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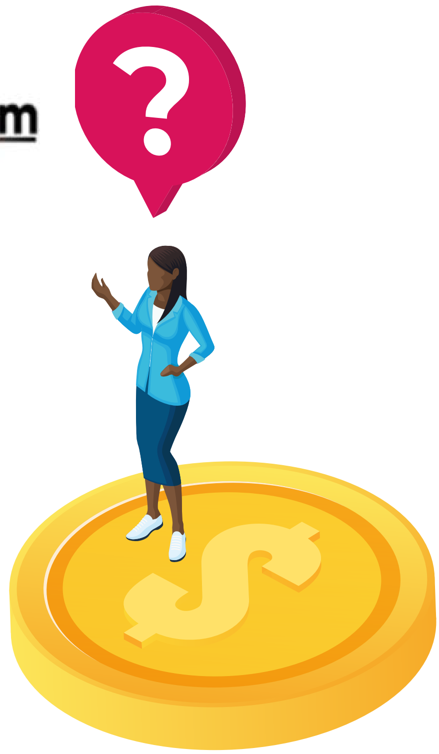

Why buy insurance for your deal?

> M&A transactions are complicated and often fraught with risk. Small business sellers, especially those who are entering a deal for the first time, can be caught unprepared when their buyer brings a claim. Having fit-for-purpose insurance in place for your deal can be a lifeline when issues do arise.

Here are 4 key reasons why you should purchase M&A insurance to protect your deal:

1

Your existing insurance won't provide adequate cover

Many SME sellers will have E&O or D&O cover for their businesses, but they can be caught off guard when they learn those policies won't protect them during the sale of their business. The most common misunderstanding is that D&O policies will cover breach of representation in a sale, which is almost universally untrue.

2

M&A insurance is there to protect your proceeds

When selling your business, your buyer will likely demand that you provide representations and warranties.

If they assert a breach of a representation or warranty after the deal closes, you would be responsible for defence costs, as well as reimbursing them for the loss suffered if the claim is valid or settled.

M&A insurance is there to provide cover for indemnity and defense costs arising from a claim, protecting you from the risk of having to hand back some, or all, of your proceeds.

3

M&A insurance can be used to replace your escrow

It is likely that your deal will necessitate an escrow so that, in the event a breach of the warranties or representations which leads to financial loss for your buyer, there is a pool of money is in place to claim against. These funds can be held for several years, which comes at a cost.

Having insurance in place can help you negotiate to remove this escrow. This is because your buyer knows that there is a fit-for-purpose policy in place, which means that their claim can be paid.

More importantly, this means that you can invest the proceeds that are otherwise tied up in escrow and reap a reasonable return over the same period.

4

M&A insurance puts you in a stronger position to negotiate

Because your buyer can be rest assured that there is insurance in place to respond if issues do arise after the deal closes, this makes your business a more attractive proposition. In turn, you as the seller will have greater negotiating power.

If you have any further questions, please contact the transaction liability team at Michael.Kihm@TechRisk.com or direct at 267-803-1371

Transaction liability private enterprise

Product brochure
USA

Overview

Transaction liability private enterprise (TLPE) is CFC's first-to-market insurance product specifically designed to provide small business sellers with peace of mind during an M&A transaction.

The policy insures sellers against the risk of financial loss as a result of a breach of representation or warranty, providing cover for 100% enterprise value (EV) indemnity and defense costs in the event of a buyer claim.

About CFC

CFC is a specialist insurance provider, pioneer in emerging risk and market leader in cyber. Our global insurance platform uses cutting-edge technology and data science to deliver smarter, faster underwriting and protect customers from today's most critical business risks.

Headquartered in London with offices in New York, Austin, Brussels and Brisbane, CFC has over 500 staff and is trusted by more than 100,000 businesses in 80 countries.

Contact

Michael. Kihm@TechRisks.com
President
Toll: 866.355.7475
Tel: 267.803.1371

Coverage highlights

Breach of representations & warranties

Our TLPE policy provides cover for financial loss or liability arising from a breach of a representation or warranty given by sellers in a share or asset purchase agreement.

Defense costs

CFC's policy provides cover for defense costs arising from the claim of an inaccuracy in a representation or warranty.

Full indemnity policy limit

Unlike traditional R&W policies which typically provide a policy limit of 10% of enterprise value (EV), CFC's TLPE policy insures the full indemnity given by the seller in the sale agreement, up to USD 15m. This means we can offer a limit of up to 100% EV.

Duty to defend

Underwriters have a duty to defend, giving insureds the benefit of sophisticated legal advice and representation.

Streamlined underwriting

Coverage can be bound within 24 hours following receipt of the transaction documentation and responses to our underwriting questions, as set out in the TLPE insurance application.

Appetite

What we love

Small and micro deals with an enterprise value of USD 250k - 15m across the manufacturing, education, franchise, retail, leisure, hospitality and real estate sectors.

What we consider

Professional services, technology service and product businesses, transport and aviation and insurance brokers.

What we ordinarily decline

Healthcare, financial services, oil and gas, mining, pharmaceuticals and regulated industries (such as telecommunications). Although these sectors are ordinarily out of appetite, there are exceptions so please do send in enquiries for review. Deals greater than USD 15m may be insurable under our standard R&W insurance product.

Limits, deductibles, premium and transaction size

Maximum limit	USD 15m
Retention	The higher of 1% of EV or USD 10,000
Minimum premium	USD 2,500
Underwriting fee	Nil
Policy fee	USD 500
Policy period	6 years

Coverage is subject to underwriting and the terms, conditions, and limits of the issued policy.