Acquisition of The Chubb Corp by ACE Limited Call

Company Participants

- Evan G. Greenberg
- Helen M. Wilson
- John D. Finnegan
- Philip V. Bancroft

Other Participants

- Charles J. Sebaski
- Cliff H. Gallant
- Jay Arman Cohen
- Jay H. Gelb
- John A. Heagerty
- Josh D. Shanker
- Larry Greenberg
- Meyer Shields
- Paul Newsome
- Ryan J. Tunis
- Thomas Mitchell

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, please stand by. Good day and welcome to the ACE-Chubb Conference Call. Today's call is being recorded.

Now, for opening remarks and introductions, I'll turn the call over to Helen Wilson, Investor Relations. Please go ahead.

Helen M. Wilson {BIO 2078659 <GO>}

Thank you and good morning. This call is being webcast and a replay will be available on ACE's website. Earlier today, we issued a news release announcing a definitive agreement under which ACE will acquire Chubb. A copy of the release and the slides we are presenting today are available in the Investor Relations sections of ACE's and Chubb's website at acegroup.com and chubb.com. At the conclusion of our prepared remarks, we will open the call for Q&A.

Before we begin to discuss the details of this transaction, I would like to remind everyone that during the call, we will make forward-looking statements. Please refer to the cautionary statements regarding forward-looking statements and the description of where to find additional information and disclosures regarding participants and solicitations that are included in our press release issued this morning and on slide two and slide three in the accompanying investor presentation for additional details.

Our speakers on today's call are Evan Greenberg, Chairman and Chief Executive of ACE; and John Finnegan, Chairman, President and Chief Executive of Chubb.

And now, it's my pleasure to turn the call over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Good morning and thank you for joining us on such short notice. I am delighted, simply thrilled, to have the opportunity to share this historic moment with you as we announce the joining together of two of the great companies in our industry.

This is a combination occurring out of strength. We are both great on our own. But the complementary and compelling strategic nature of this combination is the opportunity to create so much more together. And this is a growth story. Let me take a little time and describe the compelling rationale for bringing together ACE and Chubb, again, two world-class insurance companies. And I'm going to begin on slide four.

And this kind of captures it all within a very general fashion. This transaction simply advances our strategy in a meaningful way and represents an outstanding opportunity to create significant value for both ACE and Chubb shareholders, our companies and our policyholders. We are combining two great high quality underwriting companies to create a very well-balanced, broadly diversified, global leader in property and casualty insurance with greater earning power and substantial future value-creation opportunities.

Our companies have complementary and exceptional strengths in product, distribution, customer segments and underwriting cultures. Where one of us is not present, the other is. Where one of us is strong, the other is even stronger. Add to that the increased data and insight we will gain paired with our respective skills and experience will drive profitable new growth opportunities in both developed and developing markets around the world.

The combined company will be so well-balanced with a greater presence and capabilities in product areas that have less exposure to the commercial P&C cycle. In addition, we will have a substantially greater invested asset base that will benefit from an eventual rise in interest rates.

ACE and Chubb have complementary cultures. We're both underwriting companies and share a passion and discipline for underwriting excellence as well as outstanding client service. This underwriting passion and discipline have consistently produced world-class levels of profitability. We are confident we will only make each other better.

As we look more closely at the financial benefits of the combination, we expect to realize significant efficiencies in the shorter term and greater revenue growth medium term that will drive returns and create opportunities to invest in our business in terms of more technology, products, people and geographic presence, further improving our competitive profile. Consistent with our track record and disciplined approach to M&A, this transaction creates significant value for shareholders.

First, to immediate accretion to earnings and book value per share. Looking out, the transaction is projected to produce double-digit EPS accretion, is ROE accretive, and will generate a double-digit ROI by year three. Additionally, the ROI will exceed the company's cost of capital by year two and tangible book value per share will return to its current level in three years.

Finally, with aggregate total shareholder equity of nearly $46 billion and assets of $150 billion, the balance sheet of the combined company will have exceptional size and strength. In a word, we will be so well positioned to take advantage of both growth opportunities and significant efficiencies to deliver greater growth and earning power together than the sum of the two companies separately.

Let me now spend a few minutes reviewing the terms of the transaction. As you see on slide five, under the agreement, Chubb shareholders will receive aggregate consideration valued at $124.13 per share in stock and cash or approximately $28.3 billion. This is the equivalent of $125.87 per Chubb share using ACE's 20-day volume-weighted average share price for the period ending June 30, 2015.

Specifically, Chubb shareholders will receive an aggregate consideration mix of approximately 50% stock and 50% cash, which equates to $62.93 per share in cash and 0.6019 shares of ACE stock. The consideration represents a 30% premium to Chubb's closing price of $95.14 on June 30. On a pro forma fully diluted basis, ACE shareholders will own 70% of the combined entity, and Chubb shareholders will own 30%. We expect the transaction to close during the first quarter of 2016 following the receipt of customary, regulatory and shareholder approvals.

The combined organization will operate under the Chubb name, an acknowledgement of the distinctiveness and recognition of its brand particularly in the U.S. Our companies share a great mutual respect. We are both conservative in how we take and manage risk, and how we manage our balance sheets. Chubb has so many talented people who will be a great addition to the ACE family. And I and my colleagues look forward to welcoming them and working with them.

Upon completion of the transaction, I will serve as Chairman and CEO of the combined company. And John Finnegan, Chubb's Chairman, President and CEO, will serve as Executive Vice Chairman for External Affairs of North America and will assist me with integration efforts. I look forward to working with John. I also look forward to leading this new organization together with ACE's current executive management team and colleagues from Chubb.

Four Chubb directors will join the ACE board. And the combined company will remain a Swiss company, with principal offices in Zurich. Chubb's headquarters in Warren, New Jersey, will house a substantial portion of the headquarters functions for the combined company's North American division as well as a number of our major businesses, while ACE will continue to maintain a significant presence in Philadelphia, where its current North American division headquarters is located.

As I mentioned earlier, we intend to finance the cash portion of the transaction through an aggregate cash consideration of $14.3 billion, funded by cash on hand and new senior debt. The cash consideration is a combination of $9 billion of cash on hand between both companies and $5.3 billion of new long-term debt.

Regarding the stock consideration, we will be issuing 137 million shares of ACE to Chubb's shareholders, with a fixed exchange ratio of 0.6019 ACE shares for each Chubb share based on ACE's closing price yesterday of $101.68, which I consider cheap. This consideration represents approximately $13.9 billion.

With that, I will now turn the call over to John.

John D. Finnegan {BIO 1735942 <GO>}

Thank you, Evan.

You and your team have built a great company at ACE, and we're delighted to be partnering with you as we create a new leader in the global commercial, specialty, and personal P&C industry. We believe this transaction will deliver strong intermediate and longer-term value to Chubb shareholders. As Evan mentioned, Chubb shareholders will receive total consideration of $124.13 per Chubb share in cash and ACE stock, representing a 30% premium to Chubb's closing stock price of yesterday, June 30. Following the close, Chubb shareholders will own 30% of the combined company, giving them a meaningful stake in an even stronger global P&C leader.

When Evan and I first discussed the possibility of an ACE-Chubb combination, we both saw a lot of potential benefits. And as the discussions progressed, it became increasingly clear that the strategic fit, immediate value creation, and superb prospects for the combined company would in fact be compelling.

We have complementary capabilities, assets, and geographic footprints. Combined with a larger, stronger balance sheet, we will be even better positioned to compete and win in a market environment in which size, global reach, and differentiated capabilities are increasingly key to long-term success.

At Chubb we have great respect for ACE's management team, and I'm pleased and proud that ACE has recognized the strength of Chubb's brand and the attributes of quality and service it represents, and has chosen to adopt the Chubb name and brand for the combined company. ACE's is also committed to add four of Chubb's independent directors to the board of the new company.

In conclusion, we are convinced that this is a compelling transaction for Chubb.

And now, I will turn the call back over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Thank you, John.

Again, what makes this transaction exceptional is that it is both strategically compelling and financially compelling because of the attractive shareholder returns. As outlined on slide eight, we expect the transaction will be immediately accretive to EPS and book value per share. By year three, the transaction will be accretive to EPS on a double-digit basis and will be accretive to ROE. It is anticipated that the ROI again will exceed ACE's cost of capital within two years, resulting in a double-digit return by year three. Tangible book value per share will return to its current level in three years. And we expect goodwill payback will be realized in approximately 5.5 years.

Looking further at future value creation and savings, we expect to realize approximately $650 million of annual run-rate expense savings by 2018. These savings will result from duplication and corporate overhead, functional areas, and overlap in operations. We will improve the competitive profile of the combined enterprise. The company also expects to achieve meaningful growth that will result in substantial additional revenue. After all, this is the strategic purpose of the transaction. Together, we will grow revenue and earnings more quickly than the sum of the two companies separately.

We expect by year five, earnings accretion will be balanced between revenue and expense-related synergies. The efficiencies created will provide greater flexibility to the company to invest in people, technology, product, distribution and geographic presence, again, ultimately enhancing the competitive profile of the company.

Slide nine demonstrates how well our two companies fit together and how our complementary strengths will create a company with superior product offerings, many of which are less sensitive to the commercial P&C industry cycle. In the U.S., where Chubb has a major presence, the combination makes us a leading insurer of commercial business from the large corporate segment to the middle market with a broad variety of coverages. Chubb's strong distribution relationships in the U.S. through independent agents will complement our traditional strength in P&C brokerage.

Outside of the U.S., ACE is a premier global P&C insurer with a presence in 54 countries and a broad product, customer, and distribution capability. Chubb is a more U.S.-centric company with operations in 25 countries, which will complement and significantly deepen ACE's global presence and capabilities.

Globally, depending on where we find opportunity, the combined company will serve commercial customers of all sizes, from the largest corporations to complex multinational exposures, to the middle market and small commercial companies. The company will have a significant and complementary presence in personal lines that serve the insurance needs of individuals and their families. In addition, the combined company will have a leading position in professional lines globally as well as one of the largest excess and surplus lines and specialty product portfolios in the industry.

Let me give you simply a glimmer through three simple anecdotal examples of how our strengths complement each other. First, Chubb will enhance ACE's product and underwriting expertise in the upper middle market. Secondly, ACE will provide more products, particularly specialty, to serve middle market clients. And third, together, our strengths will enable the combined entity to pursue both the small and micro markets around the world.

Importantly, another reason for this combination is so attractive is our shared commitment to underwriting profitability and superior financial performance. As you could see on the chart on slide 10, both of our companies' combined ratio has exceeded our global and North American peer set over the past 10 years.

This is a testament to a common, relentless, disciplined approach to underwriting standards. Complementing, sustained, long-term underwriting profit, the combined company will also benefit from a substantially larger fixed income-oriented invested asset base as interest rates rise.

As I said, ACE and Chubb together will create a global P&C leader with highly complementary business lines, distribution channels, customer segments and underwriting culture. As you can see on slide 11, the combined organization will have a number of leadership positions in the industry.

It will be the number one global P&C insurance company by P&C underwriting income. The number two U.S. publicly traded P&C insurer and the fourth largest global insurer by book value and operating income. I mentioned this briefly before, but together, we will become the second largest commercial lines insurer in the U.S., and the leader in high-net-worth personal lines coverages.

ACE is deeply committed to and has a great track record building and managing businesses in Asia and Latin America. Together, our presence will be further enhanced in these fast-growing developing markets where together, our companies write $7 billion in total premium.

Slide 12 is a great visual depiction and provides a breakdown of the increased size and breadth of our product offerings and how each organization will contribute to the combined company's business segment. As I said, the combined company will have a broad product offering for commercial customers of all sizes.

This includes professional lines such as D&O and professional liability, risk management, all forms of excess and primary casualty, workers' comp, property, marine, aviation and energy. In commercial lines, Chubb has a larger U.S. professional lines and surety business, contributing 62% to the combined company's net premiums, while ACE has a greater international presence, contributing nearly 75% in net premiums. Otherwise, the contributions for commercial lines are quite balanced.

On the personal insurance side, you can see Chubb's much larger contribution in U.S. high-net-worth, with nearly 70% of the combined company's net premiums. On the other side of the coin, the combined company's personal lines business internationally as well as our global A&H and life areas benefit primarily from contributions from ACE.

Together, the combined company will be substantial in size and strength by any measure as outlined on slide 13. For example, as of December 31, 2014, on an aggregate basis, gross premiums exceeded $37 billion and operating income exceeded $5 billion. The combined company had cash and invested asset - investments of approximately $107 billion and total assets of approximately $150 billion.

Slide 14 provides another way to look at the combined company's extensive diversification by both geographic presence and business lines. I happen to like that slide a lot. But turning to slide 15, we have always emphasized the importance of maintaining a conservative and flexible capital structure. As a combined company, on a pro forma basis, at 12/31/2015, shareholder equity would be nearly $44 billion with total capital of about $57 billion. In terms of leverage, the combined company will have a pro forma debt-to-capital ratio of 20%, which we expect to decrease over time.

In summary, this transaction offers a highly compelling story for our combined shareholder base, as well as the clients we serve and our distribution partners across the globe. At ACE, we have a clear long-term strategy that we have patiently pursued both organically and through acquisitions. We have built with determination a presence and capability to produce sustained long-term growth and peer-leading shareholder returns.

We are first and foremost builders. Insurance is a long-term business. We are patient. Consummating this transaction will certainly accelerate our growth and earning power. We have been good stewards of shareholder capital through the years as the slide on the last page demonstrates.

Through industry cycles and major risk-related events, ACE has performed at a consistently high level, including good book value per share growth and strong operating ROEs. It's a track record that stands up well over any reasonable period of time on both an absolute and relative basis.

Upon closing of this transaction, we will have created a global P&C industry leader with superior product, customer and distribution channel capabilities, greater growth and earning power and substantial opportunities for value creation. I am very enthusiastic, in fact, beyond words, about the benefits that this transaction will bring ACE and Chubb and all of our stakeholders.

Thank you again for your time today, and I'll now turn the call back over to Helen.

Helen M. Wilson {BIO 2078659 <GO>}

Thank you. At this point, we'll be happy to take your questions.

Q&A

Operator

And our first question, Cliff Gallant, Nomura.

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

Thank you and congratulations. Quite a deal, very compelling. I was wondering if you think about just the management, it's such a large organization. Could you compare the management structure of ACE to that of Chubb? And organizationally, what kind of changes do you think you're going to have to make to the Chubb organization? And then secondarily below that, what have you done to identify key people at Chubb that you need to keep and how do you incentivize them to stay?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Sure. Look, first of all, there is nothing more important to John and me than retaining the best across the two organizations. And this combination is going to create more opportunity because of the growth potential for the good people across both organizations. And we know who our good people are. We have a lot of respect and a lot of regard for them, and we're a meritocracy. We reward performance. And all those great performers, we will motivate and retain them to the team.

A - John D. Finnegan {BIO 1735942 <GO>}

The management structures of both companies are a bit different, but they make sense for each organization. And while we're making plans for integration, it's premature to discuss exactly how the organization will look. But it will follow - I can tell you that the organization structure will follow common sense strengths of each company.

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

Okay. When I think of both companies, you don't sell cookie cutter products. There's always a specialty I think aspect to both companies, and it's always been a strength of the franchise. But when you get - is there - could you get to a point where you're so big that you lose some of that strength? I would think there might opportunities for initial players to try to nip at your heels at that. And maybe one-off, that's not a big deal, but collectively it could be meaningful.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You know what, that will always happen. When ACE was - 10 years ago when I could manage ACE from line of sight, on one hand you can ensure underwriting excellence in a very deliberate and clear fashion. As ACE got bigger, I've heard that question over and over and over again. And how do you manage - I mean, we've talked about it for years.

As the organization will grow on a global basis, how do you continue to manage underwriting excellence and quality excellence across all your business lines across the globe?

And I think we have demonstrated that we have management talent. We have the organizational structure and how we organize ourselves. We behave like a small company though we're large. We have the ability in terms of the flow of information in all the checks and balances that we have. And you know what? Chubb has the same thing. And as we put this together, I'm not worried about that part.

And when you get at the part of people nipping at our heels, this is a competitive market. It is a market-oriented economy. And if you're good and you have capabilities and you're compelling in the marketplace, then have at it. We always welcome competition. I'm not concerned about that. But when you look at the combination here, in products even that we overlap in, there are so many areas like take professional lines. ACE is great at the upper middle market and the large account, Chubb in particular at the middle market and into the upper middle. So it's complementary to us. When you look at it on an international basis, you find the same thing, and that's just one small example. So frankly, we're just going to cover more of the marketplace landscape together. And we're going to be nimble and we're going to be efficient and we are going to be entrepreneurial, and we're going to maintain that hallmark of ACE.

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

Impressive, congratulations. Thank you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Thank you very much.

Operator

And now we'll hear from Jay Gelb with Barclays.

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

Thanks and congratulations on the deal. First, I just wanted to see if we could get your perspective on what the initial dilution to tangible book value per share is.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Bear with me, Jay, I'll be right with you. Jay, we'll get that for you in a minute.

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

Okay, thanks. And then one of the things I wanted to touch base on, and I'm sure we'll see this in the proxies. Can you tell us a bit about how the transaction came about? Was this ACE approaching Chubb or – and was Chubb shopped at all?

A - Evan G. Greenberg {BIO 1444445 <GO>}

These things happen when the moment is right for both. We approached them a few weeks ago. And we put the deal together rapidly but thoughtfully because it made so much sense to both sides for all our constituents.

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

Okay. And then if you could, give us a bit more insight on the potential revenue synergies, why you feel those would come about from the combination.

A - Evan G. Greenberg {BIO 1444445 <GO>}

ACE, when I look at it. And I'm going to give you a little broader vision of this when I look at the combination where it's so compelling to me about – it's about complementary strengths that will drive that. I look at Chubb in the United States, such a great middle-market company with a large agency distribution. And it's selling traditional middle-market product and some specialties.

ACE has been building a retail middle-market specialty presence. We will combine that with Chubb's middle-market. We will put so much more product that ACE has broadly across the organization through that distribution to those Chubb customers that we can add more product offering, that we can add to the agents who have within their portfolios more product to serve customers than they have today.

On another side of the coin, ACE is good in the large account, and upper middle-market we're very good. But some of our product offerings aren't as broad as they could be, and Chubb's capabilities will add to that. Just think commercial auto and workers' comp where ACE is not great and present in that. That will benefit us.

When I look across the globe, but including the United States, we've been endeavoring in the small commercial and micro business, both on a wholesale and a retail basis. Chubb itself has been contemplating that. Together, we will drive into that – those markets on a global basis in a very meaningful way between ourselves.

When I look at some of the overlapping businesses, particularly – and I'd said this earlier, if you take professional lines or some of the other businesses, we actually – we overlap, but we don't overlap that much. We're both extremely present in the area. But one is more dominant or more present in the larger end and the other more present in the smaller end. And that will be complementary to both. I think that gives you a few examples.

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

It does. Thank you, Evan. Still I don't know if you have that...

A - Philip V. Bancroft {BIO 4621336 <GO>}

I do. That dilution is about is about 29%. Initially, we expect that to recover to the same level in about three years.

A - Evan G. Greenberg {BIO 1444445 <GO>}

In three years.

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

When you have a chance, if you can give us the component to that that will be helpful. Thanks.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Sure.

Operator

We'll now take the next question, Ryan Tunis with Credit Suisse.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Good morning.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Hey. Thanks guys, and good morning. I guess, my first question is just on the pro forma tax rate of the combined entity. Should we be thinking about the Chubb earnings as tax-effected and what we're used to modeling for ACE?

A - Philip V. Bancroft {BIO 4621336 <GO>}

I would expect you to use the rate that you would have used for Chubb. We don't see any significant change in our tax rate.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

So no tax efficiencies from the Chubb deal despite the fact you're keeping the same jurisdiction or domicile?

A - Philip V. Bancroft {BIO 4621336 <GO>}

That's right. There may be some random margin...

A - Evan G. Greenberg {BIO 1444445 <GO>}

Around the margin.

A - Philip V. Bancroft {BIO 4621336 <GO>}

...but nothing material.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

And then I guess just thinking about the Fireman's Fund deal. One thing I think that's sort of interesting about this one is you guys had spent the better part of the last two years trying to build a competitor to Chubb. I guess are you more confident now than you have been that you can't really build an agency juggernaut in personal lines to compete with Chubb there in high-net-worth with personal lines?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Of course not. Are you kidding me? We've built a good personal lines business and a good business in the high-net-worth. That's a dynamic open area within the personal lines marketplace. And I think ACE did a great job with it and we've been building and I think the combination of the two will be compelling.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Understood.

A - Evan G. Greenberg {BIO 1444445 <GO>}

A lot of compatibilities and it will be – and efficiencies.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Got you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

We've been good competitors.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

And I guess the last one is just any early reaction to the Chubb reserves? And was there any contemplation of a redundancy there in your valuation for Chubb?

A - John D. Finnegan {BIO 1735942 <GO>}

Would you say that again?

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Sorry, just...

A - Evan G. Greenberg {BIO 1444445 <GO>}

The answer is no.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

No, okay. That's all for me, thanks.

Operator

Now, we'll move to a question from Charles Sebaski with BMO Capital Markets.

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

Good morning, thank you. I just have a question on the high-net-worth personal business. I know, Evan, after the Fireman's Fund, you talked about the growth potential for you guys in the U.S. in that space. Now, with the combination of Chubb and its market-leading position, what's the growth potential in that space given the now scale of the combined entity?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Good question. We size that marketplace as in excess of $40 billion or more. And there are lots of companies that are serving the high-net-worth space from all state. You just saw them talking about it in the paper the other day to State Farm, to ACE and Chubb and AIG, and a whole plethora of players. I see tremendous opportunity. I mean, you see what we are combined about $5 billion. I see tremendous growth opportunity in that area.

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

Excellent. And then on the cost saves on the future $650 million that you identified, is this just standard fixed cost overlap or anything in particular on where that might be coming from?

A - Evan G. Greenberg {BIO 1444445 <GO>}

On the cost overlap, look, it comes from - we have redundancies in so many functional areas, everything is two by two, and both domestically and internationally. And understand that this transaction, the first compelling nature of it is not the cost efficiencies, it's the growth opportunities that we see. But at the same time, we see a great opportunity to improve our competitive profile while at the same time preserving and coveting the cultures and the franchise strengths that make each company great. But the simple fact is, there is tremendous redundancy between the two across functional areas, across corporate overhead areas and within structures, statutory structures. So we're going to create an elegant organization over time.

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

And then finally, I guess, just regard to the debt and the financial leverage, I know the pro forma is a bit higher than either company was running solo. Do you think this organization just - will have the opportunity to run a bit higher debt leverage, or do you think it comes back down over time, just conceptually, I would appreciate any thoughts.

A - Evan G. Greenberg {BIO 1444445 <GO>}

When you look at the - I'm going to let Phil answer it. But when you look at the cash generation and earning power generation of this company and think about that flexibility.

A - Philip V. Bancroft {BIO 4621336 <GO>}

Even at the outset, we're well within the range that would be targeted for our ratings level. So we're not concerned about the leverage. And as Evan says, we would expect it to drop over time.

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

Thank you very much for the answers.

Operator

We'll now move to Paul Newsome with Sandler O'Neill.

Q - Paul Newsome {BIO 1541286 <GO>}

Good morning, and congratulations on the deal, quite amazing. I want to ask if - some of the assumptions with respect to accretion of the deal or just the success of the deal, are any of those underlying assumptions dependent upon a particular market environment for the industry or I think you already mentioned interest rates. But if you can kind of go through your thoughts as to what the sensitivity we should look at for how well this all works out in the end, depending upon what happens with pricing and things of that nature?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Hey, Paul. You've known me a long time. I am a realist. I hardly make strategy and plans based on what I wish things would be. We face reality and what it is. We all know where the marketplace is today. We understand the surplus capital, the amount of capital that is sloshing around. We understand the moderate economic to low economic growth in the world, the kind of interest rate environment we're in. We understand the shape of the balance sheets of the industry, and we understand what drives cycles. And so we face reality. And I can guarantee you, as we looked at the few years out of this thing, and looking out a prolonged period, we looked out one year, two years, three years, four years, five years. You don't do something like this. It's not a bolt-on where you're looking at it for a year or two years. But we're realists as we looked at it, and our assumptions were based all around that.

Q - Paul Newsome {BIO 1541286 <GO>}

That's fantastic. Could you - what do you think of as the current cost of ACE's capital at the moment?

A - Evan G. Greenberg {BIO 1444445 <GO>}

I think of it as roughly 8.5%.

Q - Paul Newsome {BIO 1541286 <GO>}

Okay. Congratulations on the deal. I think you got a great price for Chubb.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Hey, thanks a lot.

Operator

Now, we'll take a question from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Good morning.

Q - Meyer Shields {BIO 4281064 <GO>}

Evan, you mentioned a couple of times that this will enhance your competitive positioning. And I think that's clear what you wrote. I'm wondering whether there are specific expectations in terms of pricing that this allows. In other words, can you maintain your current returns at pricing 2% below where you are now or 5% or something like that?

A - Evan G. Greenberg {BIO 1444445 <GO>}

You know, Meyer, I didn't think of it that way. It's a far messier marketplace than that. And it all varies by line of business and by geography. And the one thing you know, we will not allow premium underwriting to destroy book value. And so, we will always underwrite to an underwriting profit.

One of the things I want to tell you that I think a lot about, the combined data of both organizations, along with the skills and experience in complementary areas, you just imagine it. If we manage this right, over a period of time it's going to give us so much more insight into risk and into dissecting risk into more granular cohorts. And given our skills and insights of underwriters, the ability to use that data. And then with the distribution power of the two and the geographic presence of them, there you go. That's the way to think about it. It's a fool's game to think about, well, I got this - maybe I've got another half a point or a point because I took out some expense and that will - that's a fool's game.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. That makes sense. Does the much larger investment portfolio allow for any change in allocation by class?

A - Evan G. Greenberg {BIO 1444445 <GO>}

It's premature to say that. But as you can imagine, as we put the two portfolios together and given the construct of ACE as Chubb comes in, our corporate structure, et cetera, and where our assets and capital are located, there will be a thoughtful view on allocation of the invested asset. And as you know, we're both conservative in how we manage it.

We both have operated under a philosophy that we take a lot of risk on the liability side of the balance sheet. We're levered on the liability side. So therefore, it's both policyholder and shareholder money we're investing, and we'll continue to do that in a conservative way.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. Thanks so much.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

And now, we'll take a question from Thomas Mitchell, Miller Tabak. Please go ahead.

Q - Thomas Mitchell {BIO 1496536 <GO>}

First of all, I know it's a little early to think about it. But is there any reason to think that you would continue share repurchases after the closing of the deal given the amount of debt you're taking on?

A - Evan G. Greenberg {BIO 1444445 <GO>}

We don't expect to for some time. We'll manage the capital as it emerges. But as I said, we all believe that the combined companies will generate a significant amount of capital and we'll manage it over time. But for the near term, we don't see any buybacks.

A - Philip V. Bancroft {BIO 4621336 <GO>}

It is premature. You said that right and we'll update you following the close.

Q - Thomas Mitchell {BIO 1496536 <GO>}

Okay, thank you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

Next question, John Heagerty with Atlantic Equities. Go ahead, please.

Q - John A. Heagerty {BIO 7044314 <GO>}

Thanks very much. Can you hear me okay?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Yes, sure.

Q - John A. Heagerty {BIO 7044314 <GO>}

Great. Thanks. Just on slide six, you got some statements on the debt. You say cash on hand is $9 billion. I'm just wondering where that's coming from because when I look at the combined balance sheets, I get about $1 billion worth of cash on hand. So I'm just wondering if some of that's undrawn debt commitments.

A - Evan G. Greenberg {BIO 1444445 <GO>}

It's not literally cash. It's undeployed capital in both of the companies. So while we have our undeployed capital invested in our investment portfolio, it's available to use for acquisitions or buybacks or whatever.

A - Philip V. Bancroft {BIO 4621336 <GO>}

You can't see it, but we're telling you we know where it is.

Q - John A. Heagerty {BIO 7044314 <GO>}

Thanks. So on the cost of debt you're expecting for the $5.3 billion?

A - Evan G. Greenberg {BIO 1444445 <GO>}

In the 3.5% range.

Q - John A. Heagerty {BIO 7044314 <GO>}

Thanks. And then last one just on the EPS accretion you're pointing to in year three, I'm wondering what number you are using for that because when I look at consensus, I believe like there's only one number up there, or at least there's only one analyst providing a number.

A - Evan G. Greenberg {BIO 1444445 <GO>}

We're not providing that number.

Q - John A. Heagerty {BIO 7044314 <GO>}

So...

A - Evan G. Greenberg {BIO 1444445 <GO>}

So you'll figure it out. We gave you what we're going to give you. We told you it will be ROE accretive, but we're not putting a number.

Q - John A. Heagerty {BIO 7044314 <GO>}

But how about the EPS accretion side?

A - Evan G. Greenberg {BIO 1444445 <GO>}

We're not giving you the number. We've given you what we've...

Q - John A. Heagerty {BIO 7044314 <GO>}

Because if you give us double digits, we have a kind of a starting point, don't we?

A - Evan G. Greenberg {BIO 1444445 <GO>}

You'll figure that out, won't you? That's up to you. We've given you what we're going to give you. No arguments here, John. Do you have another question?

Q - John A. Heagerty {BIO 7044314 <GO>}

No, that's all. Thanks.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

Josh Shanker with Deutsche Bank has the next question.

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

Good morning, thank you and congratulations on a landmark deal. I was curious looking through Chubb's financial statements, on some extent, you've said you've been working on this for a couple of weeks, but you're very confident about the cost saves. Can you talk about the process you went through on identifying the cost saves? How much is going to occur in the underwriting part of the business versus corporate expenses and whatnot? Do you have any granularity there?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No, Josh. We've given as much as we're going to give on that. But what you can imagine is this isn't our first time going around this. We are quite experienced at M&A. We understand how to do analysis in this regard. We have experienced people doing that. We have a very good process, both pre-acquisition, during acquisition, transition, and post-acquisition. And we're quite thoughtful in how we imagine all this. And that's as far as I'm going to go now on that subject.

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

That's fine. And legally, are there any things we need to think about in the Swiss domicile given the proportion of business in the United States or the change in the name? Are there any considerations that we should be aware of?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No, there is not. No, there's not. There's nothing. It will be status quo.

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

Okay, thank you very much.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

Now we'll take a question from Larry Greenberg, Janney Capital.

Q - Larry Greenberg {BIO 1712308 <GO>}

Good morning and thanks for taking my question and congratulations to both organizations. So clearly, you both believe that the time is right to combine, given where each of your respective organizations are in their lifecycles. I'm just wondering if you could put the timing of this deal in context in terms of in the property casualty industry structure today. And is there something about the industry today that makes this a more compelling transaction than perhaps it would have been five or 10 years ago?

A - Evan G. Greenberg {BIO 1444445 <GO>}

That's a good question. I think there is to me, the industry. The world is more globalized than it was a decade ago. And that is simply a trend that is going to continue. And when you look at financial markets, how they have globalized technology and what it does to allow knowledge and people and data to move around the world so rapidly, when you look at what technology has done in so many industries, and is doing in hours to give an opportunity to create insight, new businesses, different exposures, and an ability to manage and have a competitive advantage with the insights around all of that.

When you look at the value particularly because of the way the world is moving online, of brands and the meaning of brands, and how they're created, and how they're recognized, to me, those are just a few examples of we're not in the same world today than we were a decade ago. And the playbook you use today is not the same one that you would've used precisely then.

We're in a world of low growth. We're in a world of low inflation. We're in a world where economic realities of countries are interconnected to each other. I think that's the world that we're going to be in for quite some time, and I think that's a reality that we need to face. And I think all of that is part of the backdrop in my own thinking when I think about the compelling strategic nature of this transaction.

Q - Larry Greenberg {BIO 1712308 <GO>}

Thank you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

A - Helen M. Wilson {BIO 2078659 <GO>}

Okay. Operator, we'll take questions from one more person, please.

Operator

And that last question will come from Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

A couple questions. I guess one is, will the Chubb business be available to be ceded through ABR Re?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Yes is the answer, in a general term. But I have to be honest with you, I've hardly thought about that.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Okay. And I guess, a question for John Finnegan, the question came up in about where we are in the cycle, but the question for you really is kind of why now for Chubb? Is there anything particular that caused you to sell to ACE?

A - John D. Finnegan {BIO 1735942 <GO>}

No. I think that the answer is that – and for discussion, Evan's proposal made a lot of sense. We worked hard at it. And we came up with what we thought was a compelling transaction. We weren't driven by timing in particular. I think, as Evan says, there are some more reasons today that you might want to do a merger of this type than maybe five years ago. But we weren't out shopping it. This was a proposal that came to us and we thought it was a very good one. So it's driven more by the nature of the proposal, the nature of the company we're merging with, and the economics of the deal, and the strategy going forward.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Got it. Thanks for the answer. Good luck with everything.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Thanks a lot, Jay.

A - Helen M. Wilson {BIO 2078659 <GO>}

Thank you, everyone, for joining us this morning. Thank you and good day.

Operator

Ladies and gentlemen, this does conclude your conference for today. We do thank you for your participation.