U.S. Risk, LLC

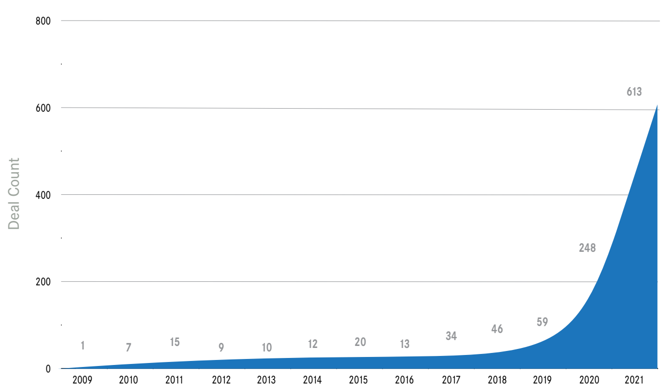
SPACs IN REVIEW

2021 was a whirlwind of activity with deal count exceeding the previous year by over 147%. Last year also raked in gross proceeds of $162.4 billion, nearly double that of 2020's $83.4 billion. Although the year started with a record first quarter, it ended with a bit of a thud. SPAC IPOs are still being priced at an accelerated rate, but the class showed signs of struggle.

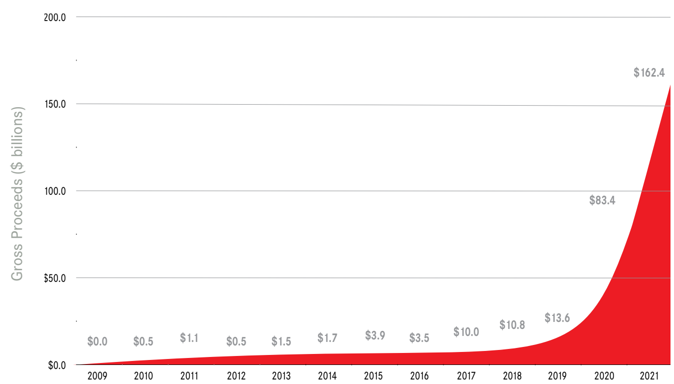
CAUTION SIGNS AHEAD

Of the SPACs priced in 2020, the vast majority IPO'd between June and December, leaving only 31% searching for a target company. What may eventually slow the SPAC market down is not regulation or inflation, but rather the quality of the deals themselves.

Deal Count by Year of IPO



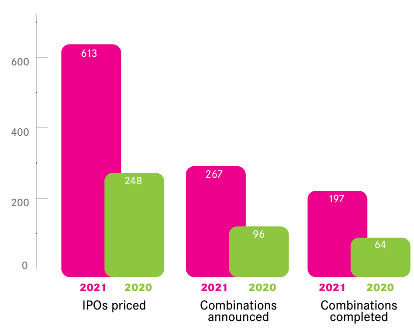
IPO Gross Proceeds by Year of IPO

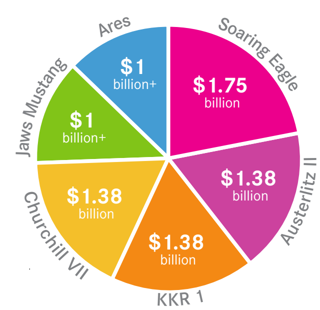


CHANGE IS A CONSTANT

Even with additional regulation, SPACs are flexible and adaptable ad should be able to evolve and meet any new rules. Continued innovation will help to create a better SPAC whether it's through terms improvements, market changes, or new regulations.

The first quarter was a record boom, with a dramatic slowdown coming in the second quarter thanks to the change in warrant accounting. The second half of the year suffered a down cycle, but still manage to come ahead of the previous year with the total combinations representing a 178% increase over the previous year.

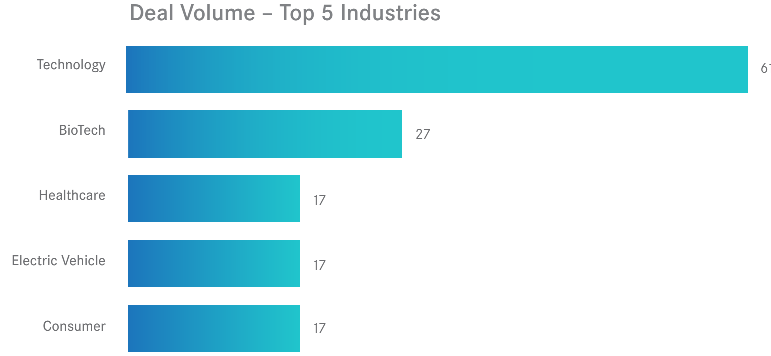




› De-SPACS by Industry

Technology and biotech led the year in deal volume, collectively accounting for 44% of the deals completed and 43% of the announced transactions pending close. The crypto sector is showing the most momentum, accounting for just two closed transactions but 10 pending deals.

Deal Volume – Top 5 Industries



SPACs IN REVIEW

INSURING SPAC'S

As they go through their IPO and the subsequent M&A process, SPACs face many regulatory, legal, and business hurdles, including obtaining the appropriate amount and type of insurance for each stage of their lifecycle.

› SPAC IPO

Operating companies that go through an IPO process are sued frequently and for a variety of reasons. Lawsuits are brought by stockholders against a company's management and directors and usually allege material misstatements and omissions in the IPO registration statement.

› SPAC Business Combination

After the IPO, the SPAC has the funds to purchase or merge with another company. The SPAC's management team must find an attractive target company and complete the merger or acquisition (the "de-SPAC" transaction), typically within 18 to 24 months after the IPO. Risks include failure to de-SPAC, self-dealing, breach of fiduciary duties, target's shareholders, SEC investigations, creditors and short seller pressures.

› De-SPAC

As soon as the parties close on the business combination, the D&O coverage of the SPAC and that of the target entity are no longer in effect. The new entity's directors and officers must be covered by a new D&O insurance policy. There are up to three different D&O policies that may need to be placed before the transaction closes: a tail policy for the SPAC company's D&O policy, a tail policy for the target company's D&O policy, and D&O insurance that needs to be put in place for the new publicly traded company.

LITIGATION RISKS

While SPAC IPO's haven't been the target of extensive litigation to date, there are considerable indications that the Securities and Exchange Commission may be sharpening its focus on SPAC's. In addition, there are certainly vulnerabilities during the merger process as well as for the de-SPAC organization.

1. Shareholder plaintiffs alleging damages for material misrepresentations or omissions of facts in the S-1 registration statement.
2. Merger and acquisition suits challenging completeness of the proxy statement filed during the de-SPAC process.
3. Merger and acquisition suits when the target company performs poorly.
4. Securities class action suits against the newly public operating company typically alleging poor due diligence or making false and misleading statements.
5. Bankruptcy suits.

THE BOTTOM LINE

The market for D&O coverage for SPAC's and IPO companies changes rapidly, with pricing extremely volatile, requiring a sophisticated approach to ensuring the program is negotiated and customized. A trusted insurance expert highly experienced in SPAC's and how to insure them needs to be brought into the process as early as possible to ensure coverage for critical risks, future potential claims management, and the latest developments in terms and conditions.