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Leaving nothing on the table: Unlocking off-radar transaction value

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Introduction

The nature and breadth of transaction risks are changing fast, raising the question: are traditional approaches to M&A due diligence and risk mitigation still fit for purpose? Failure to evolve may leave Europe's dealmakers ill equipped when it comes to company valuation and assessing future growth and profitability.

Yet while a number of innovative new approaches to identifying, quantifying and hedging transaction risks are emerging, they are only being employed by a minority of dealmakers across Europe. The result? Substantial value is being left on the table.

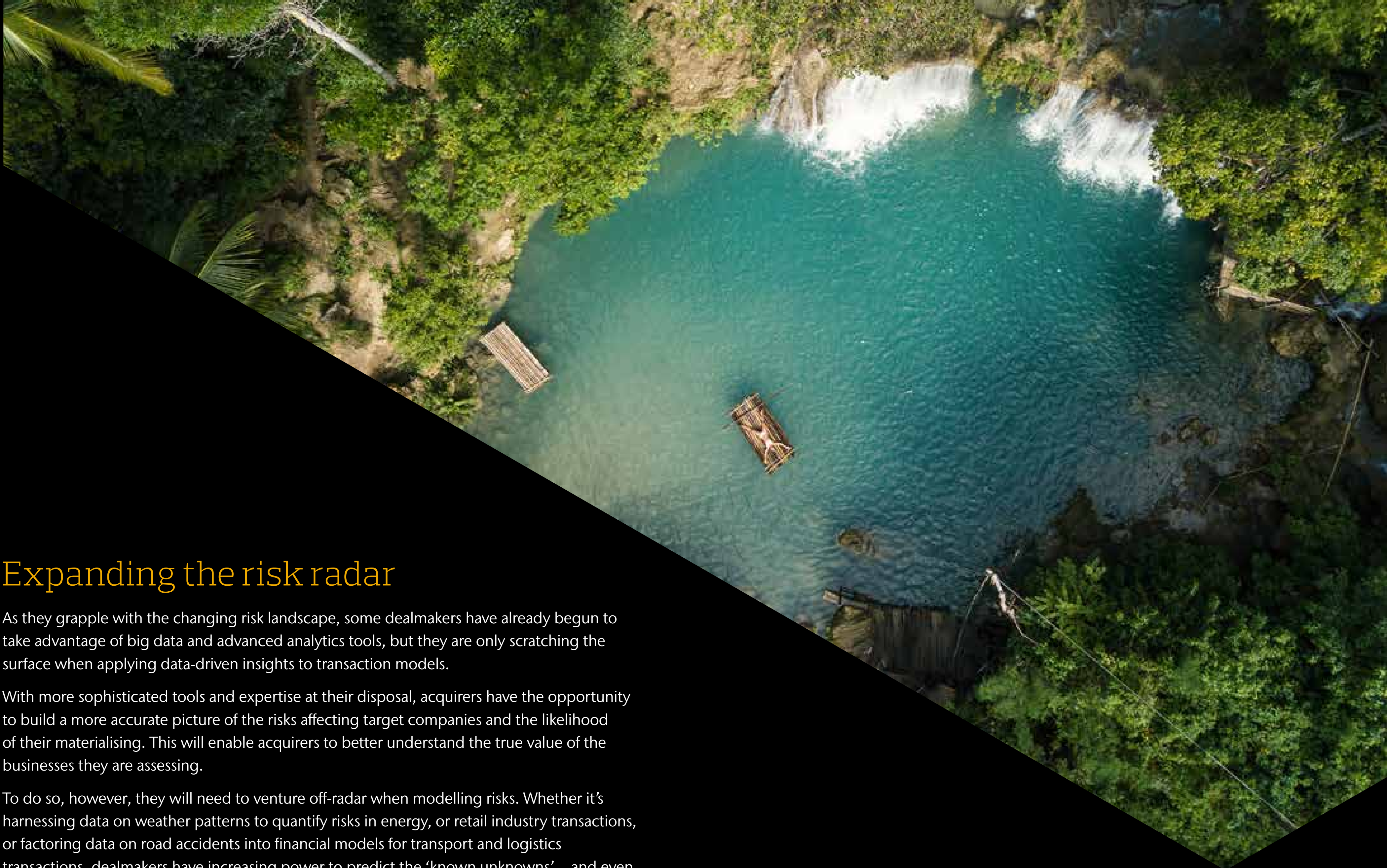
The changing nature of risk

Part of the challenge is that the risks to target companies are becoming more complex. Disruptive forces such as digital advances, environmental and political change, and the rise of new business models, are creating new operational threats and strategic risks.

At the operational level, for example, one recent study suggests that a group of NASDAQ-listed companies that had suffered data breaches went on to under perform the rest of the businesses on the exchange on share price growth for the following three years.[1]

Meanwhile, companies that are slow to react to the digital revolution at the strategic level can quickly become the latest corporate casualties. We don't need to look too far for examples – whether it's former telecoms powerhouse Nokia, video-rental company Blockbuster or children's toy retailer Toys R Us.

[1] Analysis: How data breaches affect stock market share prices (2018 update), Comparitech, Sept 2018



Expanding the risk radar

As they grapple with the changing risk landscape, some dealmakers have already begun to take advantage of big data and advanced analytics tools, but they are only scratching the surface when applying data-driven insights to transaction models.

With more sophisticated tools and expertise at their disposal, acquirers have the opportunity to build a more accurate picture of the risks affecting target companies and the likelihood of their materialising. This will enable acquirers to better understand the true value of the businesses they are assessing.

To do so, however, they will need to venture off-radar when modelling risks. Whether it's harnessing data on weather patterns to quantify risks in energy, or retail industry transactions, or factoring data on road accidents into financial models for transport and logistics transactions, dealmakers have increasing power to predict the 'known unknowns' – and even gain insight into 'unknown unknowns'!

[1] Analysis: How data breaches affect stock market share prices (2018 update), Comparitech, September 2018

Transferring risk

Cutting out risk blind spots will be a major step towards better deal outcomes, but, even where this is being achieved, buyers are letting further value slip away by failing to deal efficiently with associated financial risks.

Put simply, many acquirers are routinely overpaying for capital to hedge transaction risks. The speed with which M&A insurance has become a transaction mainstay is testament to the industry's recognition of the problem.

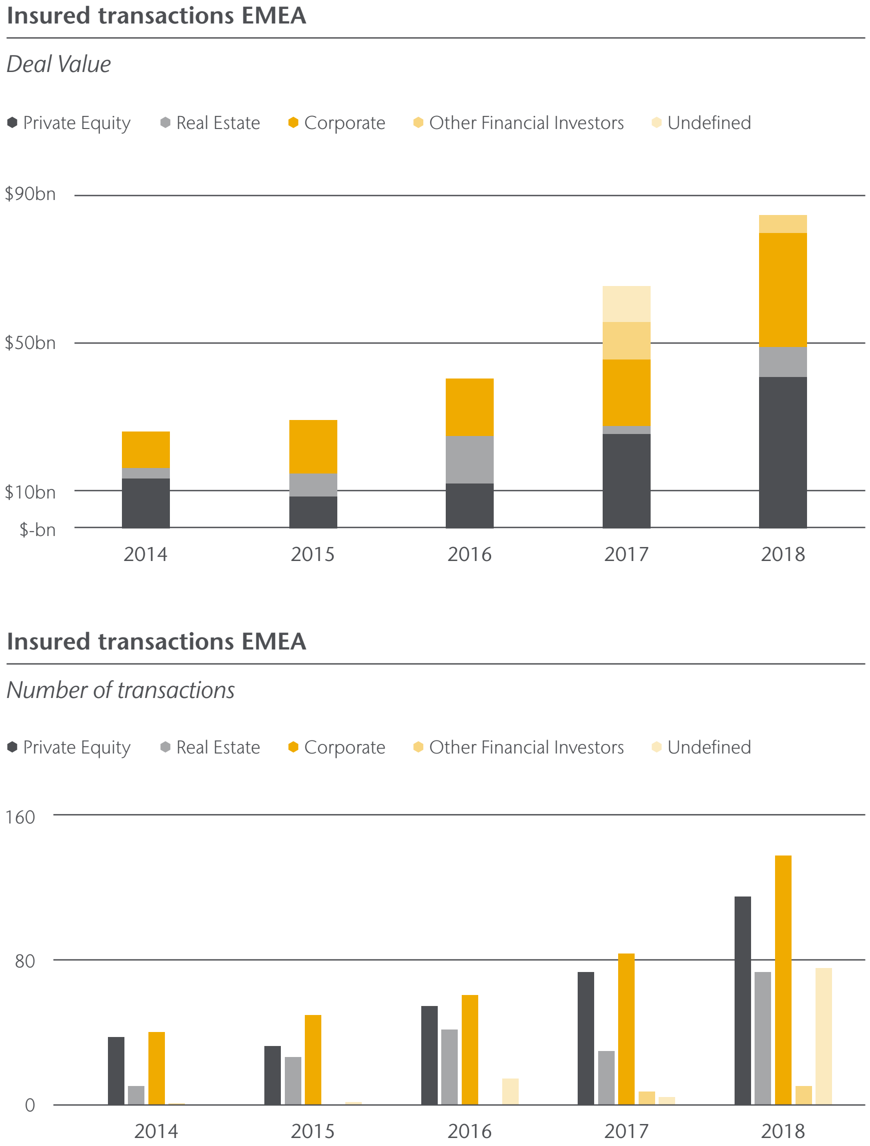
Aon's data on M&A insurance placement for deals across Europe, the Middle East and Africa (EMEA) shows increased uptake by both private equity (PE) and corporate buyers since 2014 (see Figure 1). Law firm Allen & Overy recently reported that warranty and indemnity (W&I) insurance was used in 78% of Western European PE exits they advised on in 2018, and 86% of those in the UK.[2]

> **"W&I has been a real pathfinder in boosting people's awareness of how insurance solutions can be deployed in transactions."**

Shaun Mercer
Managing Director, The Carlyle Group

But the opportunities don't end there; W&I insurance has raised awareness across the M&A industry about the untapped potential of insurance capital, and eagle-eyed dealmakers will be keen to explore other transaction risks that might be transferred more cost-effectively.

Figure 1: M&A insurance goes mainstream across EMEA



Source: Aon's M&A and Transaction Solutions, EMEA, Placement data 2014-2018

[2] Allen & Overy, M&A Insights Q1 2019

Together, these factors are redefining the value on offer in the M&A process. This report brings together insights from leading dealmakers at corporate buyers, private equity and real estate funds, investment banks and law firms, to understand how transaction practices are evolving. We find that, as dealmakers seek out new avenues to gain an edge, uncover fresh sources of value and improve return on investment, they will need to:

Rethink the breadth and depth of pre-transaction due diligence:

As the nature of risk changes, more specialist approaches to due diligence will be required across areas such as cyber risk, intellectual property (IP), human capital, risk and insurance, and environmental risk.

Go deeper into risk insights:

In the era of big data and increasingly sophisticated analytics tools, buyers can achieve a more holistic view of risk exposure. But to do so, they'll need to harness hitherto untapped data sources and map new risks into financial models that usually don't feature on their radar.

Harness the arbitrage advantage:

W&I insurance has switched dealmakers onto the value that can be gained by arbitraging the cost of insurance against the cost of an escrow. This is a start, but there are many other areas where dealmakers can benefit from this arbitrage to hedge transaction risks at a more attractive cost.

Our expert interview panel

Transaction principals

- Mike Biddulph, August Equity
- Ségolène de Rose, Bureau Veritas
- Romain Londinsky, Schneider Electric
- Shaun Mercer, The Carlyle Group
- Vanessa Roux-Collet, AEW
- Purvi Sapre, SDCL

The advisors

- Harmen Holtrop, Loyens & Loeff
- Scott Hopkins, Skadden
- Jan Jensen, White & Case
- Nestor Paz-Galindo, UBS

Aon's experts

- Andrea Guffanti
- Alistair Lester
- Ian McCaw
- Karl Roquet

Due diligence disrupted

The fast-changing environment that businesses are operating in today is putting new pressures on pre-transaction diligence.

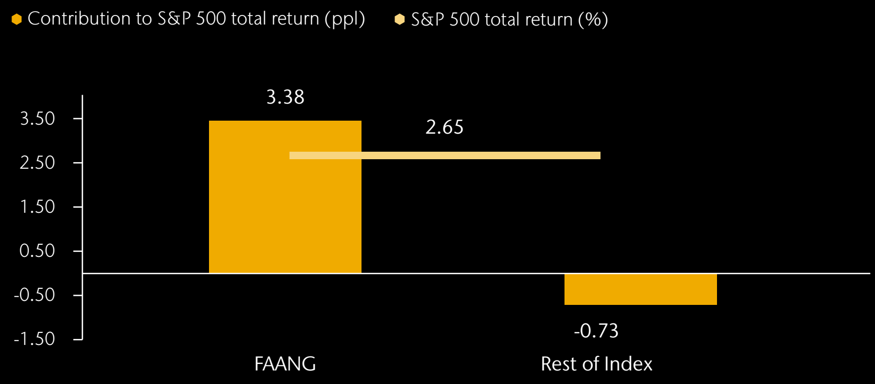
The threat of digital disruption and the risks it creates is one of the biggest challenges facing C-suite leaders across industries. Companies that are slow to adapt their business models are being left behind, while digitally savvy firms capitalise on growth opportunities – as the so-called FAANGs (Facebook, Amazon, Apple, Netflix and Google) have illustrated (see Figure 2).

> Companies that are slow to adapt their business models are being left behind, while digitally savvy firms capitalise on growth opportunities…

Figure 2: FAANG stocks' contribution to the S&P 500 1H 2018 total return

Excluding FAANG stocks, index returns would have been negative

FAANG stocks' contribution to the S&P 500 1H18 total return



Note: FAANG = FB, AAPL, AMZN, NFLX, COOG/GOOGL
Source: S&P, BofA Merrill Lynch US Equity and US Quant Strategy, July 2018

Every deal is a tech deal: consequences for cyber and intellectual property risk

In a transaction context, this disruption is throwing up major considerations for acquirers when evaluating target companies, including their future growth potential and the operational risks they will be subject to.

"There's an increasing view that every deal we do now is a technology deal, regardless of sector," says Shaun Mercer, Managing Director, The Carlyle Group. "There are differing degrees, but most deals face some impact from the pace of technological change – this particularly comes to bear on cyber and intellectual property due diligence."

A recent report from the European Union Agency for Network and Information Security (ENISA) identified a 28% increase in the number of customer records breached within European organisations in the first half of 2018. And in Q2 2018, three European countries featured in the top-four source countries for web-based attacks (see figure 3).[3]

"There's an increasing view that every deal we do now is a technology deal, regardless of sector."

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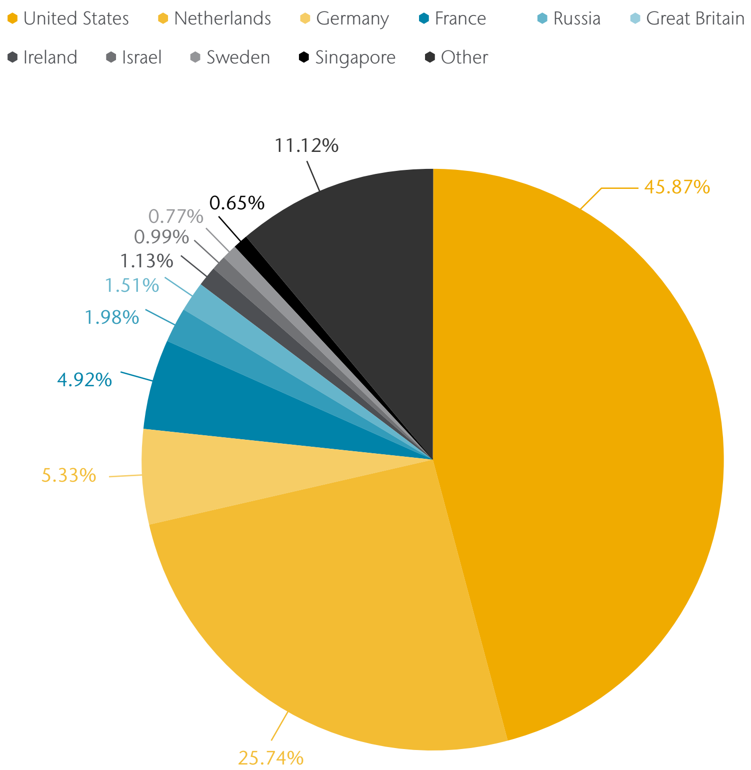
Managing Director, The Carlyle Group

Figure 3: Europe is a global hotspot for web-based attacks



Source: ENISA Threat Landscape Report 2018

[3] ENISA Threat Landscape Report 2018, European Union Agency for Network and Information Security (ENISA), January 2019

> **"We're facing a mounting cyber threat globally – every week we're seeing new disasters hit businesses – and yet I'd estimate that less than 10% of deals actually include any specialist cyber due diligence."**

Ian McCaw
Head of Cyber M&A for EMEA at Aon

For many acquirers, it is still standard practice to include cyber due diligence as a sub-component of IT due diligence, which focuses on auditing areas such as traditional IT infrastructure, data centres and IT governance.

Some first-movers have recognised that this approach will no longer suffice. "We see an increasing requirement for specialist cyber due diligence. Employing ethical hackers to do basic penetration testing is one thing, but the human factor is the biggest danger," says Mike Biddulph, Partner at August Equity. "It's the individual who doesn't know the protocols and sets off a chain of events – leading to potentially a cataclysmic loss – that's an area that requires increasing focus."

Meanwhile, at Bureau Veritas, Ségolène de Rose, VP M&A, says that not only cyber security, but also the General Data Protection Regulation (GDPR), are now requiring heightened focus during pre-transaction diligence. "We're a European company but we acquire worldwide, so, when we buy a firm, we need to pay close attention to ensure they have all of the systems and processes required to comply with GDPR whenever relevant."

Failure to address cyber risk in a holistic way can both erode deal value and result in missed opportunities (see "Assessing cyber risk through a value lens"). And we can increasingly expect revelation of cyber breaches to be a deal-breaker. "If a company has recently suffered a catastrophic data loss, subject to fines and enforcement from various authorities, I could imagine that being something that would crater a deal," says Biddulph.

Assessing cyber risk through a value lens

Where cyber risk can erode deal value

A lack of cyber due diligence can erode deal value, since buyers that overlook cyber risk in target companies could be overpaying significantly. Where are the sources of value erosion?

Strategic issues: Where there has been a systems breach or compromise resulting in the loss of customer data or intellectual property (IP), potentially having been sold on to third parties.

Underinvestment: Where a target company has fundamentally failed to address cyber security, meaning that significant capital and, more than likely, operational expenditure (in terms of recruiting new expertise) will be needed.

Red flags: Remedial actions that need to be implemented, such as misconfigured websites, incorrect certificates or lack of protection on email or web servers. These are usually inexpensive to fix, but if overlooked could cause critical exposures that open the door to hackers.

Where cyber due diligence will add value

Done right, cyber due diligence can help to ensure the true value of a target company is preserved and that the costs of addressing any deficiencies are borne by the seller, not the buyer. How can this be achieved?

Agree cyber fixes pre-transaction: Identify the cyber security issues you want to be addressed by the seller as part of the deal terms, setting parameters such as resolving any issues within the first 100 days.

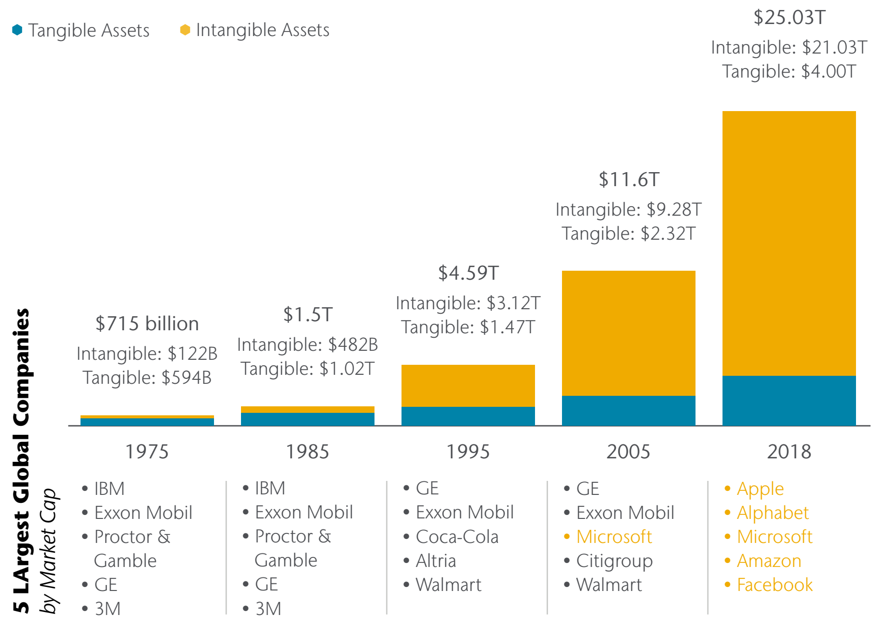
Translate technical exposure into financial exposure: Understanding cyber vulnerabilities is one thing, but quantifying the financial risks they pose is what C-suite leaders will really be interested in. This means determining the financial risks associated with different cyber threat scenarios, such as a denial-of-service attack, the loss of customer data, or the company's billing system going down. Armed with this insight, dealmakers can ensure that they have in place a financial model for the transaction that accurately represents value in light of the relevant risks.

Digital disruption is also a central factor in driving the shift in business value from the tangible to the intangible (see Figure 4). This transition continues to increase demands on intellectual property (IP) due diligence.

Figure 4: Ongoing shift to intangible value intensifies the focus on IP due diligence

Tangible Assets vs. Intangible Assets

For S&P 500 Companies, 1975 – 2018



Source: S&P 500, Aon's Intellectual Property Solutions

As businesses seek to accelerate their innovation cycles to get ahead of disruption, the number of patents being generated is growing; patent applications at the European Patent Office (EPO), for example, increased by 11% between 2008 and 2017.

The associated risks are substantial, as failure to adequately protect IP or infringing on the IP rights of a third party can lead to financial losses, whether through litigation damages, legal costs or indirect costs such as hits to share price. For instance, non-practising entity (NPE)-related litigation averaged 19% annual growth in Europe between 2007 and 2017. The cases are time-consuming as well as costly for businesses; in Germany, for example, the average duration of IP litigation is 50 months.[4]

All of this underlines the critical importance of getting IP due diligence right; but this is not without its challenges. Romain Londinsky, VP Mergers & Acquisitions at Schneider Electric, points to difficulties in obtaining the requisite access in cases where significant IP is related to a target company's technology. "If you want to purchase a company that has developed some specific software, it's increasingly important to dig into the detail to ensure they're not using third-party source code," he says. "You need access to ascertain its value, but the seller may well push back and refuse to grant this."

"If you want to purchase a company that has developed some specific software, it's increasingly important to dig into the detail to ensure they're not using third-party source code."

Romain Londinsky
VP Mergers & Acquisitions, Schneider Electric

Unlocking value: finding commercial opportunity in IP diligence

Today's IP due diligence needs to be more extensive than ever before, establishing a clear view of risks to company IP, an accurate assessment of its valuation and of the risk landscape, and an understanding of how current IP aligns with future corporate strategy.

It should not just be a tool with which to assess and mitigate risk; there may be commercial opportunities to exploit through IP due diligence, too. But capturing this requires taking a forward-looking view.

One example is in mapping a target company's current IP strategy against its long-term direction, and those of its competitors. This can help acquirers to identify any non-critical patents whose maintenance may no longer be required. At the same time, it could shed light on opportunities to license non-critical patents to third parties and generate new income streams.

As intangible assets become the main store of business value, another area to which dealmakers may turn their attention is the use of IP as collateral to open up new financing opportunities. To take advantage of this, companies will need a strong understanding of the longevity of the innovations protected by their IP assets. They can then explore new opportunities to obtain additional leverage and potentially cheaper funding.

[4] NPE Litigation in the European Union, Darts-ip, February 2018

Human capital evolves: The gig economy and cultural change

The primary focus of human capital due diligence has tended to be on retirement and benefits plans, which is understandable given the immediate financial risk they represent.

As Ségolène de Rose at Bureau Veritas points out, these risks can often be deal-breakers. “We’ve pulled out of transactions simply because the financial burden of the pension schemes was too high. Circumstances meant we were unable to consider transferring the risk onto insurers and so we simply had to walk away,” she says.

While these issues remain central, the increasing dominance of knowledge-based industries in many European countries, combined with the emergence of new business models and ways of working, is throwing up fresh considerations for human capital due diligence, too.

The so-called ‘gig economy’, where workers tend towards temporary contracts and freelance engagements, is on the rise across Europe. A report from the Association of Independent Professionals and the Self-Employed (IPSE) found that the number of freelancers in the European Union doubled between 2000 and 2014, far outpacing the growth of any other relevant segmentation of the labour market.[5]

“The rise of atypical workers creates complexity for due diligence, as it can be unclear how you classify workers and what the relationship is between the employee and the company,” says Scott Hopkins, Partner and Co-Head of UK M&A at Skadden, Arps, Slate, Meagher & Flom. “We’ve had instances working with large companies with significant numbers of independent contractors and agency workers, and the documentation isn’t definitive, it’s not clear whether they’re correctly classified in terms of their employment status. The only way you could really cut through it was to sit down with management and have a very detailed discussion to understand the categorisation.”

The risks are not restricted to categorising employees correctly for tax and compliance purposes, however. While it can be challenging to quantify, dealmakers will need to be forward-thinking in ensuring that target companies are evolving their practices to avoid the risk of talent drain. “Human capital due diligence needs to go far beyond the standard pension and benefits aspects. Ensuring that you have a talent and reward culture that is in line with sector, geographic and contemporary social expectations is critical to future-proofing human capital strategy,” says Alistair Lester, CEO of Aon’s M&A and Transaction Solutions in EMEA.

Piotr Bednarczuk, Senior Partner and Head of Strategic Advisory for Aon EMEA, adds that future-proofing human capital necessitates more in-depth due diligence. “Since most deals today are in some way “tech deals”, the identification and retention of the most valuable talent through the transaction process is increasingly important for success,” he says. “Companies need to apply more data-driven insights to go deeper in the due diligence process, going beyond the natural focus on executives to ensure talent strategy is properly aligned with commercial objectives right across the business.”

> **“Since most deals today are in some way “tech deals”, the identification and retention of the most valuable talent through the transaction process is increasingly important for success.”**
>
> **Piotr Bednarczuk**
> Senior Partner and Head of Strategic Advisory, Aon EMEA

[5] Understanding Independent Professionals in the EU, 2015, The Association of Independent Professionals and the Self-Employed, June 2016

Modelling off-radar risks

The ability to dig deeper into the 'known unknowns' and 'unknown unknowns' associated with transactions is a perennial concern for dealmakers. These off-radar risks can have a devastating impact on deal outcomes.

Research conducted by L.E.K. Consulting, based on 2,700 transactions conducted by European-listed companies between 1993 and 2013, found that nearly 50% of deals destroyed shareholder value after closing.[6]

At Loyens & Loeff, Harmen Holtrop, co-Chairman of the Corporate Practice Group, says that more time and resource is being dedicated to mapping these risks today. “Deals take longer to complete and execute, and risk diligence is becoming more and more important – partly driven by increased uptake of warranty and indemnity (W&I) insurance,” he says. “There are numerous deals that basically die due to diligence today, which is different from the pre-crisis heyday of the M&A market.”

A new dimension: taking risk insight deeper

The sophistication of todays analytics software and increasing availability of big data are also adding a new dimension to the modelling of transaction risks.

Leading dealmakers are taking advantage of this to get a more accurate picture of risks and opportunities facing target companies.

These practices are becoming more commonplace among PE buyers and some strategic acquirers, but there is still unexplored territory in terms of the data sources being harnessed and the range of risks being analysed. “Risk and insurance due diligence has traditionally been viewed as something of a box-ticking exercise,” says Aon’s Lester. “But we’re now seeing more appetite to tap into the big data sets that insurers apply for their operational clients, in order to take risk insights to the next level during pre-transaction diligence.”

One such example is in transactions involving renewable energy infrastructure. Insurance has provided protection against weather risks for centuries. This insight could be brought to bear when assessing windfarm or solar energy assets, for instance, by estimating maximum foreseeable losses as a consequence of certain weather patterns.

Andrea Guffanti, Aon’s Chief Commercial Officer for EMEA, cites instances where companies are using this approach not only to better quantify risks, but also to address the volatility those risks could create for the business. “We sat down with one of the biggest retailers in the world, looking at the impact that weather can have on their sales. We discovered that they were really considered and actually think about how a prolonged winter into spring would affect their clothing sales,” says Guffanti. “Once you can identify those potential spikes or anomalies, you can transfer the risk of that volatility onto an insurer.”

In the transport and logistics sector, too, insurance data can add value by pushing the boundaries of risk diligence. “The insurance industry has an enormous amount of data on automobile accidents, so being able to use that data to more accurately forecast accident rates for a fleet of vehicles allows you to quantify those risks, to make decisions about how to finance those risks, and then take that forward to see how it impacts various sensitivities within your financial models,” says Lester.

While some positive moves are being made in incorporating data analytics into M&A due diligence, there is clearly further potential to be realised. “I think we’ll start to see more awareness and changing behaviours during the transaction process, so that people actually think about insurers as rich sources of data and information that can be used across these other streams of analysis to help form a better view,” says Mercer.

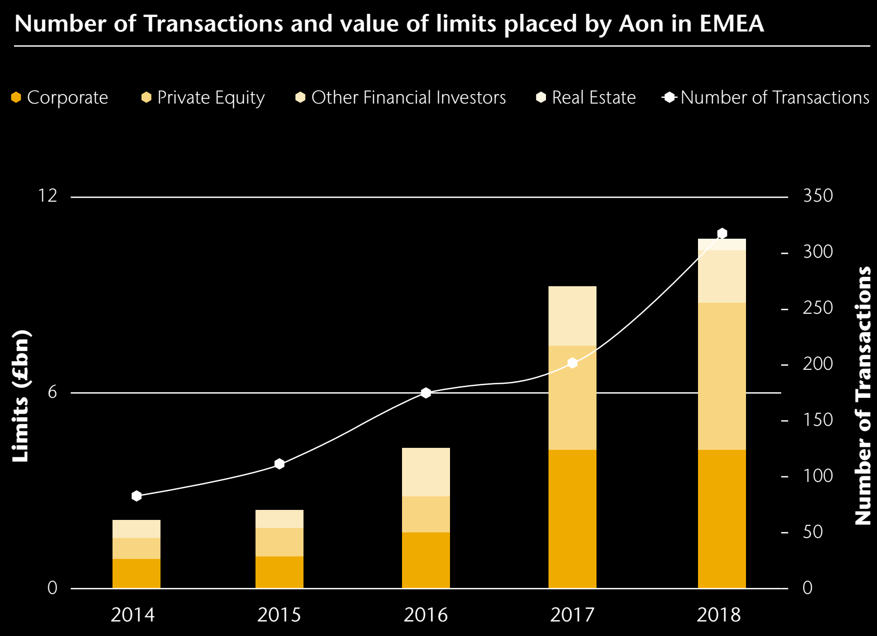
[6] The Three Ts of Successful M&A, L.E.K. Consulting, 2017

Beyond W&I: Breaking new ground for the arbitrage advantage

The adoption of warranty and indemnity (W&I) insurance for M&A deals in Europe has taken off in recent years, particularly among private equity (PE) firms.

Aon's experience bears this out, with the insurance limits and number of transactions insured across Europe, the Middle East and Africa (EMEA) growing significantly year on year since 2015. The growth in adoption has not been limited to PE firms, as Aon placed the same amount of insurance for corporates in 2017 as for all types of insured client in 2016; and while 2018 saw a slight drop off, a similar number of placements were recorded (see Figure 5).

Figure 5: The rise of M&A insurance



Source: Aon's M&A and Transaction Solutions, EMEA: Placement data 2014-2018 - W&I, Tax, Title and Contingent risks.

The case for implementing W&I is compelling for both groups. For corporates, the ability to free up capital on the balance sheet is often a primary driver. "Rather than having an escrow put in place, or a contingent liability on your balance sheet in relation to divestments you've carried out, you can turn to W&I insurance and basically transfer it for a fraction of the amount of capital you'd otherwise need to reserve on your balance sheet," says Holtrop.

A basic comparison of undertaking a transaction with an escrow versus using W&I insurance clearly illustrates the additional value created via the insurance route (see Figure 6).

Figure 6: W&I has sparked awareness of insurance as a cost-effective hedging tool

A. Financial aspects

i) what is the alternative for cost security? (factor in potential claims)
ii) enhance bid
iii) sellers' credit worthiness versus A-rated insurers
iv) specific exposures – tax; litigation; environmental; credit/political risk
iv) provide debt providers with comfort

B. Process-related aspects

i) clean exit
ii) enhance warranties & warranty periods
iii) enhance comparability between bids
iv) preserve relationship with management
v) improved ability to recover losses (?)
vi) warranties given by multiple sellers
vii) PE fund wrap up

Deal assumptions

Enterprise Value: EUR 100m
Cost of Capital: 20%

Without insurance (EUR)

Escrow (as a % of deal value)	10%
Escrow fee	0,50%
Duration of escrow (months)	12
Cost of escrow	**50 000**

With insurance (EUR)

Insurance limit purchased (as a % of deal value) = escrow replacement	10%
Cost of insurance (rate on line)	1,50%
Escrow avoided	10 000 000
Opportunity cost of capital	2 000 000
Escrow fee avoided	50 000
Cost of insurance	-150 000
Value created	**1 900 000**
Value created as % of purchase price	**1.90%**

Source: Aon's M&A and Transaction Solutions, EMEA

For PE firms, other factors are material. "For PE firms there is a much stronger focus on returning cash to their investors or having a clean exit, which aren't typically such big issues for corporates yet," says Jan Jensen, Head of Private Equity in the Nordics at White & Case.

Buyers in M&A transactions are more likely to value the strategic advantage that W&I can provide, as it allows them to maximise the value of their bids and to avoid protracted discussions around the sale and purchase agreement (SPA). "W&I brings a lot of value in auctions. It allows buyers to segregate between value and risk; if risk is insurable then buyers don't need to incorporate certain buffers in their valuation – they can therefore be more competitive from a valuation and contract perspective to win the asset," says Nestor Paz-Galindo, Managing Director, Head of M&A EMEA at UBS.

This may be something that comes into play more for corporate acquirers in the future too. "PE firms now face fierce competition from the corporates, who have heavy balance sheets loaded with a lot of cash with which they can undertake acquisitions," says Holtrop.

For corporates, the ability to free up capital on the balance sheet is often a primary driver.

The art of the possible: a new frontier for hedging transaction risk

The benefits of W&I insurance are proven, as is the value of insurance solutions to hedge tax risks in transactions, as well as, to a lesser extent, litigation risks.

But for those dealmakers willing to push the boundaries, there are huge opportunities to take further advantage of the arbitrage available via insurance capital.

"Today, when I'm looking at risks in real estate, I always consider whether insurance might be a way to find a solution to things that wouldn't have been on the radar two years' ago — whether it's litigation, a building issue or even something pollution-related."

Vanessa Roux-Collet
General Counsel for Europe, AEW

"Insurance capital per se is cheaper than bank capital and it is more readily available today because banks have higher capital requirements than insurers," says Karl Roquet, Chief Commercial Officer of Aon's M&A and Transaction Solutions in EMEA. "That in itself creates an arbitrage for the capital cost, and then there are a whole load of risks adjacent to those W&I covers that could be addressed through structured surety and credit instruments – it just requires some innovative thinking."

Aon's Lester says one such opportunity presented itself when working on a transaction involving a PE-owned company specialising in smart-meter installation. The new technology within smart meters represented an unknown risk, as, although the meters had a manufacturers' warranty, this may have proved worthless had the technology failed.

Seeking to mitigate the risk – but finding that banks were unwilling to lend to them without a guarantee in place – the business turned to an insurance solution. "This was about leveraging the unknown risks associated with new technologies," says Lester. "Insurance wasn't replacing traditional finance, but it was essentially "sharpening the edges". Involving insurance capital had the effect of reducing risk for the buyer and also lowering the cost of capital to cover those risks, as banks were willing to lend for longer and for cheaper with an insurer involved."

Another area where dealmakers could make more use of insurance capital is in improving balance sheet liquidity. "Taking pharma and life science companies as an example, they sometimes face challenges both in an operating and M&A context with modelling and managing cash flow – for their existing business and for target companies," says Guffanti. This is because income may be realised incrementally over a licensing period rather than upfront, or a patent may expire leading to a drop in revenue. "If you could put some kind of receivables finance solution in place, it may improve liquidity and cash flow, which the business can then invest into R&D or use to reduce its net debt levels. It's about helping them to manage volatility, maximize performance and free up capital," adds Guffanti.

Loyen & Loeff's Holtrop believes another opportunity to unlock value through this arbitrage may be to utilise insurance capital in the context of a sale-leaseback of property – a tool that is popular with PE buyers.

"The property would be sold and leased back and then divested to professional investors, such as insurance companies, allowing you to free up some cash on the balance sheet and repay part of your debt," he says.

For many dealmakers, both on the corporate and the PE sides, exploiting insurance capital in transactions beyond W&I insurance remains a topic to be explored. That said, the speed with which W&I insurance rose to prominence in the European M&A industry, and the awareness this trend has created, suggests it will not be long before we see new avenues to elevate deal value being pursued.

“Do we think there could be such opportunities for any of our transactions? I think the answer to that would be yes, definitely,” says Mercer. “The transaction world is only getting more competitive, so we have a relentless focus on looking for any edge we can find – innovative risk management solutions will certainly be part of the toolkit to help us achieve that.”

As they continue to seek out new value during the M&A process, Edwin Charnaud, Chairman of Aon’s M&A and Transaction Solutions in EMEA, says dealmakers will need to combine these solutions with a new approach to due diligence. “Given the risk landscape is evolving so quickly, adapting the due diligence process and finding new solutions to mitigate this expanding universe of risks is critical to create a competitive edge, protect against unforeseen pitfalls, and ultimately unlock transaction value,” he says.

“The property would be sold and leased back and then divested to professional investors, such as insurance companies, allowing you to free up some cash on the balance sheet and repay part of your debt.”

Harmen Holtrop
Loyens & Loeff

…exploiting insurance capital in transactions beyond W&I insurance remains a topic to be explored.

Unlocking deal value: The way forward

This report sheds new light on some of the untapped opportunities in the transaction process, as insurers' risk insights and capital are brought to bear.

To unlock this value, dealmakers should challenge themselves to see where they might do things differently:

Can you go deeper on risk?

The insurance industry is an incredibly rich source of data and insights which can be harnessed during due diligence to gain a more detailed understanding of target companies – and their associated risks – than ever before. As risks become more complex, and interconnected, across areas such as cyber, intellectual property and human capital, building a deeper, more holistic view of risk is increasingly integral to successful deal outcomes.

Can you hedge risk more cost effectively?

Insurance capital is becoming more of a go-to solution for solving some transaction risks, particularly those commonly covered under warranties and indemnities. But traditional financing solutions prevail for most other deal risks, despite this being a relatively expensive way to price risk. Dealmakers must now challenge themselves to consider whether insurance instruments can solve other types of deal risks in a more financially attractive manner than traditional financing solutions, in both an equity and debt context.

Can you extract more value from intangible assets?

Seek out all the insight you can on intangible assets. Intellectual property in the broadest sense offers huge value opportunities beyond those traditionally understood. Converting intangible assets to tangible value is increasingly possible.

Intellectual property in the broadest sense offers huge value opportunities beyond those traditionally understood.

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