Representations & Warranties Insurance

ILLUSTRATIVE TERMS	
Assumptions[1]	▪ Target: North American domiciled company or assets thereof ▪ Insured: North American domiciled entity ▪ Governing Law of Transaction Agreement: law of a North American jurisdiction
Representations & Warranties (R&W) Coverage	Breaches of the Seller's / Company's R&Ws contained in the transaction agreement and certain ancillary documents, as well as a customary pre-closing tax indemnity.
Potential Insurers[2]	AIG, Ambridge Partners, ASQ, AXA XL, Beazley, Berkley, Berkshire Hathaway, BlueChip, CFC, Chubb, Concord Specialty, Dual, Ethos, Euclid Transactional, Everest, Great American, The Hartford, Liberty, Mosaic, QBE, RiskPoint, Tokio Marine HCC, and Vale
Market Coverage Capacity	For most transactions, insurance limits of 10% of enterprise value are utilized. To address large deals, market coverage capacity of $1.0 billion or more per transaction may be available. For lower-to-middle-market transactions, policy limits of $5.0 million or less may be available.
Aggregate Retention	For most lower-to-middle-market transactions, the initial retention will be 1.0% of enterprise value (subject to a minimum initial retention of $250K for most carriers). For transactions with an enterprise value >$500.0 million, the initial retention may be negotiated below 1.0% of enterprise value. For certain target sectors and industries, including real estate, lower initial retentions may be available. Most R&W insurance policies will include a retention drop-down to 0.5% of enterprise value upon the later of (i) 12 months after the closing of the transaction and (ii) the lapsing of the seller's indemnity with respect to general R&Ws in the underlying transaction agreement (if applicable).
Policy Term	3 years for general R&Ws; 6 years for fundamental and tax R&Ws (including a pre-closing tax indemnity).

[1] R&W insurance policies are available for transactions that do not fit within these parameters (including on public transactions), but these assumptions facilitate more instructive data points throughout this indicative term sheet.

[2] Several of these carriers are "Managing General Underwriters" backed by large, creditworthy insurance companies, many of which are backed by more than one insurer / reinsurer.

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Proprietary Aon Products	**Aon's Sidecar** Aon's Sidecar provides follow-form excess capacity on R&W insurance as well as tax placements, and offers a premium discount and insurer diversification to highly-rated capacity through pre-negotiated agreements. **Aon's FLEX** Aon's FLEX provides excess coverage for fundamental R&W, tax R&Ws, and financial statements R&Ws at pre-agreed pricing. Attaching at 10% of enterprise value of a primary R&W insurance policy, pricing ranges from 0.20% to 0.30% of limit for fundamental R&W coverage, 0.75% for fundamental and tax R&W coverage, and 1.25% for fundamental, tax, and financial statements R&W coverage. **Aon's IPEX** Aon's IPEX provides excess coverage for intellectual property (IP) R&Ws, allowing for higher IP caps and extended IP survival periods. Aon's IPEX generally covers the full set of IP R&Ws (exclusive of any data privacy, cyber, or IT R&Ws). Attaching at 10% of enterprise value of a primary R&W insurance policy, pricing for IPEX is the greater of (i) 1% of limit and (ii) an amount equal to a 70% discount in the rate of the primary R&W insurance policy.
Premium Rates & Estimated Total Costs for R&W Insurance[3]	Premium rates and the associated estimated total costs for an R&W insurance policy will fluctuate depending on market coverage capacity and carrier bandwidth, and often vary depending on the size of the transaction and the amount of coverage sought. The costs associated with an R&W insurance policy are a one-time expense, and there are no annual or ongoing fees. Total costs typically include the premium paid to the insurers, applicable taxes and fees, broker fees, and underwriting / counsel fees paid to the insurer. ▪ For policy limits less than $10.0M, the estimated total cost is typically subject to an insurer's minimum premium requirement. ▪ For policy limits between $10.0M and $100.0M, the estimated total cost is typically between 3.5% – 5.0% of the coverage limit being procured. ▪ For policy limits between $100.0M and $500.0M, the estimated total cost is typically between 2.5% – 4.0% of the coverage limit being procured. ▪ For policy limits between $500.0M and $1.0B, the estimated total cost is typically between 2.0% – 4.0% of the coverage limit being procured
Standard Exclusions	Actual knowledge of a breach by deal team members, forward-looking statements, matters disclosed on the disclosure schedules, interim breaches, working capital adjustments, collectability of accounts receivable, asbestos and PCBs, pension underfunding or withdrawal liability, transfer pricing, tax liabilities related to pre-closing reorganizations and the carryforward value of net operating losses, and similar deferred tax attributes. Bespoke insurance policies may be available to insure risks that involve known matters, such as tax liabilities and litigation.

[3] The majority of R&W insurance policies provide coverage in an amount equal to a market indemnity cap (e.g., 10% – 20% of purchase price). The coverage limit is an aggregate amount and applies to all covered R&Ws (e.g. fundamental, general, and tax R&Ws).

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Potential Deal-Specific Exclusions / Areas of Scrutiny	Deal-specific exclusions are borne from (i) known issues identified in diligence that are material in light of the retention under the R&W insurance policy and (ii) areas where independent buy-side diligence that the insurer views as customary for the nature of the business / operations was not performed or insufficient. With respect to the latter, conditional exclusions are often considered which gives the insured the ability to conduct additional due diligence for a specified period of time following the inception of coverage as information is received in order to substantiate how they got comfortable with the R&Ws being given. Depending on the nature of the business, certain areas receive a heightened level of scrutiny, which may include: legal compliance, accounting and financial matters, tax matters, E&O / professional liability, cyber matters, product liability / warranty / recall, environmental matters, material customers and suppliers, and condition of assets.
Policy Coverage Considerations	▪ Subject to a satisfactory understanding of buyer's valuation methodology and multiple being paid, no exclusion for recovery of multiplied damages and consequential damages, diminution in value, or lost profits (assuming, in most cases, that such losses are not explicitly granted or excluded in the transaction agreement). ▪ Subject to underwriting, full materiality scrape for purposes of (i) determining if a breach has occurred and (ii) calculating the loss associated with a breach. ▪ The R&W insurance policy will track the materiality scrape in the transaction agreement and follow the definition of loss (assuming silence with respect to the availability of special damages, diminution in value and lost profits) for limited seller indemnity deals. ▪ Provide extended interim period coverage for up to 1 year from signing (additional premium will be applied for interim periods beyond the agreed-upon interim term). ▪ In select cases, true interim period coverage or erosion of the retention for interim breaches may be available for additional premium. ▪ Inception of coverage at signing or shortly thereafter will cover breaches of signing R&Ws discovered after inception, and closing R&Ws discovered after closing, but not matters first arising during the gap / interim period and discovered during that same period. ▪ Extension of coverage for certain general R&Ws to 6 years for additional premium based upon carrier discretion.

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- **Phase I:** Soliciting Non-Binding Indication Letters (NBILs) from R&W insurance carriers (4–5 business days, but may be condensed as needed)
  - Quote solicitation requires a draft transaction agreement (buy-side draft preferable), a comprehensive description of the target / assets being acquired (e.g., CIM / Management Presentation), the most recent year-end financial statements (and interim financials if available), and NDA / CA, if required.
- **Phase II:** Underwriting Process (7–10 days)

  Assuming Buyer has exclusivity with target, an insurer can be engaged to begin the underwriting process once diligence is substantially complete, and a buy-side draft of the agreement and draft of the schedules are prepared.

  1. Execution of NBIL / Payment of Underwriting Fee
  Insured will execute the NBIL (or expense agreement) of the selected underwriter, which commences the underwriting process and obligates the client to pay the underwriting fee to the underwriter (which is additive to the premium).

  2. VDR Access
  Once the underwriter's counsel clears conflicts, Aon will send a list of underwriters / counsel who require access to the VDR.

  3. Circulation of DD Reports
  In coordination with the client / counsel, Aon will circulate all written work product prepared for the transaction. If NRLs are required, the underwriter will sign those prior to receipt of the reports.

  4. Transaction Agreement / Schedules
  As turns of the applicable transaction agreement / schedules are circulated, Aon will provide such drafts to the underwriter.

  5. Underwriting Call
  Aon will coordinate an underwriting call between the underwriter / counsel and the client / counsel typically 2–3 business days following receipt of all diligence materials and a draft of the disclosure schedules. The call typically lasts ~2 hours and serves as a forum for the underwriter to ask representatives from the business deal team and external advisors questions about the transaction and the diligence conducted in connection therewith. A high level agenda for the call typically will be provided in advance of the call.

  6. Follow-ups / Policy Docs
  Following the underwriting call, the underwriter will provide (i) an initial draft of the policy and (ii) a list of follow-up questions and any proposed exclusions stemming from the call. Aon will coordinate responses between the client / counsel and the underwriter with respect to such follow-up questions.
  In parallel, Aon and client's counsel will negotiate / mark up the policy, including any deal-specific exclusions that the underwriter proposes with respect to known risks or undiligenced areas. Once all follow-ups have been closed out and the policy has been agreed upon by all parties, Aon will coordinate the inception of coverage simultaneously with the signing of the deal.