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M&A
Insurance
2021 Australasian report

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Three key takeaways from 2021 – pricing, capacity & timetabling trends

Record deal flow from July 2021 onwards resulted in the first meaningful increase in W&I insurance pricing for over a decade. Given the small size of local M&A insurer teams, individual underwriters quickly became overwhelmed with the deal pipeline, leading to M&A insurers being generally more selective on the deals for which they provided terms.

When terms were provided, pricing was close to 50% (and in some cases 100%) higher than in 2020, for both primary and excess policies, particularly for larger deals. We expect pricing to stabilise in 2022 but it is unlikely to return to pre-June 2021 levels unless there is a significant drop in M&A activity.

Due to the large number of deals requiring W&I insurance coverage together with resourcing and capacity constraints, M&A insurers were not always able to meet shorter transaction timetables during the latter part of 2021. The typical W&I timetable was pushed out by at least a week by most insurers, with an average buy-side deal requiring at least 8-10 business days from commencement of underwriting to inception of the policy.

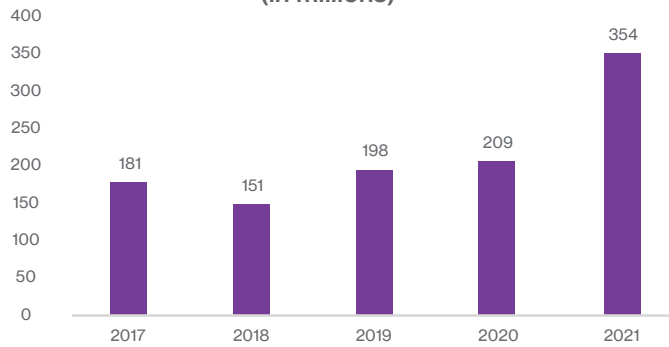
To strategically deal with these delays and the capacity issues, lawyers and deal makers had to be creative. There was a need to structure transactions to allow for W&I insurance as a condition precedent or, in some instances, a post completion obligation in the sale agreements, so that exchange could still occur prior to Christmas and without impacting the transaction timetable.

We expect 2022 to be another busy year for W&I Insurance although the Russia/Ukraine conflict casts a degree of uncertainty over M&A globally and the impact on M&A deal activity.



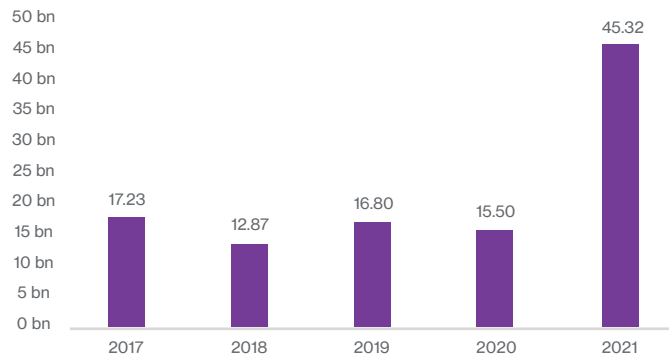
All statistics and insights presented in this paper represent data from Australasian transactions undertaken by the WTW Australasian M&A team and all figures are in Australian dollars.

Average Enterprise Value by calendar year (in millions)



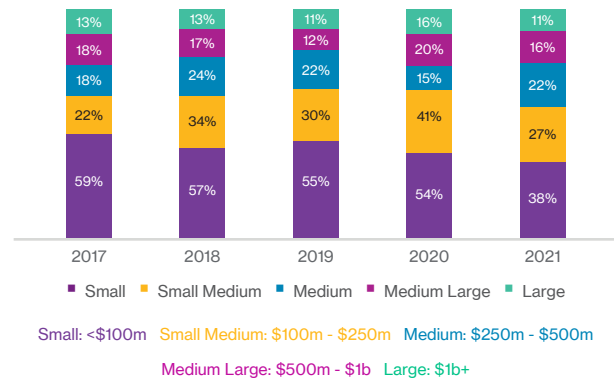
The average Enterprise Value for insured transactions has been steadily increasing over the past five years, with an exceptional outlier in 2021. While there is no expectation that 2022 will reach the same record-setting heights, we expect the gradual upward trend to continue.

Total Enterprise Value by calendar year (in billions)



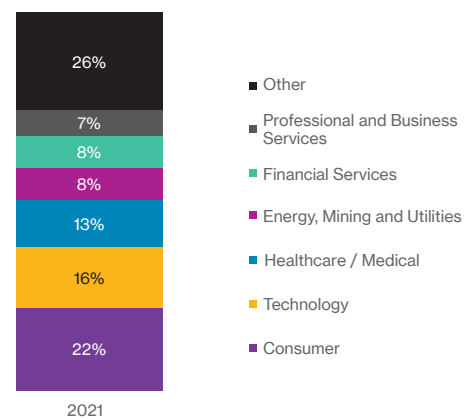
Total Enterprise Value for insured transactions remained steady from 2017 to 2020 with 2021 again the outlier, driven by record deal volumes and deal sizes previously unseen. With the rising popularity of W&I Insurance, we expect total Enterprise Value to trend upwards in the future, albeit with a drop off from 2021 levels.

Average Policy Limit as a % of Enterprise Value



In line with expectations, our data shows average Policy Limit as a percentage of Enterprise Value declines as transactions get larger. Small deals exhibit a significant portion of deal value insured. This is largely because minimum premiums make W&I insurance feasible around the \$10-15m Policy Limit mark, meaning if your deal has an Enterprise Value of \$30m the lowest Policy Limit available will be around 40-50% of your deal value. Small Medium and Medium sized deals see 20-40% of Enterprise Value Policy Limits taken out. Medium Large to Large deals see Policy Limits taper off at around 10-20% of Enterprise Value. At these levels, the sheer dollar value of the Policy Limit is large enough for insureds to gain comfort with the risk following their due diligence process.

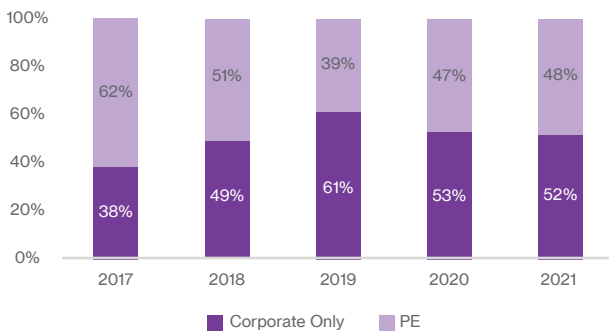
Deals by sector in 2021



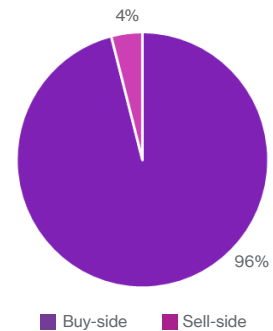
Consumer businesses were the busiest target sector for insured transactions in 2021, followed by technology then healthcare/medical. These results are consistent with what we saw in 2020. Notably, there was no significant growth in technology deals relative to other industries, which was widely expected.



Corporate versus PE deals



Buy-side policies versus Sell-side policies



Our data shows an even balance between corporate and private equity (PE) transactions using W&I insurance. W&I insurance has traditionally been considered a tool used more commonly by PE firms as they seek to wind up funds with no escrow account and minimal recourse to investors. However, strong demand for W&I insurance in corporate transactions demonstrates W&I insurance has real value for all M&A deals and not just PE. We classify a “corporate” deal as a transaction where PE is not involved on any side of the transaction.

Consistent with historical figures, Buy-side policies make up 96% of all W&I policies we saw in 2021. Sell-side policies are usually reserved for when there is insufficient Buy-side due diligence available or no interest from the Buyer in pursuing a W&I policy.

About WTW M&A Practice

A market leading team of 150+ M&A practitioners, many of whom are qualified in either Corporate Law, Tax and Accountancy principles or insurance, working together to help our clients navigate M&A transactions safely. We draw on the full resources of WTW to bring sector expertise, analytics, risk evaluation and insurance placement (where required) to each transaction, in other words focusing on our client's strategic objectives on a deal-by-deal basis.

We help solve complex risk issues, regularly working to tight deal time frames. Our transaction related advice and insurance knowledge is valued by our clients, who often use this tactically Buy-side and Sell-side to enable a successful outcome to an acquisition or divestment.

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