

Hiscox London Market D&O Insuring the IPO journey



As the IPO market picks up pace, Hiscox is here to protect directors and officers (D&O) from IPO related risks.

New momentum in the IPO market

In 2021, the initial public offering (IPO) market reached a peak. Worldwide, nearly 2,500 IPOs raised a total of \$459.9 billion. In 2022 activity dropped off but fresh momentum in the market in 2023 saw some significant IPOs in the USA and Europe.

While IPO activity is happening across all sectors, the technology sector remains dominant, particularly with the growth of artificial intelligence. In line with the global journey to net zero, businesses focused on renewables are also showing increased desire to access public capital.

Flight to quality

Higher interest rates and increased capital cost requirements mean that today, investors are looking for better quality IPO opportunities. Compared to some previous IPOs characterised by over inflated valuations, poor underlying financials and unrealistic financial projections.

The high valuations that were features of IPOs in 2020 and 2021 are being closely watched by investors, with many of those market valuations significantly eroded.

There has been a significant reduction in unicorn IPOs reflecting a sign of less inflated valuations. Activity has also slowed in Special Purpose Acquisition Company (SPAC) IPOs, with their focus now on finding target companies before they expire or consider winding down.

IPO areas of exposure

Against this fast-changing backdrop, the risks to directors, officers and the company when embarking on the IPO journey continue to grow as investors seek to recover losses. Typically, IPO related claims are triggered under a D&O insurance policy by any one of the following:

- restatement of accounts;
- ambiguous statements in a prospectus;
- restating guidance;
- unfamiliarity with SEC reporting requirements;
- significant stock drops;
- short-seller reports;
- inexperienced management teams;
- major shareholder involvement;
- dual class share structure.

Underwriting IPO considerations

Hiscox looks for companies that are choosing the IPO route at the right time in their business journey and for the right reasons.

Businesses must demonstrate that they are navigating the ever-changing macroeconomic environment well and have explored all their financing options – including private capital or debt raising – before deciding to IPO. A stable balance sheet, positive cash flow, and rigorously prepared financial targets and a clear pathway to growth and profitability are also key.

Finally, companies need to be prepared for new public disclosure requirements. We look for experienced management teams with a strong history of delivering against regulatory requirements.

Hiscox's claims support

Our claims function is led by Chris Moore, with over 30 years' experience in the D&O market and qualified to the Californian Bar. He is supported by Michael Ehioze-Ediae who is qualified to the New York Bar and a UK barrister.

Having supported multiple IPO clients and claims over the past few years, we are happy to provide prospective clients with training sessions on common exposures seen in the market.

Hiscox's IPO appetite

Hiscox has a long and stable history of insuring directors and officers and their companies when it comes to IPOs.

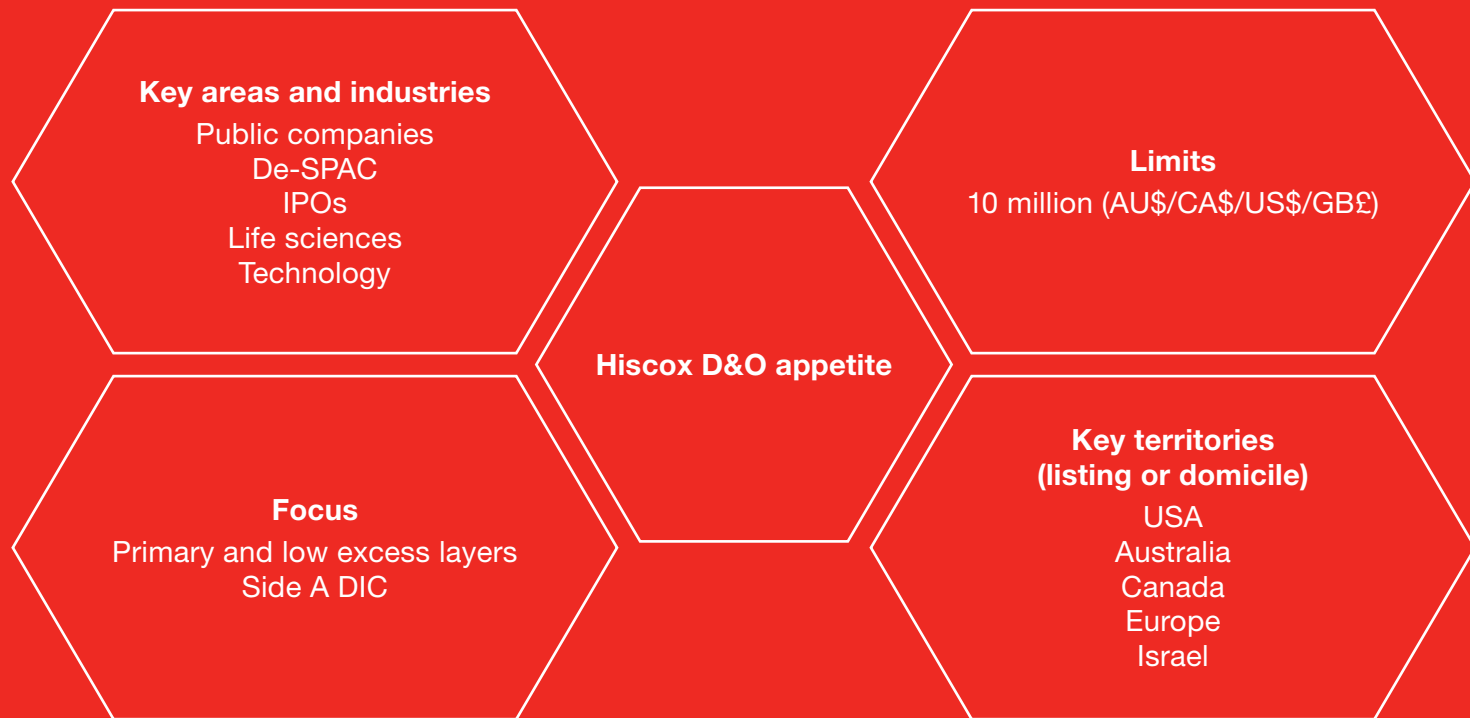
Between 2019 and 2023, **we insured 45 IPOs** (excluding De-SPAC transactions) with the majority in the tech and pharmaceutical sectors. Our average attachment of around \$5 million to \$10 million reflects our appetite to support on **primary or low XS positions**.

The IPOs in our portfolio are listed on numerous major exchanges – but with a concentration on the Nasdaq and the NYSE.

What does Hiscox underwrite?

- IPOs.
- Direct and secondary listings.
- ADRs and ADS.
- Follow-on offering.
- Debt offering.
- M&A.
- Reverse mergers and De-SPAC transactions.
- POSI.

The Hiscox D&O portfolio is one of the most established in the Lloyd's market, with the ability to write primary and excess in high-risk sectors and territories.



Recent IPO claims covered by Hiscox.

Ecommerce

Alleged violations of section 10-b5 and 20 of the Securities Exchange Act involving misleading disclosures on customer retention and adjusted guidance.

Outcome

Settlement for over \$20 million, Hiscox paid \$10 million.



Tech

Section 10b claim under the Securities Exchange Act relating to guidance reduction, due to difficulties in product monetisation, leading to a \$1 billion drop in stock value.

Outcome

Awaiting ruling on MTD.



Solar tech

Section 11 claim under the Securities Exchange Act which involved alleged materially misleading information about regulatory risks.

Outcome

\$10 million policy limit paid by Hiscox.



Tech

Allegations about encryption led to a section 10b claim under the Securities Exchange Act for a reduction in stock value.

Outcome

Hiscox paid up to the \$5 million policy limit.



Internet

Securities class action and derivative action filed due to cyber breach.

Outcome

ABC tower and Side A DIC tower paid full limit loss. Hiscox paid \$8 million with the derivative settled for over \$25 million.



Semiconductor

A section 11 claim under the Securities Exchange Act for an addressable market for single cell.

Outcome

Awaiting ruling on MTD.



Why choose Hiscox for IPO protection?

Constantly evolving D&O environment

In an unprecedented directors and officers' claims environment, partnering with a strong and trusted insurer who understands your risks has become more important than ever.



Innovative underwriting solutions for IPO risks

With an innovative approach to underwriting complex IPOs, we offer tailored policies reflecting the coverage required to meet the IPO exposures you face.



What we cover

- Public company D&O.
- IPOs and De-SPAC.
- Primary and low excess ABC.
- Side A.
- Financial institutions.
- Commercial institutions.



Why choose Hiscox?

We're one of the leading D&O carriers in the London insurance market. All risks are underwritten exclusively on Hiscox Syndicate 33 paper – rated A (Excellent) by A. M. Best.



Claims handling in the USA and London

Our expert claims managers handle the largest and most complicated claims in the market. They are also integral to our product design and risk appetite – delivering consistency between underwriters and claims to ensure an unparalleled claims service.



Broad IPO claims paying experience

Our broad underwriting appetite is matched by our extensive claims paying experience including: US derivative actions, Chapter 11 and IPO-related claims, as well as claims from Europe, Latin America and Israel.



To discuss your IPO and how Hiscox can protect your directors and officers, contact a member of the team.

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