

Sompo Japan Insurance, Inc. Acquires Canopus, 10th Largest Lloyd's Insurer Conference Call

Company Participants

- Shinji Tsuji, Senior Managing Executive Officer

Presentation

Shinji Tsuji {BIO 16148256 <GO>}

I am Tsuji from NKSJ Holdings. Thank you very much for attending this teleconference despite of your busy schedule.

Today I would like to explain Sompo Japan's acquisition of Canopus, a Lloyd's insurer, which was just announced today. (inaudible).

This shows the key details of the acquisition of Canopus. Our purchase price is about GBP594 million, equivalent to about JPY99.2 billion. This is the largest M&A transaction in our history. The acquisition is expected to close somewhere after April 2014. So Canopus will begin to contribute to our consolidated financial statements in fiscal 2014.

Canopus has achieved high growth by utilizing excellent its underwriting capabilities and strong sales channels, as well as M&A, with premium income growing at an annual rate of 10.9% on average over the past five years. It is one of the top 10 companies operating in the Lloyd's market. Through its appropriate risk controls and efficient business portfolio structures the company has achieved high profitability, with ROE of 18% on average over the past five years, excluding 2011 when many large-scale natural disasters happened.

Please move to page 3. We have a suciant [ph] to the bank proceeds [ph] insurance business as one of our pillars for achieving a sustainable growth cycle. And our policy to increase revenue especially in retail business in emerging countries as well as the specialty insurance business in developed nations. The acquisition is a step in realizing this growth strategy that we have been explaining to the investors.

The key point is that this acquisition means the probability of achieving the numerical business target laid out in our 2015 management plan has significantly increased. In addition, by acquiring Canopus, which has an excellent track record in the specialty market, specialty insurance business, we can make a full entry into the overseas specialty market, with the aim to expand further in the future.

Another key thing, our two business are totally complementary as there's no major overlap between our Group and Canopus in terms of insurance claims and geographical coverage. We do not expect any change in shareholder return policies.

Please move to page 5. On this slide we provide an overview of the Canopus business.

It was established in 2003 and is one of the top 10 companies operating in the Lloyd's market. Canopus has an experienced management team led by Chairman and CEO Michael Watson and a team of excellent underwriters.

Gross premium income in 2012 was GBP692 million, up 12% compared to the previous year, or about JPY115.6 billion. Consolidated net profit was GJP47 million, about JPY7.8 billion. Consolidated net assets for fiscal 2012 was GBP358 million, about JPY59.8 billion.

Canopus has raised its presence in the extremely large US market by acquiring Omega Insurance Holdings Limited in 2012, which operates in the North American market and strengthened its relationship with 150 managing general agents, commonly known as MGA. Canopus concentrates on three business units, namely Global Property, Global Specialty. And UK Retail.

Please go to page 6. Canopus' gross premium income is based on a diversified portfolio that is well balanced in terms of insurance types and geographic areas.

Here we have the breakdown of premium income. Global Property unit accounts for 40%; Global Specialty for 34%; and UK Retail for 26%.

Global Property underwrites risks mainly in the property insurance market in North America.

Next, Global Specialty focuses on marine energy and professional liability insurance. It aims to achieve high profitability whilst suppressing volatility.

In addition, UK Retail focuses on niche markets in the UK and provides fire insurance and others. This unit aims to achieve stable revenues.

Geographically, with North America about 40% and the UK about 30% at its core, Canopus undertakes the insurance business globally.

Please go to page 7. Here we detail Canopus' business development. Gross premium income grew by about 11% annually on average over the past five years, achieving substantial growth. Canopus has generated stable profits except for 2011, when there were a lot of large-scale natural disasters.

Performance in 2015 has also been solid. As of the end of the first half, Canopus generated profits of GBP42 million, about JPY7 billion.

Please go to page 8. With a diversified and well-balanced portfolio structure in terms of insurance types and geographical coverage, along with its excellent underwriting capabilities, Canopus has achieved high profitability, with a combined ratio of 94% and

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ROE of 18% on average over the past five years, except for 2011 when large-scale natural disasters had a great impact.

Please turn the page 10. This is actually the [ph] reduction of the profit in the overseas insurance business. Profit from NKSJ Group's overseas insurance business is expected to increase substantially with the added current revision [ph] from Canopus.

Canopus is expected to begin contributing to our consolidated financial statements starting in fiscal-year 2014. There will be a limited impact to the current fiscal year; on the other hand the profits from Canopus are expected to reach [ph] JPY9.4 billion by 2014, which will contribute significantly to our overseas insurance business. In addition, Canopus will contribute substantially to achieving our goals for fiscal 2015.

Please move to page 11. The specialty market is described here. In the specialty market, as represented by Lloyd's and US excess and surplus market, or E&S market, property insurance and marine insurance are undertaken through the use of sophisticated expertise and advanced technology. In short, it is highly profitable because underwriting in this market requires sophisticated expertise or know-how in underwriting and also the degree of flexibility insurance policies. And premium is high.

Please turn to page 12. The Lloyd's market is worth just under JPY4.3 trillion. On a long history of 325 years, it is a prime example of the specialty insurance market.

Lloyd's imposed severe self-regulations and discipline upon its members. Disciplined business management ensures high growth as well as stable revenue, maintaining the competitive advantage of Lloyd's market.

Along with Lloyd's, the other specialty market is the US E&S market. It's worth about JPY3.5 trillion. While the market size has fluctuated depending on the premium cycles, it has shown consistent growth.

This shows the comparison of the US and European markets. The Lloyd's market and the US E&S market are highly profitable with low combined ratios when compared with the US nonlife insurance market. In order to succeed in this market, one of the most important points is to have highly skilled underwriters like Canopus.

Please move to page 14. The NKSJ Group and Canopus are in an ideal position to complement each other, as there is little overlap between our operations in terms of insurance type and geographical coverage. Specifically, our Group has the developed overseas market with a focus on Japanese companies operating overseas; and recently we have strengthened our businesses with a focus on retail businesses on emerging countries including Asia, South America. And in Turkey.

On the other hand, Canopus has maintained its core business in specialty insurance globally, especially in Europe and the United States. Therefore there is no major overlap between our existing overseas businesses and theirs.

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Please go to page 16. In terms of impact on our management plan, as we mentioned earlier this acquisition will substantially increase profits from our overseas insurance businesses. As shown before, our domestic property and casualty insurance and domestic life insurance businesses are developing favorably. We believe the probability of achieving our management plan for fiscal 2015 has been increased as the result of this acquisition.

Please turn to page 17. Here we explain the purchase price and its impact on our capital. The purchase price of GBP594 million is equivalent to approximately 1.5 times the tangible net assets of Canopus as at first-half 2013.

Looking at past records of M&A transactions, in the lowest market the average multiple is around 1.5 times. But in the price we are paying for Canopus, at this same level.

The goodwill resulting from the acquisition is based on certain assumptions, which we estimate at GBP200 million, about JPY33.4 billion. We don't expect any change in shareholder return policies to be caused by the acquisition.

In conclusion, I would like to say it again, that we are aiming to expand our overseas insurance business by making a full entry into the overseas specialty market through the acquisition of Canopus.

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