SPECIAL PURPOSE ACQUISITION COMPANIES

De-SPAC Risk Specialists: Covering the Entire SPAC Lifecycle

Special Purpose Acquisition Companies (SPACs) raised **upwards of $80 billion** in 2020. But risks don't stop after the IPO. Marsh's SPAC risk specialists can help SPACs identify insurance solutions to protect themselves, their targets, and the personal assets of directors and officers during the de-SPAC process.

Under its incorporating documents, a SPAC typically has 24 months from the date of its IPO to either find a suitable target company or liquidate and return funds to investors. Negotiating a merger agreement, commencing due diligence, closing a reverse merger, and operating as a new public company may present multiple risks to directors and officers and their personal assets.

Directors and officers liability (D&O) policy terms typically align with the SPAC's due diligence period. Once a target has been identified, Marsh's SPAC risk specialists will partner with clients to conduct insurance diligence, begin negotiations for new programs, and evaluate options for run-off of prior programs while ensuring coverage for prior acts of the SPAC and its target.

The reverse merger that allows a private company to become a listed entity through a SPAC is typically a simpler, shorter, less expensive, and less market-condition-dependent process than a traditional IPO. But there can be unintended consequences and sources of liability for both the SPAC and its target, including, but not limited to:

- Breakdown of negotiations with a target company.
- Objections by the target company's shareholders.
- Masquerading public shell companies.
- Private investment in public entity (PIPE) funding.
- Post-merger stock selloff.
- Lack of demand for post-merger shares.
- Limited public company preparedness and experience.
- Secondary public offerings.
- De-SPAC performance and financial issues.

MARSH & McLENNAN COMPANIES

Addressing Post-IPO Risks

Marsh is the insurance partner for more than 30% of the SPACs that have emerged from IPO in the last 18 months, managing risk for more than $20 billion in assets for SPAC clients.

Regardless of a SPAC's pre-IPO insurance relationships, Marsh's SPAC specialists can help you manage your risk during the de-SPAC process, which typically commences between two and four months prior to the transaction close, depending on the history and shareholder base of the target and deal structure.

Insurance Considerations in a Reverse Merger (De-SPAC)

A SPAC must conduct appropriate diligence regarding its target to ensure it is free from pending liabilities and not shopping for a new owner to take possession of deal warts.

Although the number of SPAC-related securities class action claim settlements reached in the last 10 years has been limited, this is partially due to only a small percentage of SPACs completing the de-SPAC process. Litigation, however, has occurred after the business combination, and typically alleges poor due diligence (for example, discovering that the target company's financials were not accurate or their business prospects were misleading after the business combination).

Marsh is uniquely positioned to be a SPAC's risk advisor through the de-SPAC process and for the post-close new company by leveraging:

- Pre-acquisition insurance and risk management due diligence.
- Insurance capital solutions to address deal risks including representations and warranties, environmental, and tax.
- Deep industry knowledge from more than 20 global groups providing industry-specific experience and insights.
- Customized insurance and risk solutions for the post-close entity, ensuring a smooth transition from SPAC to an operating company.
- Cost-savings and innovative risk financing strategies.
- Claims advocacy.
- Global insurance market access and an understanding of local insurance requirements for global operating companies.
- Enterprise and operational risk measurement and optimization.
- Digital capabilities.

Sponsors that remain engaged following business combination can provide the public company with experienced officers and directors. This can be particularly beneficial when a target may have limited experience with the regulatory and compliance requirements of being a public company, and may ensure that appropriate and cost effective insurance is an essential risk management tool.

30% OF SPACS ARE MARSH CLIENTS

PROTECTING **$20 billion** IN SPAC ASSETS

20 INDUSTRY-SPECIFIC PRACTICES SUPPORTING CLIENTS

Contact our specialists to learn more.

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