

Acquisition of Novae Group plc by AXIS Capital Holdings Ltd Call

Company Participants

- Albert A. Benchimol, Director, President & Chief Executive Officer
- Linda Ventresca, Corporate Development Officer
- Matthew Kailey Fosh, Chief Executive Officer & Executive Director
- Peter W. Wilson, Chief Executive Officer, AXIS Insurance

Other Participants

- Elyse B. Greenspan, Analyst
- Jay A. Cohen, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

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

I would now like to turn the conference over to Linda Ventresca. Please go ahead, ma'am.

Linda Ventresca {BIO 5930519 <GO>}

Thank you, and good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the announcement of our acquisition of Novae Group. The offer announcement press release and investor presentation for this transaction were issued yesterday evening after the market close. If you would like copies of any of these, please visit the Investor Information section of our website, www.axiscapital.com.

We have set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing 1-888-317-6003 in the United States, and through the international number 1-412-317-6061. The conference code for both replay dial-in numbers is 7582829.

With me on today's call are Albert Benchimol, our President and CEO; Peter Wilson, CEO of AXIS Insurance; Matthew Fosh, the CEO of Novae; and Joe Henry, our Chief Financial

Officer.

Before I turn the call over to Albert, 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. Forward-looking statements include statements relating to the expected benefits of the offer for Novae, background to and reasons for the offer, information on the prospects of AXIS or Novae, and future capital expenditures, expenses, revenues, earnings, synergies, economic performance and future prospects.

Forward-looking statements involve inherent risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors could cause actual results to differ materially from those projected or implied in any forward-looking statements, including risks relating to the successful integration of Novae with the company, higher-than-anticipated costs relating to the integration of Novae, investment required in Novae to realize expected benefits, and facts relating to Novae that may impact the timing or amount of benefit realized from the offer that are unknown to the company.

AXIS expressly disclaims any obligation or undertaking to release any updates or revisions to these forward-looking statements to reflect any change in Novae's expectations with regards thereto or any change in events, conditions or circumstances on which any statement is based after the date of this presentation or to keep any other information contained in this presentation up to date. Accordingly, undue reliance should not be placed on the forward-looking statements, which speak only of the date of this presentation. In addition, we urge you to review the other disclaimers set forth in the presentation here, materials including the responsibility under the United Kingdom rules of the Takeover Panel.

With that, I'd like to turn the call over to Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Linda, and good morning, everyone. This is Albert Benchimol from AXIS Capital. Thank you all for joining this call. We're very excited about the news issued last night about AXIS' proposal to acquire Novae. This represents a new milestone in the continued evolution of AXIS as a 21st century specialty insurer and reinsurer. As you'll hear in more detail during the call today, this is both strategically and financially compelling.

Let me share some of the highlights and I'm doing so on slide 2. This acquisition is strongly aligned with our strategic vision for AXIS Insurance with low execution risk. It increases our scale and leadership in international specialty insurance. It brings to the table a highly complementary portfolio of business, which enables enhanced growth for the combined entity. It significantly strengthens our distribution platform, and not only does this deliver all of the aforementioned strategic benefits, but it is also financially compelling for AXIS shareholders. We'll spend more time on these points throughout the call.

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On slide 3, we show the key terms, structure, financing, and timing for the proposed acquisition of Novae. The proposed transaction is a 100% acquisition of Novae Group Plc at a price of 700 pence per share in cash for a total equity value of \$604 million. This represents 1.5 times Novae's tangible book value as of December 31, 2016, and a 29% (sic) [20%] premium to the 30-day average closing price as of yesterday.

The transaction is, of course, subject to all customary regulatory approvals, as well as approval by Novae's shareholders. We've expected the completion in the fourth quarter of this year. Matthew Fosh, who's here on the call with us today, will be appointed Executive Chair, Europe and Rob Forster, who is Novae's Chief Underwriting Officer, will be appointed to a senior underwriting management role on the leadership team for AXIS Insurance's International Division here in London. We're excited to welcome the Novae team to AXIS and believe that their expertise in the London international specialty markets will be valuable in ensuring a smooth integration and driving the success of the AXIS-Novae combination.

Turning to slide 4, many of you have followed our story. As you can see from this slide, much has been accomplished since our inception in 2001 and indeed in recent years. We've delivered compound annual growth in diluted book value per share adjusted for dividends of over 12% since 2002. We've achieved an excellent value creation through the execution of a clear strategy rooted in being a leader in specialty insurance and reinsurance businesses. Critical to this execution is portfolio optimization.

For those of you who know us, we've been delivering very diligently on a plan to deliver less volatile, more consistent performance across our portfolio with superior returns. As we move through this presentation, you'll see a number of parallels to the Novae story, and that's one of the key reasons that we believe that this combination will be successful.

Before I introduce Matthew Fosh, CEO of Novae, I do want to say that we've been following Novae for many years and we've been very impressed with the work that you and your team, Mathew, have done to focus Novae to make it more profitable and to really position it as a very strong leader in the Lloyd's market. I think this is a perfect combination of our businesses to create a London market leader, and I welcome you and your team to AXIS. Matthew?

Matthew Kailey Fosh {BIO 2270793 <GO>}

Well, thank you, Albert. And good day, ladies and gentlemen. Just to look at the two slides that I have here in front of you to give you a sense of Novae that perhaps you don't know that well. We are a Lloyd's business, a pure Lloyd's business, and we are one of the top players in Lloyd's. You can see there on the top right \$1.2 billion of gross premium written in 2016. You'll note here the diversity across the three divisions there below, and I'll come to second in the changes that we've undertaken there to make the business fit for the world that it is now rather than it was, I'll come to that in a second.

Novae has an established reputation as a leader in the London marketplace. We are top 10 syndicate at Lloyd's and an operating history of over 30 years, we were founded in the

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mid-1980s. And a return on equity averaging 13.2% over the last five years after adjusting for the recent Ogden rate changes which impacted the 2016 results. But other than that, 13.2% over the last five. In terms of investment portfolio, we have a high quality liquid investment portfolio and we have 350 employees primarily in London. So that's the background of the whole business.

If you turn to that next slide, it gives you a sense of the detail behind that. Recently, we announced plans to refocus our portfolio on a select group of core classes. Now, that is a plan that - we completed that plan in May and it's been underway for a while. Basically, what it means is saying, you need in today's market to focus on those classes where you have a demonstrable and sustainable competitive advantage.

As the markets got tougher, so you need to focus on where you could add value and bring relevance to the brokers and so on. And that you see going on here in the bottom right-hand corner, you see that dark area where we show the growth over time, over four, five years, of those invest classes, where we have a proven track record. And that's what we talk about for the invest and maintain classes.

Now we've demonstrated our commitment to a portfolio that delivers consistent, sustainable and attractive returns by doing the difficult thing of exiting over £130 million of gross written premium over that same period, while growing our invest and maintain classes by over £550 million over those four, five years you see there. And that's what you need to do. As the markets got tougher, you've had to be ever clearer about where you have a competitive advantage.

And we believe the portfolio, as it stands today, fits perfectly with AXIS, the AXIS strategic vision. And we think, by putting the two together, the combine (09:39) is uniquely positioned now to maximize the potential of Novae and we can leverage the tremendous assets that AXIS has, the reach, the bandwidth, the management bench strength and all that, which allows us to exploit the advantages of having created the portfolio that we have now. So, we're very excited.

Peter, you're next, I think.

Peter W. Wilson {BIO 4267902 <GO>}

Thank you, Matthew. I think you'll be able to tell from the comments that Matthew has made and then the comments that I will make from the AXIS perspective why we view this as such a compelling combination.

I'd like to turn your attention to slide 7, if you will. I'll spend some time discussing just how strongly this acquisition aligns with the AXIS Insurance strategy. We value expertise and insight in specialty risks. Together, AXIS and Novae create a top 10 Lloyd's franchise with an established reputation as a leader in the London market. Novae's underwriting teams bring deep expertise and attractive classes, which AXIS has been looking to grow, such as specialty property facilities, marine liability and cyber. The addition of these talented underwriters gives us a chance to take more lead positions and also brings long-standing

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relationships with over 650 cover holders, providing increased access to attractive, more consistent small account business.

Portfolio optimization is also critical to our strategy. Novae's business is largely complementary to AXIS' existing portfolio, bringing the benefit of diversification without significant attrition. And it's not just Novae's portfolio that is additive to our business, Novae also brings an appreciation of innovation, having broader number of new products to market, including the first computer prime products. The access to rich underwriting data can also be leveraged to optimize both portfolios and improve underwriting, pricing and claims insights.

Novae has an underwriting culture that is focused, disciplined and highly compatible with the AXIS vision. Strategic relationships with our business partners are important to us. In addition to increasing the AXIS profile at Lloyd's, this transaction will also increase scale and relevance with our strategic broker partners and third-party capital providers. Its market-leading binder business provides the potential to extend in other lines, as well as unique franchise and attractive local UK specialty business.

Finally, we can't thrive as a business without an efficient operating platform. Through this combination, opportunities arise to increase operating efficiency and drive meaningful cost synergies and top line growth. We'll be able to leverage recent investments already made in our London and Lloyd's operations. Novae's market-leading binder operations, when combined with AXIS, has greater scale to support efficiency investments and expansion into other lines or risks. And AXIS' company platform creates flexibility for Novae's clients and distribution partners with the potential to reduce acquisition costs.

I'd ask you to now to turn to slide 8. Slide 8 with the acquisition of Novae, AXIS will increase its scale and market relevance in the international specialty insurance space. The pro forma company will be a \$2 billion player in the London specialty market, a top 10 insurer at Lloyd's and a leading underwriter of attractive binder business at Lloyd's. Furthermore, we meaningfully enhanced our position in the emerging cyber insurance space, strengthening our leading Global Professional Lines franchise, all in addition to AXIS' position as a top 10 U.S. excess and surplus lines player.

If I turn over to slide 9, we set out a summary of the pro forma business mix on slide 9. You can see that Novae increases the contribution of specialty insurance. Lloyd's and international specialty insurance business to AXIS, which is consistent with the strategic vision we set out for AXIS. The pro forma business writes over \$6 billion of gross premium, of which 61% is insurance business, 24% is from Lloyd's and 51% is written outside the U.S. in Bermuda.

Turning to slide 10. The table on slide 10 demonstrates the complementarity of our two portfolios. Novae's premier marine and cyber franchises provide AXIS with deeper and broader underwriting expertise in these invest classes. And the combination with Novae brings us lead capabilities in these and many other specialty classes. Novae also brings a number of new classes to our portfolio, including a UK and European property business,

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focused on SME and specialty homeowners, which is additive to our existing property book.

As we dug deeper into the profile of our respective portfolios, it was remarkable just how complimentary we found these portfolios today. Not all of these can be captured in this table, where Novae is strong, has presence, leadership and/or scale, we tend not to be in the business line, and are subscale or want to grow, where Novae writes a large portion of a class of business under binders, we are no more oriented towards open market business. Therefore, levels of pure overlap are surprisingly low. We're comfortable with the benefits combining our two portfolios more than offset any impact or of any overlaps.

Turning to slide 11. It shows combination with AXIS will enhance Novae's top line growth in multiple ways. These include access to more distribution channels for certain lines, including UK and European property facilities and associated UK liability business; access to broader - let's say, the broader Lucas (15:21) platform - I guess, we can say the AXIS platform; the ability to write larger lines and retain more business; increased relevance with strategic brokers and increased reinsurance purchasing power and optimization. We also believe there are select opportunities to advance AXIS Reinsurance plans for Lloyd's.

Finally, the combination may allow AXIS and Novae to expand our third-party capital initiatives, which allow us to do more for our clients and deliver attractive fee income.

And finally on slide 12, shows the combined company will also benefit from the significantly enhanced distribution platform, featuring increased relevance and scale with Lloyd's brokers. Further, we'll have greater access to more stable, attractive binding authority business through Novae's market-leading binder distribution network of over 650 coverholders. With more than 50% of Novae's business produced through coverholders, pro forma AXIS specialty or specialist distribution will grow from 14% to 27% of premium written. Additionally, Novae's binder relationships will allow us access attractive SME and personal lines businesses, diversifying our distribution network while strengthening relationships with key Lloyd's brokers.

And with that, I'll turn it back to Albert, who'll discuss the financial merits of the transaction for AXIS and our shareholders.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Peter. Our conviction with respect to the strategic merits of this transaction is matched by our belief in the significant value creation opportunity for AXIS shareholders, many of whom are on this call. We believe emphatically that this is the financially compelling transaction. As you heard from Peter, there is a long list of well-identified revenue synergies, which we believe substantially offset any overlap between the businesses. We've also identified \$50 million of run rate pre-tax cost savings, which include very little from front-office functions, such as underwriting and claims. And we are confident that these cost savings will be fully realized by year two.

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It is our expectation that the transaction will be accretive to operating EPS and operating ROE in year one, with high-single-digit EPS accretion expected by year two. It is also expected to be roughly neutral to book value per share at close and very minimal impact to tangible book value per share, with growth in book value per share and tangible book value per share accelerating post-transaction, driven by the increased earnings powers of the combined company. Further, we believe that given the size of this transaction, the scope of integration limited to one office and the complementary nature of the Novae business to our existing book, the enthusiasm and goodwill of our employees, execution risk is very limited.

In summary, we believe that this combination represents the rare opportunity to accelerate our strategic vision. Hitting on multiple objectives, while delivering a very attractive value proposition to our shareholders with limited execution risk.

And with that, I'd like to open the line for questions. Operator?

Q&A

Operator

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

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. So first question, can you give us probably more background about this transaction, and how do you think is Lloyd's marketing now, because of the recent pricing pressure as well as high expense over there? And why Lloyd's is attractive? And also, did you talk with other independent Lloyd's syndicates and why Novae is best fit for you?

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

Thank you, Kai. I think there's no question that we are all experiencing challenging market conditions in all markets in all countries. And Lloyd's is no different. However, we remain convinced that Lloyd's is the preeminent international market for specialty risks. And the concentration of talent here in London and the number of companies and markets and brokers is such that we really do not see that changing in a material way in the near term.

The other thing is that participating in the London market and participating at Lloyd's over the last three years, we've also been impressed by the increasing conviction by Lloyd's and by the various markets within Lloyd's to change the Lloyd's market; looking to become more efficient, change of targeted operating model, lower costs. So we actually believe that Lloyd's is doing the right things.

And so, if you, like AXIS, want to be in global specialty lines, Lloyd's is one of the markets that we have to participate in. As you know, we feel very, very proud that we're diversified; we are in a number of insurance and reinsurance markets; we do U.S. E&S; we do professional lines; we do A&H. We're in a lot of different markets. What matters to us is that we cannot be everything to everyone. But in a market where we choose to be, it's

imperative that we have the relevance, scale, expertise to be a differentiated provider and competes in a very positive way. And that's what we want to do with Lloyd's.

As to Novae, I really do believe it's a perfect fit. As you've seen in terms of the books of business, and as both Matthew and Peter have discussed, they're in many lines of business that we are not in, that we would like to be in. They complement many of our lines of business; they are a pure specialty lines player.

We don't have to work our way through different lines of business. Matthew and his team have already done a lot of the hard work of focusing that book of business. And in one of the slides that was referenced to, Maintain and Invest lines, the way we see it, given the good action that Matthew and the team have done, is that the Maintain and Invest lines that have delivered an average combined ratio of 80% over the last five years will essentially comprise 100% of the book that we are going to be taking over in year one, 2018.

So we have a high level of confidence that this is a perfect fit with our book of business, there's complementarity, the talents within Novae is outstanding. We're really thrilled to be bringing them into our company. And combined, we will create a very successful \$2-billion-plus specialty company in the London market.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

And, Kai, can I just add? It's Matthew Fosh here, the CEO of Novae. We are a something of a rare beast. We are the only pure Lloyd's single-platform business there is of any scale. We're the only quoted pure Lloyd's player. And so, whilst I'm sure Albert did all the due diligence he needed to do to check whether we were the company he wanted to get to speak to, we do offer something that others don't in terms of that scale, in terms of that pure specialty play. And as Albert said, we have taken the surgery necessary in the last two, three years to get very, very pure on that specialty approach. And that's one thing - one fashioning reason, I suspect, Albert lighted on us.

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

Thanks, Matthew.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you very much for the comments. My second question on the financial accretion. If you look at Novae's earnings for the past three years, you've taken Ogden rates for 2016, you're running about \$70 million to \$80 million pre-tax earnings. That itself is more than 10% of expected earnings for AXIS going forward. So I was just wondering even before the \$50 million cost savings, so I was just wondering what's the basis for the high-single-digit accretion by year or two, and is something I'm missing, amortization or other things?

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

I think we're taking a reasonably prudent view of the market as we're seeing it. I think that the market today is not as attractive as it was three years ago - two years ago until as the

business, as you know, we earned the business on a lag basis. And our view is that we don't want to create expectations that aren't reasonable. We've always been prudent in our outlook. But, Kai, to your point, I think it speaks to the high level of confidence that we have that, moving forward, this union is going to be very attractive to our shareholders.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you. Last one, if I may, very quick is that, the stock Novae is trading above your £7.00 offer, so indicating some possibility of additional bps. So I just wonder what's the breakout fee as additional safeguard for the transaction.

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

In the UK, the rules for takeovers are very clear. There are no protections and no breakup fees in transactions. So we believe that the offer that we have put on the table is a very compelling valuation for Novae's shareholders. I think it represents a healthy premium to Novae's market price. As I mentioned, 29% over the average price for 30 days. It reflects the benefit that we see coming; and frankly, some of the benefits that could only happen in a union with AXIS. So prices move up and down for any number of reasons, but we believe that what we have here is a compelling offer to Novae's shareholders.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you very much and good luck.

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

Thank you.

Operator

Thank you. And the next question comes from Elyse Greenspan with Wells Fargo.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi. Good morning. A few questions. First, Albert, if you can just walk us through how you became comfortable with Novae's reserve position in terms of your diligence for this transaction? And I know there's been some press reports surrounding maybe some legacy reserve transaction on Novae's part. If you guys can just update that kind of where we stand on that and how that came into your thought process surrounding this acquisition?

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

So, Elyse, thank you for the question. I feel very comfortable with the extent of our due diligence on Novae. And again, going back to the point, it's a very focused business. It's a business that we participate in every day. So we have a lot of familiarity with the lines of business. We reserve our own lines in similar lines (26:08). I will say that we were very impressed with the processes, the professionalism of the approach.

We've done our work. We feel very comfortable as to the quality of the balance sheet. As I've said in one of the interviews, we wouldn't have done this deal if we weren't satisfied with the quality of the people, the quality of the book and the quality of the balance sheet. And we are satisfied with all three. As to the press reports that you referred to, my understanding is that these are unsubstantiated rumors. And, of course, we don't comment on that.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you. And my second question. Can you just comment - I know you guys said you would finance this deal with cash on hand and maybe some debt. How do you think about your buyback just given that we're now in the middle of hurricane season, just entering into this transaction now change your thought process around buying back your own shares?

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

Thank you for asking that, Elyse. And, in fact, it does. As you know, we'll be taking on a \$1 billion worth of new premium. And so it would make sense for us to have a little bit more capital to support that premium. So as of now, it is our view that we will suspend our share repurchases for the next two quarters, and then, resume repurchases in early 2018. And we believe that that is the appropriate way to move forward.

I will say this because I expect there will be a question about share buybacks. We have been, I believe, a very responsible steward of capital. And we have given back to our shareholders a significant amount of capital in the form of dividends and share repurchases. Where we are today is we have done significant analysis of the benefits to our company and to our shareholders of continuing the buybacks and not do this acquisition, or do this acquisition and hold back on the buybacks for the next couple of quarters.

And I can tell you that we are absolutely convinced without a doubt that the economic benefits to our company of making this acquisition far outweigh anything that we could do in the near term in terms of continuing buybacks. This is the right strategic and financial decision for this company.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then, in terms of Novae, what about its CAT exposure? I see about just under half the business is property. If you can just let us know where their biggest CAT exposure is? I assume there is some exposure to the U.S., if you can just walk us through that especially now that we are in the middle of hurricane season?

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

That makes good sense. As you know, our net appetite for incremental CAT risk is reasonably limited. So, what I would say to you is that a good part of their property book is already shared with third-party capital, number one. And although we don't necessarily have great appetite for incremental CAT exposure, we believe that this is business that is going to be very attractive to our third-party capital partners.

And so, we're looking to see - we view this as an opportunity to continue to be helpful to the market, and also provide attractive premium to our third-party capital partners and generate essentially risk-free fee income for AXIS. So, for us, this is a win-win-win. Of course, as the wind season continues, we will be doing the normal risk management that you would expect us to do.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

And so, where does their - PML, I guess, where are they writing to today, do they disclose it kind of like you guys do?

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

I don't think they do and given that the company continues to be a publicly listed company, we don't think it's appropriate for us to create new disclosure for them.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

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

You're welcome.

Operator

Thank you. And the next question comes from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning.

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

Good morning.

Q - Meyer Shields {BIO 4281064 <GO>}

I don't know if this is for Albert or Matthew, but I'm looking at slide 6 in terms of the breakdown of Novae's gross written premiums between invest to grow and other classes, and between that and the various lines that were put into runoff, how much of the \$1.2 billion of 2016 gross premiums is AXIS interested in renewing over the course of 2017, 2018?

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

So, let me split this question in two, if I may. I think that the proper question for Matthew is, given all the actions, what is the - I don't know if they've already projected the premium level for 2017 or not, but I think from our perspective, we can talk about how we feel about the book. Fine?

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A - Matthew Kailey Fosh {BIO 2270793 <GO>}

Yeah. So, our gross written premium will be around £940 million for 2017 or the net earned will fall slightly. Your question about how much of the business have we discontinued, is that what you're after, Meyer? Could you repeat, I'm talking pounds now, okay?

Q - Meyer Shields {BIO 4281064 <GO>}

Okay.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

Pounds. Right?

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah. That is my question.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

Okay. So, if you look at the 2016 number, we have probably – since the end of 2016, we probably discontinued about £80 million or £90 million of all business that we no longer thought was sustainably profitable, okay? We have replaced that in 2017 with equivalent amounts of growth. So, it's going to be relatively stable for 2017 over 2016. Does that answer your question, Meyer?

Q - Meyer Shields {BIO 4281064 <GO>}

It does. Yeah. Okay.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

But it's the business mix that's changing, it's this absolute determination to know. Look, this market is tough as we acknowledge, and when a market gets tough, you've got to be crystal clear about where you think you have a competitive advantage, right. That's what Albert says the whole time. He's especially asked (31:58) because he believes specialty is the way you can differentiate, and we entirely agree and it's part of our – and that's our roots, okay?

So, when the market changes, you've constantly got to be adjusting your portfolio because classes that were profitable three years ago are no longer profitable, right? And so, you have to discontinue as a – de-emphasizing it as a classic management just like a fund manager, right, one's managing assets, we're managing liabilities, okay? And so, that's what you have to do, but you've got to be really, really disciplined in markets as they are now.

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

Thank you. And from our perspective, as I mentioned earlier, we feel very good that, in 2018, which will be the first year of operation, we believe that 100% of that business will

be in those maintain and invest classes. So, we're starting with a book of business that we think is very attractive. And then after that, of course, we just do the normal reactions to opportunities in the market.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. No, that makes perfect sense. That's very helpful. Can you give us some guidance in terms of what you're modeling for sort of typical acquisition-related premium spillage?

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

One of the things that came across here was the complementarity of the books of business. And as we looked at it, we felt that there were so many opportunities actually for positive leverage in terms of taking Novae's products, placing some of them on company paper versus Lloyd's, working through our distribution, really leveraging the capabilities that we have, buying less reinsurance, all of those, anyway we cut this, we felt that the positive synergies far offset any potential negatives.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

And, Meyer, one - if I could jump in, this is Matthew. One of the aspects the board was dealing with was the fact that we have faith - by being the specialist house, we are enjoying more opportunities than we have capital. And so, now it's a question of how do we cope with the opportunities we're being faced, because when you are very clear about quite where you add value and what you can bring to the brokers and so on and so forth, you get opportunities and they bring you more. And this is only, we believe, Albert and I believe, that by putting these two businesses together, that's only going to enhance those opportunities. And coping with the requests and opportunities we have is going to be one of the challenges of putting these two businesses together.

Q - Meyer Shields {BIO 4281064 <GO>}

Fantastic. That's very positive. And one last question if I can, Novae's tax rate has been higher than AXIS's, should we assume that that 10%, 11% tax rate persists on that portion of the business or can it be filtered through lower tax jurisdiction underwriters?

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

I think, as you look forward, I don't think that that's going to have a significant impact on the pro forma tax rates of the merged company. There is a fair amount of normal volatility, if you would, to the location of the earnings and where they come back and forth, so long term I don't see a big change in our tax rate.

Q - Meyer Shields {BIO 4281064 <GO>}

Fantastic. Thanks so much.

Operator

Thank you. And the next question comes from Jay Cohen with Bank of America Merrill Lynch.

Q - Jay A. Cohen {BIO 1498813 <GO>}

Yes, thanks. Just a couple other questions. It looked like in the spring, Novae essentially shed some of its catastrophe business. And I'm wondering how much and does that free up any capital for the company.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

Jay, explain shared some of its catastrophe business.

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

Shed.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

Oh, shed.

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

(35:27).

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

Shed, okay. Yes. I mean, what we're talking about is that, it comes back to this point, Jay, about do we - where are the areas we have a demonstrable leadership/competitive advantage. And in property cat, we are not a property cat player of any scale. We cannot honestly claim to be a leader in London or anywhere else in property cat. So what do we do? We shared it and shed, we worked with Fidelis, that is a leader in property cat in this country, and we said, okay, you take our perfectly nice, but not especially good, book, but they did want - you can do more with it. We'll share that with you and we'll quota-share back some of your book where you are clearly leaders.

And it comes back to this point is, unless we are leaders, unless we are really special or something, we don't want to do it. And so with this journey we've been on to complete that portfolio chain. So, when you say shed, we actually just exchanged a particular type of business where we thought it was okay, but we weren't leaders with - we've been working with another partner, we then quota-shared back their book, which was demonstrably top performer. So, that's...

Q - Jay A. Cohen {BIO 1498813 <GO>}

Got it.

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

...what, I think, you're referring to, okay, Jay?

Q - Jay A. Cohen {BIO 1498813 <GO>}

Yeah, no, very helpful. Thank you. So, net-net, your cat premiums probably didn't change much, it's just coming in a different form?

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

That's exactly the point, Jay, yes.

Q - Jay A. Cohen {BIO 1498813 <GO>}

Great. And then, the other question, the \$50 million of expected savings, Albert, I'm assuming that's sort of a net number. In other words, you may have to make some investments in the business, but \$50 million is what you expect to help the bottom line eventually?

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

That's right. Look, as you know, we continue to be investing in the business, we've spoken to you with some of our initiatives around the future insurance platform, the systems that we have. We're clearly continuing to grow our investments in data and analytics. We will continue to do that. But the \$50 million that we've identified is a chunk of savings that we can deliver within the first two years.

Q - Jay A. Cohen {BIO 1498813 <GO>}

That's great. Thank you.

Operator

Thank you. And as there are no more questions at the present time, I would like to return the call to management for any closing comments.

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

Well, thank you very much, and thank you for your interest in this transaction. As you can tell from everybody on this call, we're highly enthusiastic. I think this is really a unique opportunity to put together two specialty underwriting shops that have a similar conviction around underwriting discipline, around entrepreneurialism and around excelling in the markets in which we choose to compete. It's a unique opportunity and we are very pleased to be able to move forward with the acquisition of Novae. So, again, Matthew...

A - Matthew Kailey Fosh {BIO 2270793 <GO>}

I would second that, Albert. Thank you very much. It's been a pleasure so far.

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

And we look forward to reporting to you on our ongoing progress. Thank you very much.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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