

Transactional Risk and Representations and Warranties Insurance Market Update, Q1 2017

Representations and Warranties (R&W) insurance is designed to cover losses resulting from the breach of a Seller's representations and warranties within a purchase agreement, typically used to:

- **Replace** traditional indemnification and escrow under a purchase agreement
- **Supplement / Increase** the existing indemnification limit and terms
- **Backstop** a Seller's existing indemnification and corresponding escrow requirements

Typical Transaction Structure Utilizing R&W Insurance

99.2% Proceeds at Close
(Indemnification limited to 0.5% "Cap" with Protection up to 10%)

R&W Insurance to Replace Majority of Indemnity (10.0%)

Cost of R&W Policy (0.3%)

Indemnification "Cap" (0.5%)

Buyer Basket (0.5%)

R&W Insurance Market Trends (2012 - 2016)

Market Trend	Prior to 2012	2012 - 2014	2016 (E*)
Premium (% of Policy Limit)	6.0 - 8.0%	4.0 - 6.0%	2.0 - 4.0%
Retention (% of Enterprise Value)	5.0 - 7.0%	2.0 - 4.0%	1.0 - 2.0%
Timing (Submission to Binding)	30+ Days	15 Days	3 - 7 Days
R&W Insurance Broker Engagement	Late Stages	Middle Stages	Initial LOI

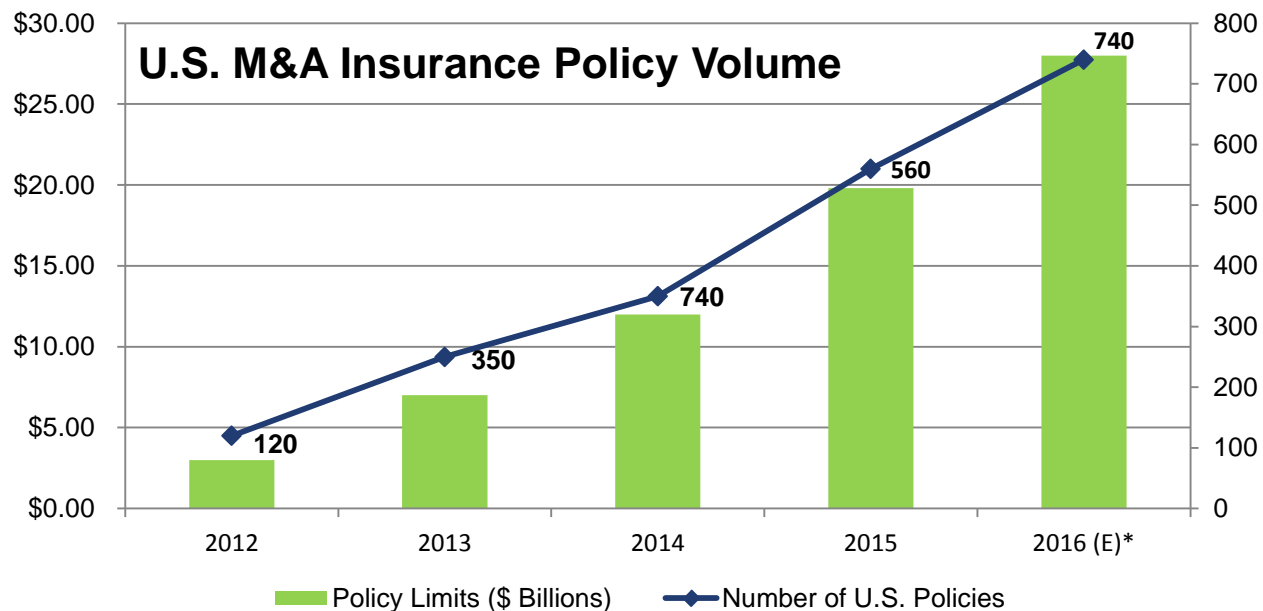
Representative 2016 Transactions:

Industry	Manufacturing
Client	• Large private equity firm in the Bay Area
Transaction Size and Details	• \$35.0 million sale of one of the portfolio companies within the manufacturing space
Benefit to Buyer and Seller	• Seller was able to reduce the total escrow amount by \$3.0 million • Policy enhancements included increased coverage for materiality scrapes, consequential/multiplied damages, and inception at signing

Industry	Technology / Media
Client	• 4 th largest private equity backed broadcast media company
Transaction Size and Details	• \$265.0 million acquisition of a major competitor • Buyer approached Equity Risk to structure a R&W insurance policy to replace the Seller's traditional indemnity obligations to the Buyer
Benefit to Buyer and Seller	• Inadvertent misstatements attributed to the Sellers' representations and warranties—and losses arising from them—would be handled through the R&W insurance third-party • Negotiated policy period was 3 years for General and 6 years for Fundamental and tax representations (including tax indemnity)

Industry	Manufacturing
Client	• International Corporate Acquirer
Transaction Size and Details	• \$500.0 million acquisition of a leading provider of creative packaging solutions • Seller required Buyer to use R&W insurance instead of traditional Seller indemnification • Purpose was to reduce the Seller indemnity "cap" and escrow to <1.0% of the total enterprise value • Equity Risk structured a \$50.0 million limit policy to satisfy the requirement
Benefit to Buyer and Seller	• Transaction closed with 99.0%+ proceeds available to the Seller at closing

Usage of R&W Insurance On Private, Middle Market Transactions Continues to Grow



Strategic Benefits to Seller:

- Reduce / Eliminate indemnity/escrow, maximizing proceeds available at close
- Contain looming liabilities
- Reduce tail liability
- Earlier distribution of capital to investors

Strategic Benefits to Buyer:

- Differentiate bid in an auction process with more competitive indemnity to Seller
- Extend survival periods of protection
- Expedite transaction negotiations
- Protect future relationships with Seller management team

Why does the R&W insurance market continue to grow at an exponential rate?

- Premiums have compressed, terms have broadened, retentions have decreased, and the timing required from initial discussions to binding coverage has shortened significantly.
- Transaction value is increased and negotiations streamlined due to potential Buyers being more comfortable with the Representations and Warranties under the purchase agreement.
- Sellers can walk away more cleanly at close with greater than 99% proceeds.
- Policies are underwritten by former M&A attorneys, which increases the comfort level on both the Buy and Sell side.
- Claims are arising and being paid by insurers – 14% of policies underwritten by AIG between 2011 and 2014 resulted in a claim.*
 - The leading causes of claims have historically been misrepresentations of financial statements, tax errors, and discrepancies from the acquisition's contracts.*

*BusinessWire Article dated 2/25/2016 detailing a report from AIG regarding R&W insurance claims.

Equity Risk Partners

Equity Risk Partners – Transactional Risk Leaders

Michael Marcon – President, HUB International and Founder, Equity Risk Partners

Michael Marcon has more than 25 years of insurance experience, pioneering the delivery of insurance due diligence to private equity firms and specializing in alternative risk financing and transactional insurance products. Before launching Equity Risk Partners, Mr. Marcon was Executive Vice President of Aon Risk Services - Mergers and Acquisitions Group and he was instrumental in creating the Private Equity practice for Aon's predecessor company, Rollins Hudig Hall. He served as Regional Manager - Finance for Transamerica Corporation, as well as positions in Special Risk Financial and Capital Management for CIGNA Corporation.

Mr. Marcon holds an undergraduate degree in economics from Ursinus College and an MBA in finance from Drexel University.

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Kirk Sanderson – Senior Vice President – Transactional Risk Practice Leader

Kirk joined Equity Risk Partners in 2014. He has more than 10 years of M&A and transaction advisory experience and is responsible for overseeing the Transaction Risk / M&A Insurance Practice. Kirk directs the strategic planning, business development and delivery of Transaction Risk programs at Equity Risk Partners, including Representations and Warranties insurance, tax liability and tax credit insurance, and other contingent liability insurance solutions.

Prior to joining Equity Risk Partners, Kirk spent 7 years at Aon in the M&A Solutions group, where he helped build the Transaction Solutions team. He focused primarily on structuring R&W insurance policies for private equity, legal and corporate clients. Kirk graduated with a MBA in Strategy and Finance from Bentley University.

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Luke Parsons – Principal – Transactional Risk

Luke joined Equity Risk Partners in 2014 as a Business Development Associate. Before Equity Risk, Luke worked as an underwriter at Travelers Global Technology in San Francisco, underwriting Property, Casualty, Workers' Compensation, Professional Liability, and Cyber Liability.

Luke received a BA in Leadership Studies from the University of Richmond and a MBA from Babson College. He also holds the Associate in Risk Management designation.

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