to the capital efficiency that we can obtain so that we can improve our ROE and, in my mind, significant incremental growth opportunities that derives from putting these two great companies together.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Okay. That's a good starting point. The other question I've been getting is with the amalgamation structure, the exit value for both companies is only one times tangible book. So why do you feel investors should support a transaction with no premium?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I really appreciate what you just said. And you said the exit value for these companies. There's no exit here. This is building something great. This is not a sale. We're not buying them. They're not buying us. We are both, each of us contributing our operation, our potential and our tangible book value to create what we believe will be one of the preeminent insurance and reinsurance companies. And to the extent that our shareholders were happy to hold either PartnerRe or AXIS as a standalone basis, I would have difficulty in understanding why they wouldn't be ecstatic in owning the combined entity.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Okay. My final question is, is there anything to prevent another bidder coming in with a potentially higher valuation for either AXIS or Partner?

A - Albert A. Benchimol {BIO 2023727 <GO>}

You're entering the realm of hypotheticals here. As far as the management teams and boards of each of our companies, this is the best alternative that we could consider for our clients, for our brokers, for our employees and for our shareholders.

Q - Jay H. Gelb {BIO 21247396 <GO>}

But nothing to prevent another bid coming in?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I am not going to go into hypotheticals.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Okay, appreciate it, Albert. Thank you.

Operator

Thank you. And the next question comes from Vinay Misquith with Evercore ISI.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi, good morning. Sorry to beat a dead horse but just wanted to be sure. So for the $200 million in cost savings, I mean my sense is that most of it is from the deal. But that some of it might also have been contemplated by AXIS before. Is that correct?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Look, when we were looking at – we communicated with you that one of the things that we were looking to do was to transform our IT operations into a much more efficient outsourced operation. There's no question that now we're going to be combining our IT operation with their IT operations. Some of the savings that we thought would happen are no longer available to us but new savings are also available.

So it's hard to say that they're 100% additive, but what we can tell you is we still have opportunities for cost saves in other parts of our company. But when we sat down during due diligence, it was really about what is it that we can do with regard to our overlapping operation that we can have cost saves.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Fair enough. The second piece is on lost business. I mean, historically, these transactions maybe generate maybe about 10%, maybe still little higher of lost reinsurance business. I mean is that the right ballpark that you guys were thinking about when you were looking at the merger?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think the way to look at it is there will certainly be some loss of business where both AXIS and PartnerRe were very successful at garnering leading market shares with certain of our clients and there maybe, in fact, one or two areas where we believe that we would prefer a slightly smaller allocation. But again, I'll go back to the logic behind this transaction. To the extent that clients were happy to do business with each one of us, they should be happy to do business with the combined entity because we're keeping the talent and we're keeping the capital to make this work. That said, certainly, there will be some business lost. On the other hand, we also need to consider what kind of incremental business we will get as a result of our improved positioning.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure.

A - Jean-Paul L. Montupet {BIO 1453648 <GO>}

And just...

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes, sorry, go ahead.

A - Jean-Paul L. Montupet {BIO 1453648 <GO>}

I would add that the way you should look at this is that the cost reductions are very real and will continue forever. We expect maybe a little bit of reduction in the reinsurance total premiums but those will be offset by all the upside that we have as a result of the synergies coming from the combination of the two companies. So you cannot put the same in the same bucket. They are two very different things.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Fair enough. And the last question was on the capital synergies. My sense with AXIS was that you have a primary insurance operation, a reinsurance operation, so fairly well diversified. PartnerRe, on the other hand, was an extremely well-diversified reinsurer; of course, didn't have any primary insurance operations. So, I'm struggling here a little bit with trying to figure how much of capital synergies this transaction will generate.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Our estimate is that it will, in fact, generate substantial synergies. So, if you look at our position, we're not yet getting the full benefits of having a meaningful accident and health operation. And so just the fact that from our perspective if you simply added the growing A&H book, you'd get some efficiencies there.

From the PartnerRe perspective, it's a diversified book, but they had no access to the insurance market or to some of our A&H business. So, both of our companies are, in fact, adding diversifying risk to their initial portfolios. But even within the reinsurance portfolios, we don't have a direct overlap between PartnerRe and AXIS and there are significant benefits in putting together the cat book also. So, we think there are several sources of diversification benefit, both within the reinsurance business but also when you put the three businesses together, the better balance between those three businesses.

Q - Vinay Misquith {BIO 6989856 <GO>}

So, do you have a number that you can share with us?

A - Albert A. Benchimol {BIO 2023727 <GO>}

We would not be ready to do that at this time.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. Thank you.

Operator

Okay. Thank you. And the next question comes from Joshua Shanker with Deutsche Bank.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yes. Good morning. I would love to hear a little bit how you came to the proportion that would be owned by PartnerRe shareholders versus AXIS shareholders. As I calculate it, PartnerRe is contributing more of the tangible equity and earnings power than the proportion they're getting in the company. Is that correct?

A - David K. Zwiener {BIO 1494662 <GO>}

Well, if we look at the history here, as I mentioned, both of our companies, at least in the last several months, have traded reasonably close to tangible book value. There's always going to be a little bit of volatility in the stock price and a little bit of volatility in the ratios between the two organizations. But if you look at it, right now, in the recent past, it's close to tangible book value. And then when you look at the tangible book value that we both bring to the organization, I believe that the calculation that we achieved is consistent with the relative fit of tangible book value of the two companies over the recent past. Did you want to add to that?

A - Jean-Paul L. Montupet {BIO 1453648 <GO>}

That's exactly right. As I said earlier, the two companies are valued about the same way and at about the same multiple of tangible book and that's pretty much what's reflected in our exchange ratio.

A - David K. Zwiener {BIO 1494662 <GO>}

Correct.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And then historically, Partner's earnings have been heavily weighted towards prior year favorable reserve development, which has benefited also AXIS's earnings, while AXIS has made more money on the current accident years. This suggests to me, maybe other investors, that historically PartnerRe's reserves have a potential to be extremely redundant. Albert, you used to be the CFO of PartnerRe. You know how they think about it. Is there any benefit in the valuation gain, potential for the reserves at one of the companies to have a different philosophy that might enable it to be contributing shadow equity into the equation?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, the way that I would say is that there is a lot of commonality in management and philosophy and thinking. Both PartnerRe and AXIS have demonstrated over a long period of time very prudent reserving and a desire to release reserves when it makes sense to do so and not before that. I've got to tell you that I believe that is one of the underpinnings of that financial stability of being able to survive through cycles and take advantage of opportunities and that philosophy will not change.

And I will go back and say that – repeat what Jean-Paul said, we were both bringing in all of our value and all of our assets and all of our ideas and talents into this organization. And I dare say that PartnerRe has very prudent reserves and I would argue that AXIS has very prudent reserves. And so, therefore, both of us again have put what we have into this company. And this company is a unique combination of organizations with very strong balance sheets, very prudent reserves and complementary businesses. I don't think that you could find a better fit anywhere right now.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And I'll just ask what the next steps are for shareholder approval, timing and what's required and then I'll pass the phone to the next questioner.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, this is a standard amalgamation and merger of equals. We will be working with our lawyers to prepare proxy documents to get a shareholder vote. We will be working to file various regulatory approvals. It is my hope that either late spring or early summer our documentation will be ready, so that we can have that shareholder vote. And at that point, we would simply be awaiting the various regulatory approvals to consummate the merger and close, which we would hope would be some time in the third quarter. It could drag a little bit into the fourth, but certainly our intention and expectation is that this would be a 2015 event and we look forward to start in 2016 as a combined company with all of the strengths and benefits that we discussed with you.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Congratulations and good luck to you.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

A - Michael A. Butt {BIO 1497141 <GO>}

Thank you.

Operator

Thank you. And the next question comes from Brian Meredith with UBS.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Thank you. Yes, Albert, just quickly here. So, as an AXIS shareholder, basically, we're making a bigger bet on reinsurance now going forward. So, I guess, my question is, why should we be comfortable with that given it's a business where we've seen returns compressing, the whole reinsurance pie has been shrinking. Can you just give us more comfort as to why that should be the strategy here?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Brian, that's a very good question and I'm very grateful in fact that you raised it. If you look at AXIS today, our shareholders have approximately 50% of their capital and revenues coming in from P&C reinsurance. However, that 50% of the capital that they have is in a $2 billion top-15 reinsurer. In the combined company, our shareholders will have 62%, so not a meaningful increase in terms of the amount of business in the P&C side, but now that 62% is not in a top-15 reinsurer but in a top-5 reinsurer and the leading broker distributed reinsurer in the world.

In addition to that, we will be getting significant efficiencies here. And as you know with what's happening in the industry, to succeed in the reinsurance world, you have to have scale, you have to have products, but you also have to be very efficient from a cost perspective. And so, again, you're getting a broader, better positioned reinsurer, and you're going to get one that's going to have a better chance of succeeding in this environment.

And finally, I would say that whereas today 62% of the premiums will come from P&C reinsurance. As you've heard us say, it is our intention to continue to grow and invest the insurance business and the Life, Accident and Health business. And so I would not be surprised that, relatively quickly, we would find ourselves with the mix that is equivalent to what we had previously at AXIS Re or, depending on the opportunities, a more optimal mix that that made sense.

So, overall, we will be better prepared to win in the reinsurance space. We will have more assets, more people, more cash flow, more capital availability to invest and grow the specialty insurance in the Life and Health space. So, overall, I think that our shareholders will be much better positioned with this company than they were before. And again, I'm certainly not saying that we weren't a successful company with a bright future as a standalone company, but the future is even brighter as a combined entity.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thanks. And then just one quick follow-up here. So, it sounds like the merger will probably close sometime in the third quarter. That's right in the heart of hurricane season.

I guess what your thoughts are and what are your plans to prevent a situation where you've got concentrations of risk or something happens and we get something like a PARIS RE, like it happened in (46:42)?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think that's a very fair question, and as you might imagine, Brian, we spent a very, very large amount of time making sure that we understood where the aggregations were and so on and so forth. And I will tell you that without doing anything, the combined loss curves of the combined company are actually as good, or not better than they were for the individual companies. That said, we obviously will be spending some time over the next several months looking at opportunities if necessary to buy some protection, to hedge our portfolio and of course to take advantage of the very strong appetite in the third party capital market to share some of these risks with our third party capital partners. But, Brian, be assured we were very much aware of that issue as we did the due diligence and structured this transaction.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thank you.

Operator

Thank you. And the next question comes from Meyer Shields with Keefe, Bruyette & Woods.

Q - Meyer Shields {BIO 4281064 <GO>}

Thank you. Good morning. Albert, you talked not today, recently about the desire for about $300 million of annual Accident and Health premiums to be sort of a scale that could generate profitability. Does the creation of the combined Life, Accident and Health unit mean that you're at scale now for that segment?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, the good news is that we were right on track with our independent Accident and Health effort. That team has done a great job and we look forward to sharing details of that when we have our earnings call next week. But there is no question that we now have scale to be a meaningful player and to achieve – to be able to spread our expenses of our broader base. So, yes, it does accelerate our efficiency targets for the Life, Accident and Health space.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks. And two small questions if I can. One, is there any break-up fee associated with the deal and two, do you just need majority shareholder votes from both company?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think what I would – I would defer to when we present our proxy when we provide – and I think we'll be filing the deal very shortly. I don't want to front-run any of these documents. So, that will be made public very shortly as we file the merger agreement.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that covers me. Thanks so much.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

Operator

Thank you. And the next question comes from Cliff Gallant with Nomura.

Q - Cliff H. Gallant {BIO 1854853 <GO>}

Good morning, congratulations.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

Q - Cliff H. Gallant {BIO 1854853 <GO>}

This is sort of an awkward question, but when I think about some of the big global reinsurers out there relative to what PartnerRe and AXIS have been in the past; I think of them as a bit – forgive its crudeness, but a bit clunky not very nimble; that you guys have always been able to very quickly seize on market opportunities. When you think about the combined entity, how do you structure the company to maintain some of that nimbleness? Have you thought about the organizational structure of how the integration will go?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, I don't particularly feel insulted because it wasn't us that you would accuse of being clunky, so I'm okay with that. I think that, in fact, one of the benefits of what we have is the culture that we bring to this business which is, in fact, a real desire to be proactive in the market and to add to it. Cliff, I'm going to ask for a little patience from you. Obviously, the senior management teams got together. We have some visions of what we want to achieve here. But I think it would be premature to have a fixed idea of the entire structure until we engage more of our teams and truly visualize what it is that we can achieve in terms of the potential of this organization. We will be doing so in the days and weeks to come, and we will be very pleased to share that with you as soon as we have a product that we believe is shareable.

Q - Cliff H. Gallant {BIO 1854853 <GO>}

Okay. As a second question then, I'm not sure if you can comment a little bit more on the earnings disclosures that were given. I noticed particularly for AXIS, your good earnings number, bottom line number, but a little bit below where the Street was expecting. Was there any more color that you could discuss about that?

A - Albert A. Benchimol {BIO 2023727 <GO>}

My recollection is that we provided you a range and I think it's appropriate to wait until we have the earnings call next week to be more specific.

Q - Cliff H. Gallant {BIO 1854853 <GO>}

Okay. Fair enough. Thank you very much. Congratulations.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

Operator

Thank you. And the next question comes from Ryan Byrnes with Janney Capital.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Good morning. Thanks, guys. I had a question from a strategic point of view from AXIS. Did AXIS potentially look at doing a deal to get more into the primary insurance market? Just wanted to see what the strategic options were.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Look, I'm not going to go and list all of the things that we looked at. But I can assure you that our executive committee and our board has spent several months and several board meetings discussing the pros and cons of different directions. And that's not to say that there weren't some alternatives that had some benefits in one part or the other. But at the end of the day, when we looked at what this merger of equals could achieve compared to a number of other areas that we were looking at, this just came out as just so compelling that it convinced both boards to move forward with this transaction.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Okay. Great. And then just the other question is again looking at some of the Schedule F, it looks like there is a lot of overlap with some U.S. clients on the reinsurance side. I'm just trying to figure out what kind of slippage there or kind of dissynergy should we be thinking about going forward?

A - Albert A. Benchimol {BIO 2023727 <GO>}

So here's the good news is that we actually share a lot of clients. But in many areas, we're actually not on the same treaties. And so to me, the reason that this is really good is because what we're doing is we've got some very strong relationships on both of our parts and we can leverage the strength of that relationship and we can actually have a more balanced portfolio with each of these large accounts, which is why we feel very, very positive about this.

Again, there will likely be some losses. There may be some areas where we've been so successful as independent companies that we may have to step back. But by and large, we think it's very manageable, and to repeat what Jean-Paul said earlier, any short-term loss of business, we are confident will be easily recoverable with the enhanced market presence, scale and talent that we will bring to the market.

Operator

Okay. Thank you. The next question comes from Sarah DeWitt with JPMorgan.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi. Good morning. Could you tell us what you view as run rate ROE for the combined entity and then also on book value, you mentioned there would be some PGAAP adjustments, what is that pro forma book value per share?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think this is all information that we want to tie down and make sure that we have properly. I believe a lot of that information will be made available to you in the proxy documents. But I think fundamentally, again, one of the real benefits of this is each one of us is bringing our tangible book value to the party. And I think you can very easily add the tangible book value of each of the two companies.

You can take the standalone profits that you already assumed for us and you take the benefits of these $200 million worth of synergies on a pre-GAAP tax basis, and although I feel very optimistic about the market benefits and the growth that will be derived from this, we're not providing guidance on that right now. So I think that the basics of the analysis are relatively straightforward.

With regard to the PGAAP adjustments, obviously that is a work in process. But that does not really affect the viability of this entity. PGAAP adjustments will run through the book over a couple of years, and after that, we will still remain with one of the preeminent insurance and reinsurance franchises in the world.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay. Great. Thanks.

Operator

Thank you. And the next question comes from Charles Sebaski with BMO Capital.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Good morning. Thank you. I guess I want to, Albert, follow-up on I guess a question Brian Meredith had and just sort of conceptually I'm still having a little bit of trouble with the reinsurance strategy given the things that are going on in the marketplace. I guess from a PartnerRe perspective, I can understand the necessity of this transaction; but I guess from

AXIS' perspective, I'm a little surprised at the seemingly doubling down into reinsurance given all of the things that are going on unless it opens up greater opportunity for AXIS ventures or other – the transition in reinsurance market.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, you're absolutely right, but again, I take exception with doubling down. To the extent that currently we have about 50% of our book of business in P&C reinsurance and we're going to go to 62%, yes, there is incremental growth. But to me, there is a huge difference between having half of your capital in the number 12 or 13 reinsurer in the world and having a little bit more of your capital exposed in the top 5.

Our ability to succeed and take advantage of market disruption is much stronger as a combined company than we would have with our current reinsurance business. So, I see it really as increasing the likelihood of success in this industry. And again, if we could take a couple of expense ratio points out of the reinsurance business in a competitive environment, it just makes us so much more competitive in the reinsurance business.

And I'll go back to what I mentioned earlier. I'm very, very confident that within a very short period of time, we'll find ourselves back to the same mix we had before or whatever is appropriate at that time. But you also caught it right, I fully expect that we will be much more active in managing our growth portfolio in partnership with third-party capital providers.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

I appreciate the color.

Operator

Thank you. And at this time, I would like to turn the call back over to management for any closing comments.

A - Jean-Paul L. Montupet {BIO 1453648 <GO>}

Thank you very much. I will only repeat what I've said at the beginning. We cannot think of a better combination to present to our shareholders. We are very excited about the future of the combined companies, and we are going to work extremely hard together towards moving to a successful closing as early as possible.

A - Michael A. Butt {BIO 1497141 <GO>}

I agree with that, and I also thank you for listening to our case. I certainly have complete conviction that we have a great idea and a great team to implement it.

A - Albert A. Benchimol {BIO 2023727 <GO>}

All I could tell you is that the leadership teams of both companies are incredibly excited and motivated. We think there is unlimited potential here, and we look forward to delivering it to our shareholders.

A - David K. Zwiener {BIO 1494662 <GO>}

Thank you all. I guess each one of us will talk to you next week on the earnings conference call.

Operator

Thank you. The conference has now concluded. Thank you for entering today's presentation. You may now disconnect. Have a nice day.