

EXECUTIVE RISK ASSESSMENT THE THREAT OF SHAREHOLDER LITIGATION

SampleCo Specific Exposure & Peer Group Benchmarking

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PURPOSE | DATA | DEFINITIONS

Purpose & Scope

- ✚ The purpose of this report is to offer empirical assessment of company-specific exposure to shareholder litigation*, and to put that assessment in the comparative context of peer benchmarking.
 - > Company-specific probability of incurring shareholder litigation is derived from a proprietary multivariate predictive model;
 - > Company-specific expected cost (i.e., potential settlement) is derived by relating the company's market capitalization and other characteristics to past settlement values incurred by like companies, using statistical projection techniques;
 - > Peer benchmarking is rooted in empirical analyses of past and applicable (i.e., peer companies') securities class action (SCA) filings and settlements.
- ✚ Peer benchmarking is based on a two-dimensional framing of peer groups:
 - > Dimension 1: Industry sector membership (based on SEC-reported data);
 - > Dimension 2: Market capitalization tranche, using FINRA-based tranche definitions (shown on next page).
- ✚ All analyses in this report are based on applicable data, which include:
 - > Post-PSLRA (1996) filings of securities class actions (SCAs): 6,500+ records;
 - > Resultant monetary settlements: 2,900+ records;
 - > Detailed company-specific financial metrics sourced from annual financial disclosures;
 - > Material events, most notably IPOs, mergers & acquisitions, and restatements for each company;
 - > Daily stock price volatility for each company.

**Referred to as SCA (securities class action) throughout this report; also used are 'securities litigation', 'shareholder litigation' and 'securities class action' terms.*

Peer Group Framing and Data Sources

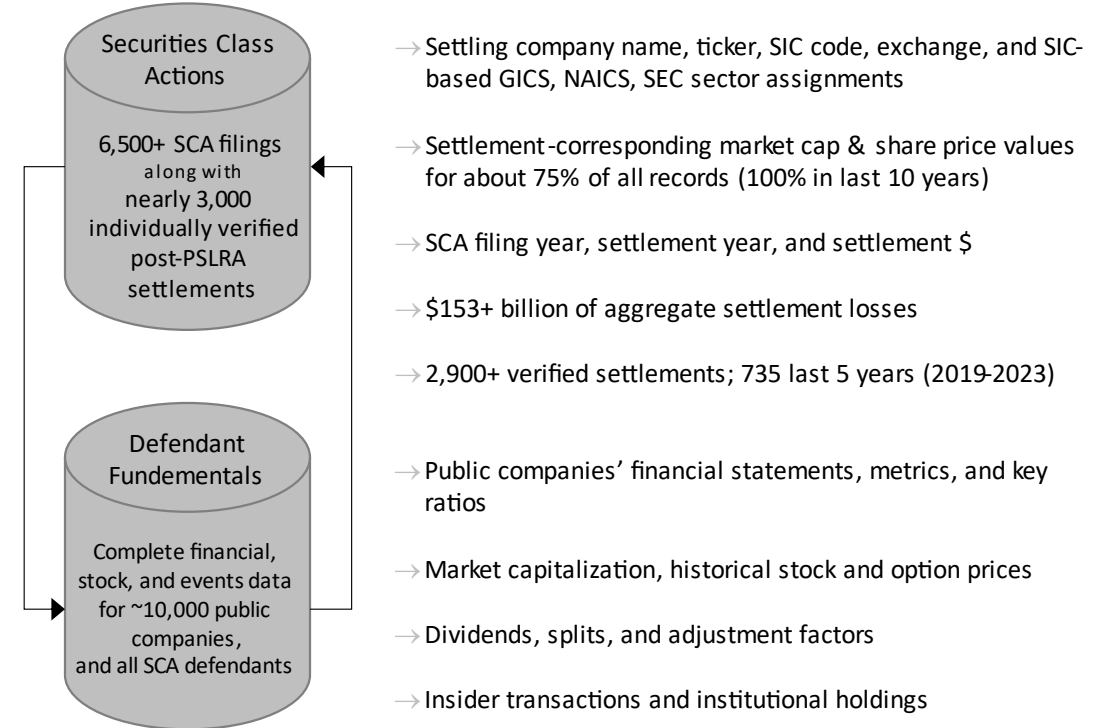
Peer Group Definitions

Mutually exclusive & collectively exhaustive schema built around SEC-defined industry segments and FINRA-defined market cap tranches

SEC Industry Sectors	Energy & Transportation	Energy & Transportation Nano	Energy & Transportation Micro	Energy & Transportation Small	Energy & Transportation Mid	Energy & Transportation Large
	Financial Services	Financial Services Nano	Financial Services Micro	Financial Services Small	Financial Services Mid	Financial Services Large
	Industrial Applications & Services	Industrial Applications & Services Nano	Industrial Applications & Services Micro	Industrial Applications & Services Small	Industrial Applications & Services Mid	Industrial Applications & Services Large
	Life Sciences	Life Sciences Nano	Life Sciences Micro	Life Sciences Small	Life Sciences Mid	Life Sciences Large
	Manufacturing	Manufacturing Nano	Manufacturing Micro	Manufacturing Small	Manufacturing Mid	Manufacturing Large
	Real Estate & Construction	Real Estate & Construction Nano	Real Estate & Construction Micro	Real Estate & Construction Small	Real Estate & Construction Mid	Real Estate & Construction Large
	Technology	Technology Nano	Technology Micro	Technology Small	Technology Mid	Technology Large
	Trade & Services	Trade & Services Nano	Trade & Services Micro	Trade & Services Small	Trade & Services Mid	Trade & Services Large
FINRA Market Cap Tranches						
	<\$50M	\$50M-\$250M	\$250M-\$2B	\$2B-\$10B	\$10B+	

Data Sources

Running repository of **all** post-PSLRA ('96) securities litigation filings and settlements + full set of company-specific fundamentals & stock details



**COMPANY-SPECIFIC ASSESSMENT
& PEER BENCHMARKING**

Summative Assessment SampleCo's Exposure to Shareholder Litigation

PROBABILITY & INCIDENCE OF LITIGATION

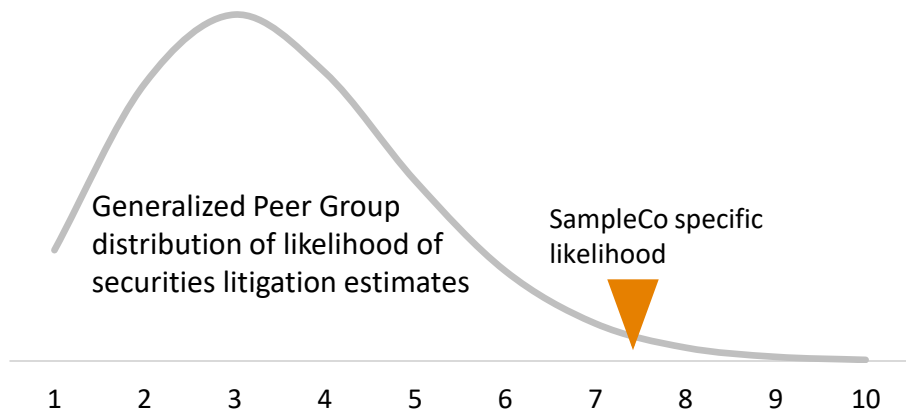


POTENTIAL SETTLEMENT COST PROJECTIONS

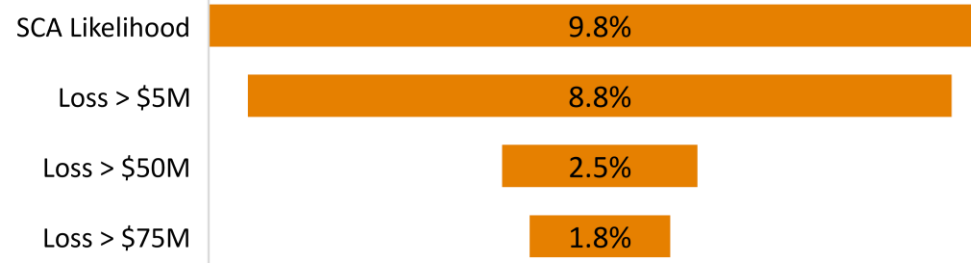
95% Confidence Intervals (CI)



DECILED SCA LIKELIHOOD DISTRIBUTION

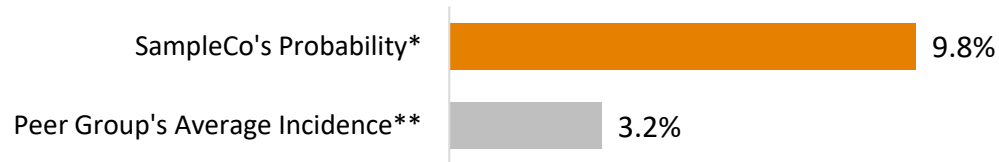


LOSS SCENARIOS



Empirical Comparative Risk Assessment: SampleCo vs. Peers

BENCHMARKED PROBABILITY OF SECURITIES LITIGATION

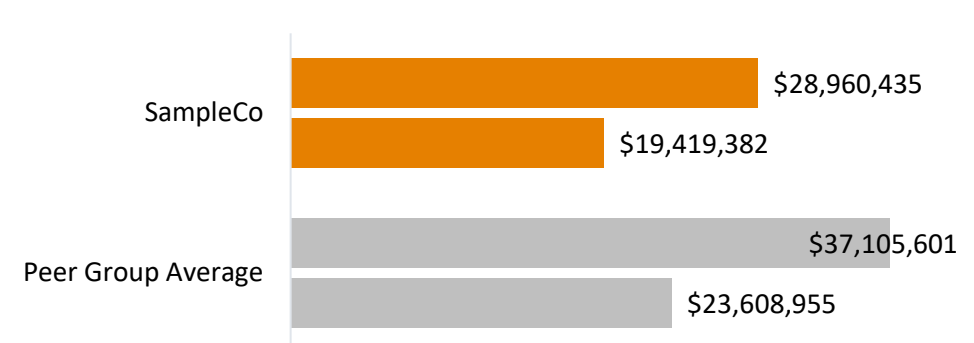


*Company-specific model-predicted likelihood

**Peer group-wide observed frequency over the most recent 5 years

BENCHMARKED POTENTIAL SETTLEMENT COST ESTIMATES

95% Confidence Intervals (CI)



Net Present Risk (NPR) Analysis

Informs the value of insurance coverage related decisions.

NPR ASSESSMENT FOR SAMPLECO



NPR ASSESSMENT FOR PEER GROUP



The above estimates are net of any defense-related costs (which typically add about 40%)

- ⚠ Threat of shareholder litigation is assessed for SampleCo as a unique risk, and it is contrasted with the averaged risk faced by Peer Group companies.
- ⚠ Net Present Risk = Likelihood of SCA * Upper / Lower Confidence Interval values.
- ⚠ Key definitional and methodological considerations are outlined in the Core Methodological Specifics section.

Empirical Comparative Risk Assessment: SampleCo vs. Peers *cont'd*

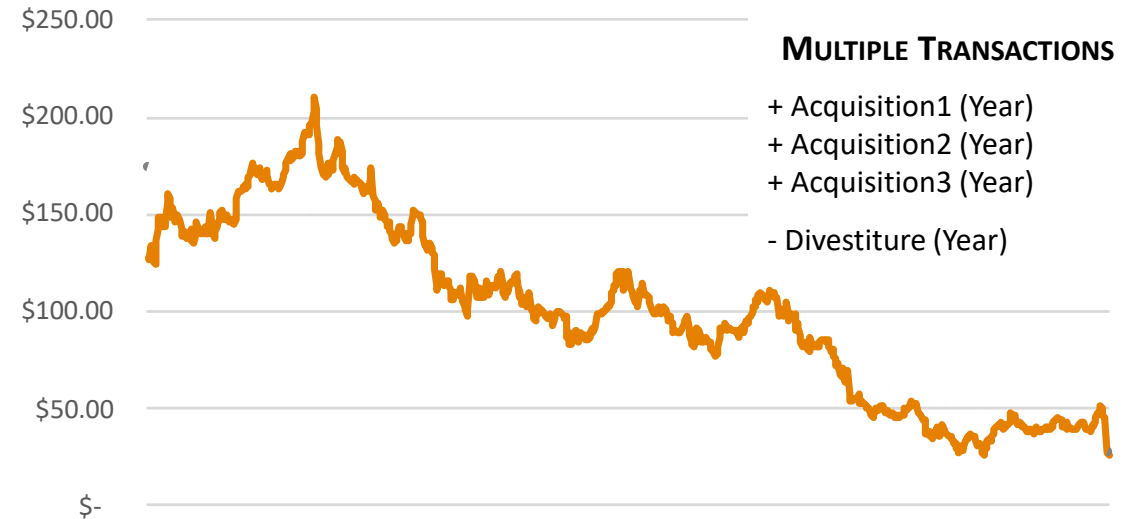
MAXIMUM PROBABLE LOSS (Net of Defense Costs)



✘ The above estimates are based on relating past settlement values to corresponding market capitalization using the *loss-to-value* ratio, and then relating long-term shareholder litigation cost trends to current SampleCo's market cap, and the top market cap for the Peer Group.

✘ The estimated magnitudes reflect the 97.5th percentile of the distribution of loss-to-value ratio computed for the Peer Group.

SAMPLECO SHARE PRICE TREND Most Recent 3 Years



12-MONTH SHARE PRICE DIFFERENTIALS

Feb. '21 – Feb. '22	Feb. '22 – Feb. '23	Feb. '23 – Feb. '24
Mean Price: \$152.58	Mean Price: \$100.01	Mean Price: \$48.79
Median Price: \$150.19	Median Price: \$99.23	Median Price: \$43.19

DIFFERENTIALS-BASED AVERAGED SHAREHOLDER LITIGATION VALUE BASIS

\$2,165,110,200	\$1,419,141,900	\$692,330,100
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SHAREHOLDER LITIGATION VALUE BASIS-IMPLIED EXPECTED SETTLEMENT RANGES

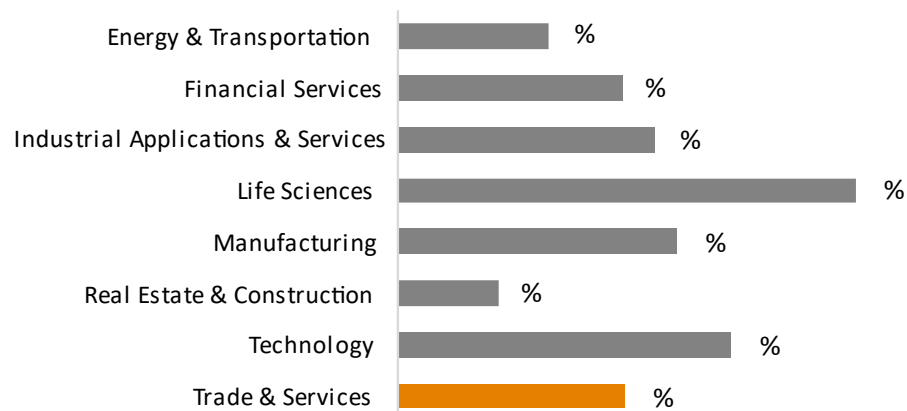
\$29,191,930 - \$73,867,965	\$31,321,166 - \$63,541,805	\$17,063 - \$28,230,926
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Comparative Benchmarking: SCA Likelihood

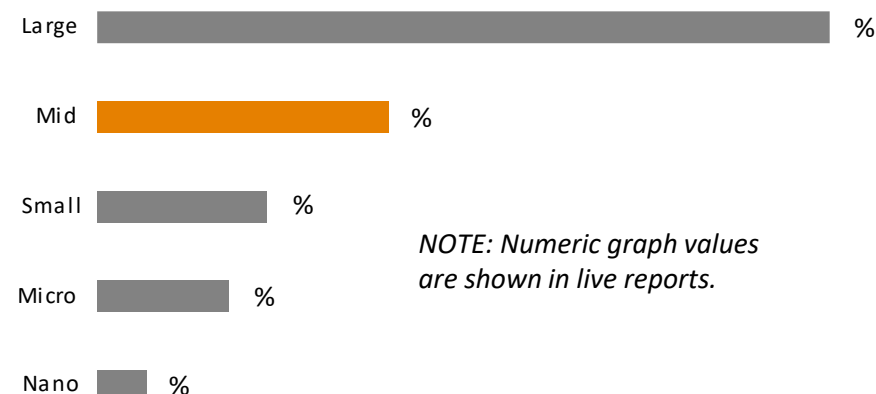
REGENCY-WEIGHTED SCA LIKELIHOOD

SECTOR-LEVEL SECURITIES LITIGATION FREQUENCY

(MOST RECENT 5 YEARS)



TRADE & SERVICES SECTOR DRILL-DOWN



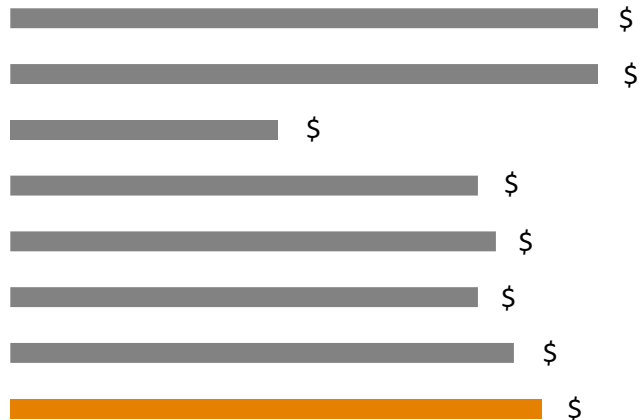
NOTE: Numeric graph values are shown in live reports.

- ✘ Over the most recent 5 years, Trade & Services firms incurred moderate – in relation to other sectors – frequency of shareholder litigation.
- ✘ As shown above, the relative frequency of shareholder lawsuits generally increases as a function of company size (as measured by market capitalization); over the most recent 5 years, Mid-Cap (\$2B-\$10B) Trade & Services firms incurred higher than the overall sector average incidence of shareholder litigation.

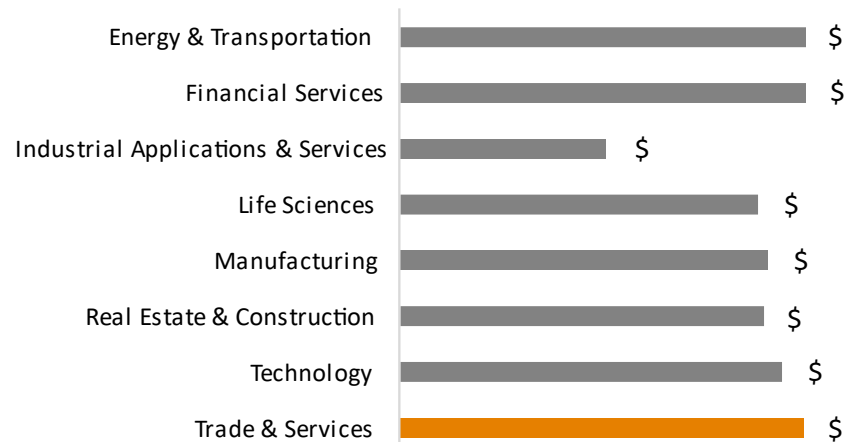
The sector-level benchmarking analysis shown here uses the standard FINRA size classification, which is: <\$50M – Nano Cap; \$50M-\$250M – Micro Cap; \$250M-\$2B – Small Cap; \$2B-\$10B – Mid-Cap; >\$10B – Large Cap

Comparative Benchmarking: Averaged Severity of SCA Settlements

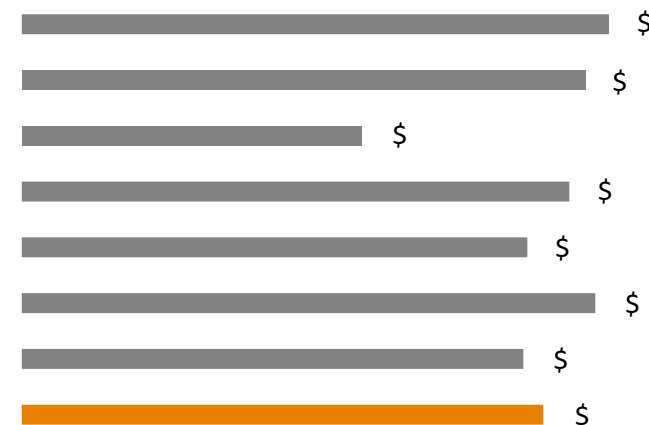
LOWER 95% CONFIDENCE INTERVAL



TRIMMED* MEAN

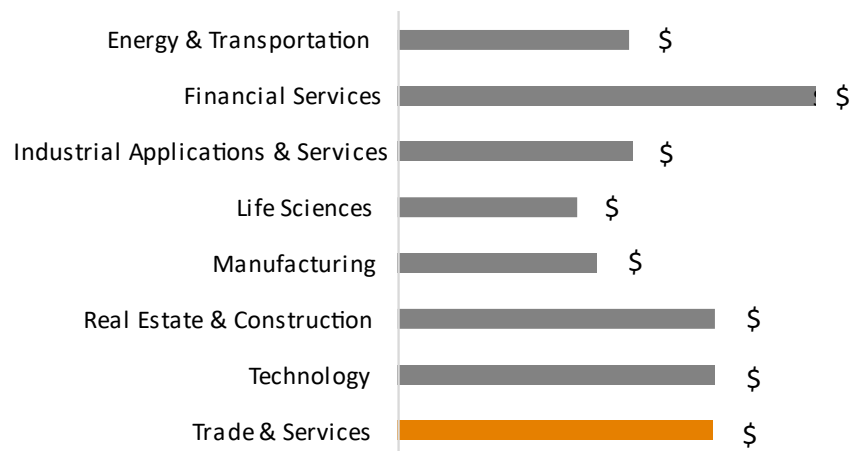


UPPER 95% CONFIDENCE INTERVAL



*Mean-centered 95% of values

MEDIAN



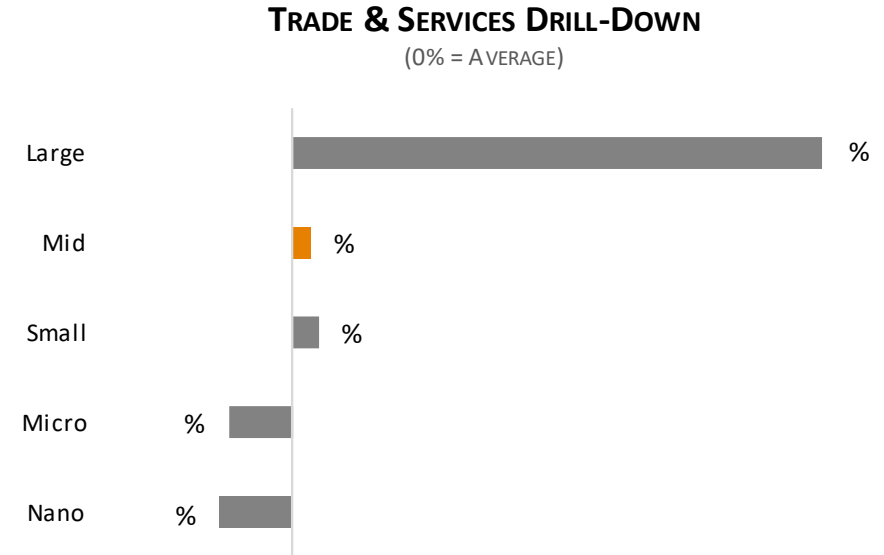
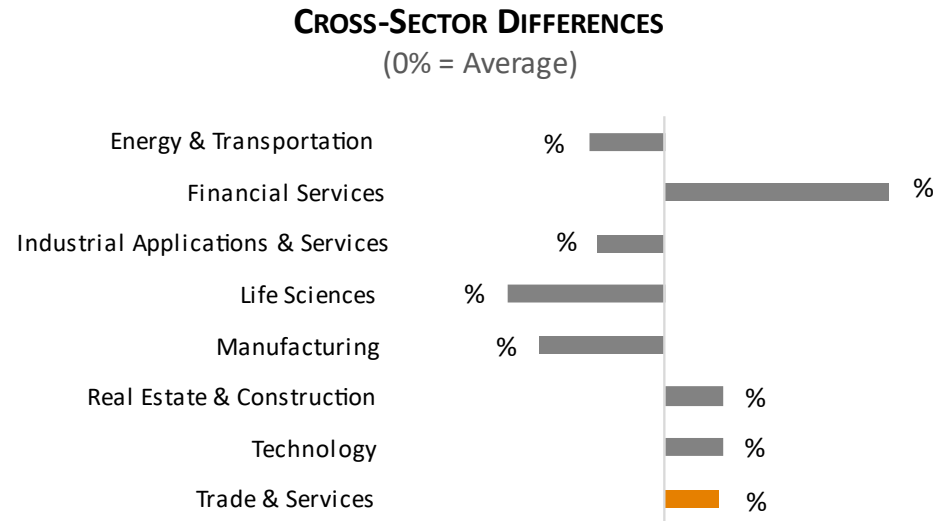
NOTE: Numeric graph values are shown in live reports.

- ✘ The above documented sharp differential between *down* (Lower 95% Confidence Interval) and *up* (Upper 95% Confidence Interval) averaged deviations from the outlier-adjusted mean (Trimmed Mean) illustrates what can be interpreted here as high upward risk, or potential settlement cost escalation associated with shareholder litigation.
- ✘ As shown by the left-hand side chart, Peer Group firms exhibit comparatively large typical (i.e., Median) settlement values, but comparatively lower upward risk (Upper 95% Confidence Interval).

The sector-level benchmarking analysis shown here uses the standard FINRA size classification, which is: <\$50M – Nano Cap; \$50M-\$250M – Micro Cap; \$250M-\$2B – Small Cap; \$2B-\$10B – Mid-Cap; >\$10B – Large Cap

Comparative Benchmarking: Indexed Severity of SCA Settlements

INDEXED SCA SEVERITY



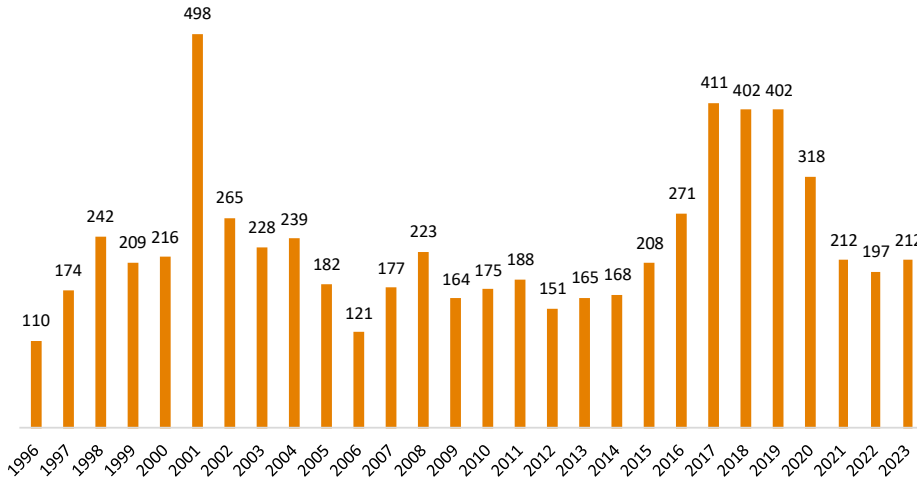
NOTE: Numeric graph values are shown in live reports.

- ✘ When indexed to their corresponding market capitalizations, Peer Group firms' securities litigation settlements tend to run larger than the overall (i.e., all sectors combined) average.
- ✘ When considered in a narrower context of market capitalization-based size tranches, Peer Group firms tend to settle their shareholder litigation lawsuits for larger % of their market capitalization than the average Industry Sector firm.

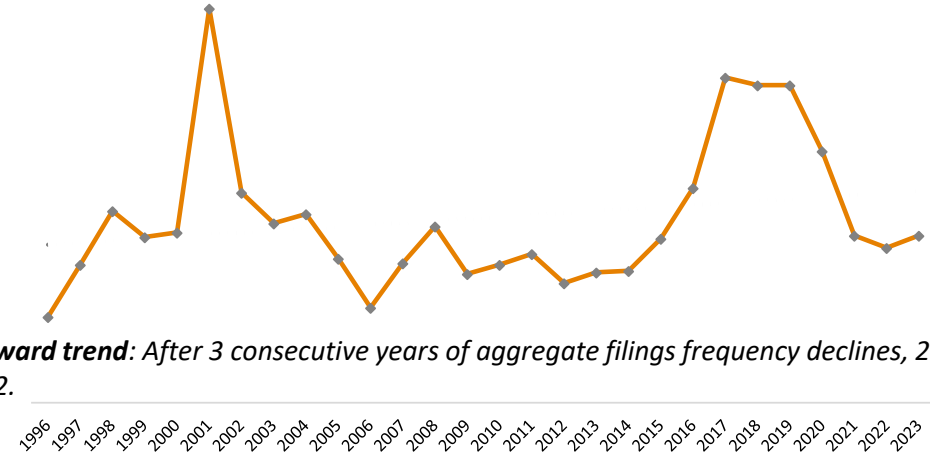
The sector-level benchmarking analysis shown here uses the standard FINRA size classification, which is: <\$50M – Nano Cap; \$50M-\$250M – Micro Cap; \$250M-\$2B – Small Cap; \$2B-\$10B – Mid-Cap; >\$10B – Large Cap

Long-Term Shareholder Litigation Likelihood & Severity Trends

ANNUAL SCA FILINGS

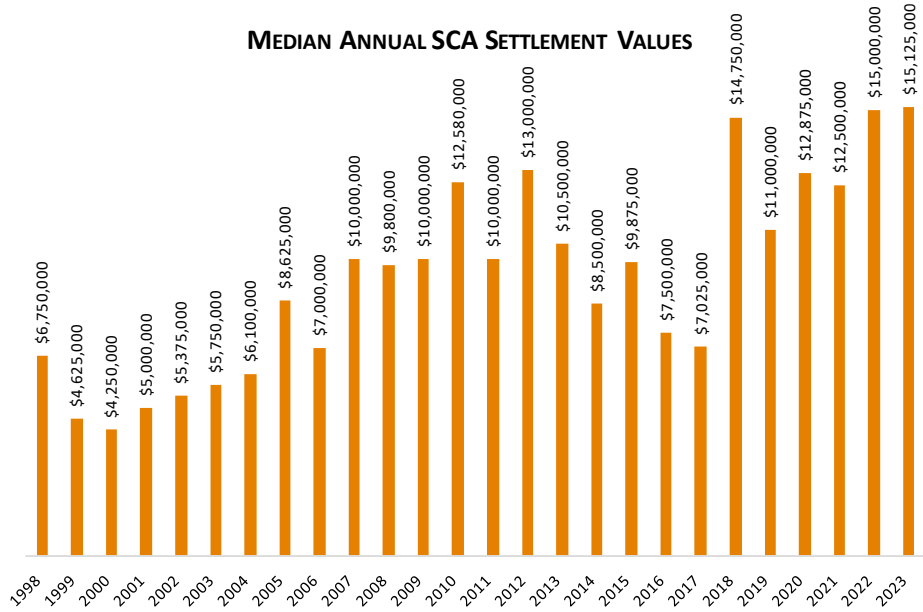


ANNUAL SCA FILINGS TREND

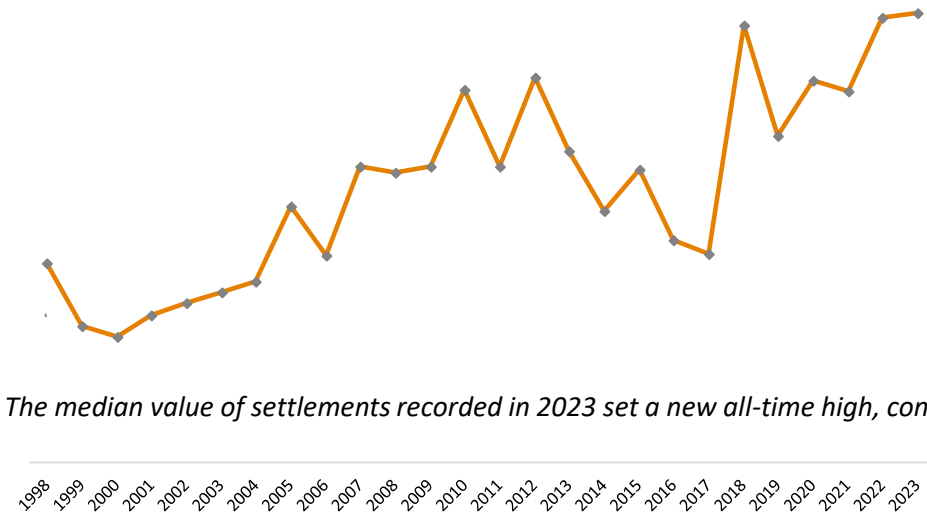


Reversal of the downward trend: After 3 consecutive years of aggregate filings frequency declines, 2023 filings increased by about 8% over 2022.

MEDIAN ANNUAL SCA SETTLEMENT VALUES



MEDIAN ANNUAL SCA SETTLEMENT VALUE TREND

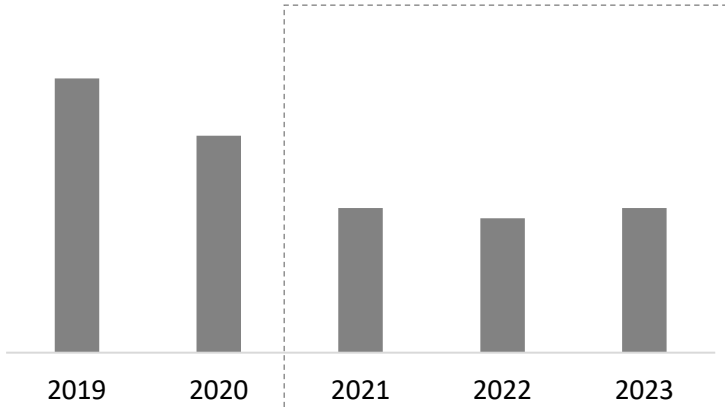


Continued upward trend: The median value of settlements recorded in 2023 set a new all-time high, continuing a distinct upward cost trend.

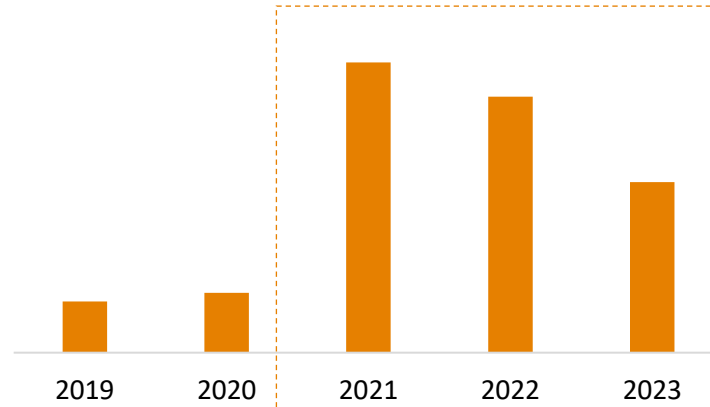
**EXAMPLE OF SPECIAL-PURPOSE ANALYSIS:
IMPACT OF SPAC IPOs**

SPAC Transactions vs. Securities Litigation

SCA Filings

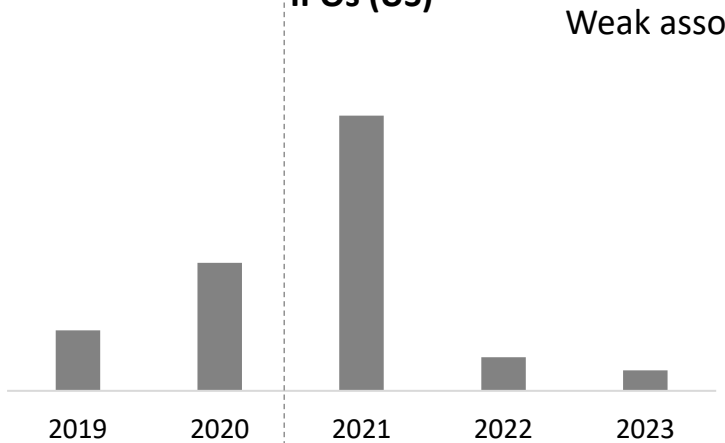


SPAC SCA Filings



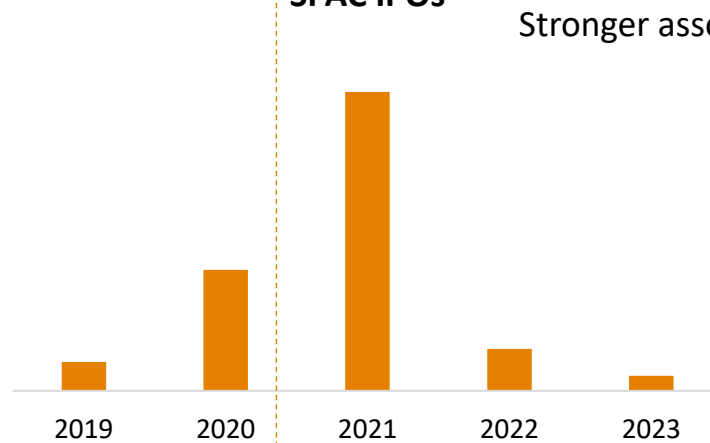
- ✘ The most recent – i.e., the last 3 years – averaged frequency of shareholder litigation shows signs of leveling off in low 200s;
- ✘ The frequency of SPAC-related SCA (securities class action) filings is steadily declining from the 2021 high.

IPOs (US)



Weak association

SPAC IPOs



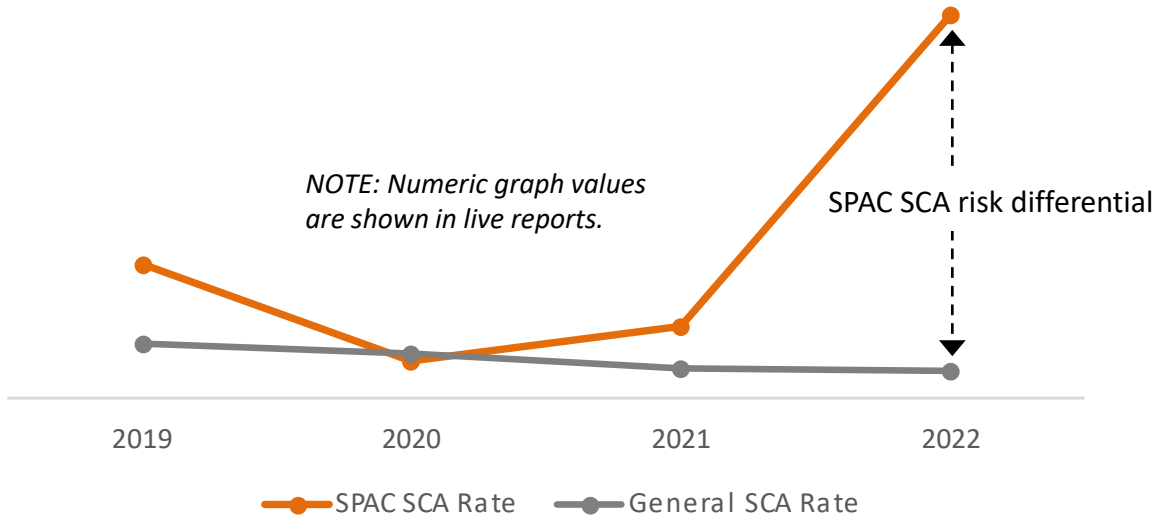
Stronger association

- ✘ The number of IPOs – one of the leading causes of SCA claims – has fallen off dramatically from the recent high in 2021;
- ✘ The frequency of SPAC-related IPOs largely mirrors the general IPO trend.

NOTE: Numeric graph values are shown in live reports.

The SPAC Effect: Likelihood of SCA

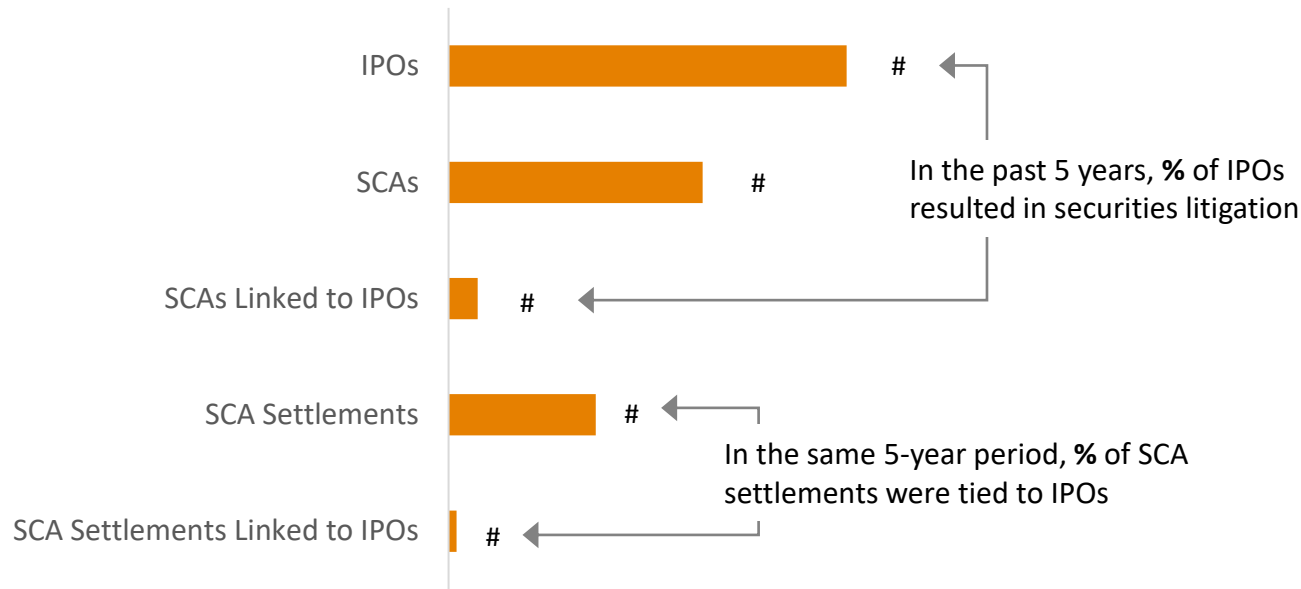
General vs. SPAC Attributed SCA Rate



- ✘ In terms of cross-sector difference, SPAC-related incidence of securities litigation varies considerably across industry sectors, ranging from low of 1.8% for Industry Sector X to high of 16.5% for Industry Sector Y firms.
- ✘ In the most recent 3 years, the average (across all sectors and size tranches) frequency of shareholder litigation remained in the range of X% to Y%.
- ✘ During the same time period, the incidence (%) of securities litigation tied to SPAC IPOs has skyrocketed.
- ✘ Currently, the 'SPAC' designation is among the strongest predictors of shareholder litigation.

IPO and SCA (Securities Class Action) Deep Dive

Averaged Likelihood (left hand side) and Severity (right hand side) Impact of IPO on Risk of Securities Litigation
(Analysis based on the most recent 5 years, 2019-2023)



The above suggest that, on average, IPO alone has about #-to-# odds of precipitating securities litigation, and about #-to-# odds of resulting in monetary settlements.

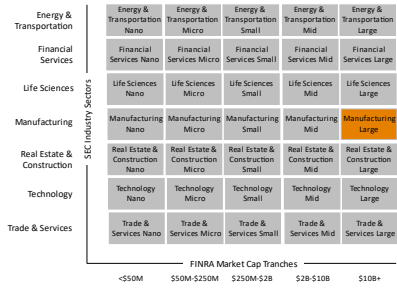
No IPO	Median Settlement \$	\$14,100,000
	% of Total \$	97.9%
	% of Total N	94.5%
Median Market Cap \$1.62B	N	727
IPO	Median Settlement \$	\$8,250,000
	% of Total Sum	2.1%
	% of Total N	5.5%
Median Market Cap \$0.542B	N	42

- ✘ The 'fair share' index highlighted above is the ratio of frequency (Total N) and severity (Total Sum) – the expected value is 1-to-1, i.e., the share of the number of cases is expected to about equal to the share of total losses.
- ✘ Although IPO-linked cases only account for 2.1% of all SCAs, they represent 5.5% of total losses, or 2.6 times higher than the expected 1-to-1 ratio.

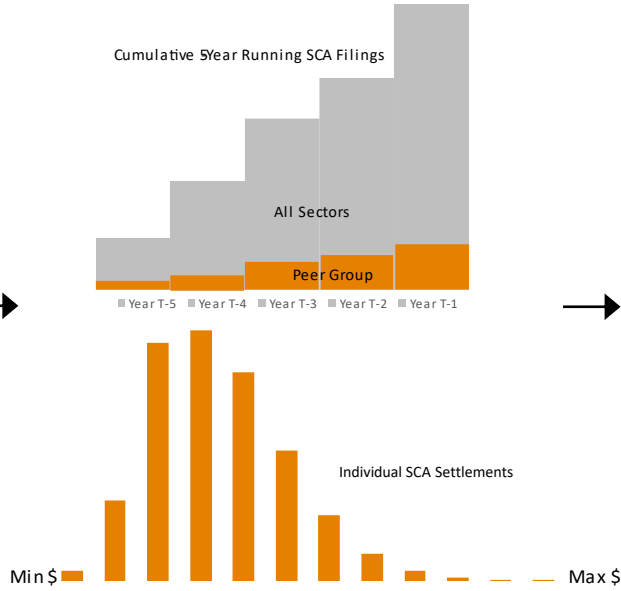
CORE METHODOLOGICAL SPECIFICS

General Logic of Company-Specific Likelihood & Severity Estimation

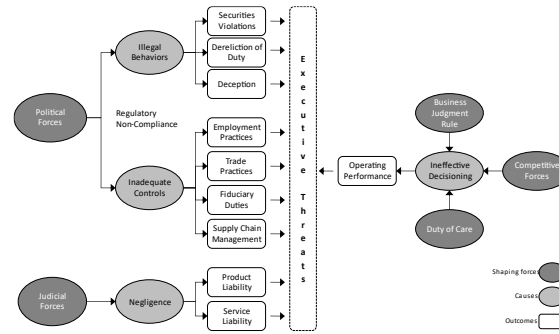
Focal Peer Group



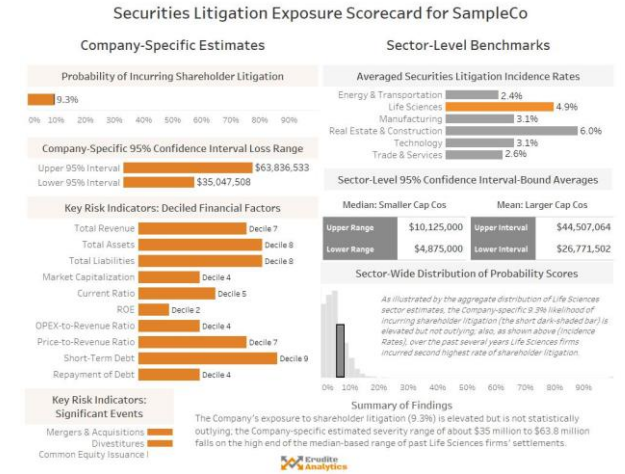
SCA Filings & Settlement Details



Multivariate Predictive Modeling



Company-Specific Scoring

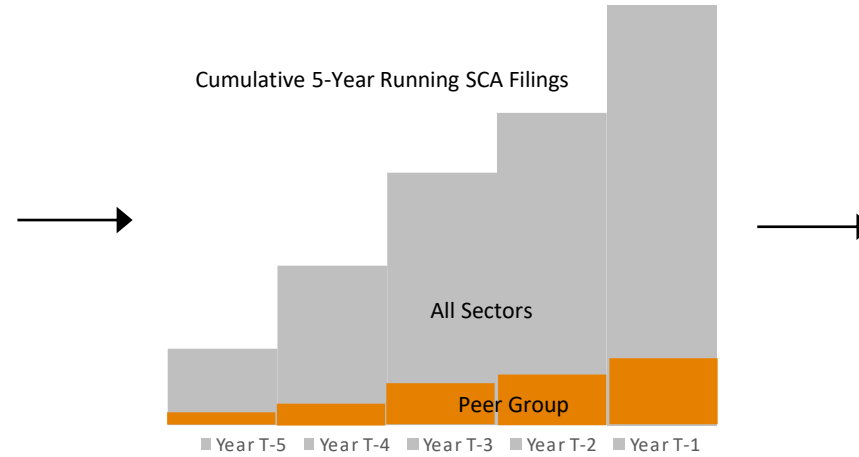


General Logic of Peer Benchmarking: Likelihood of Shareholder Litigation

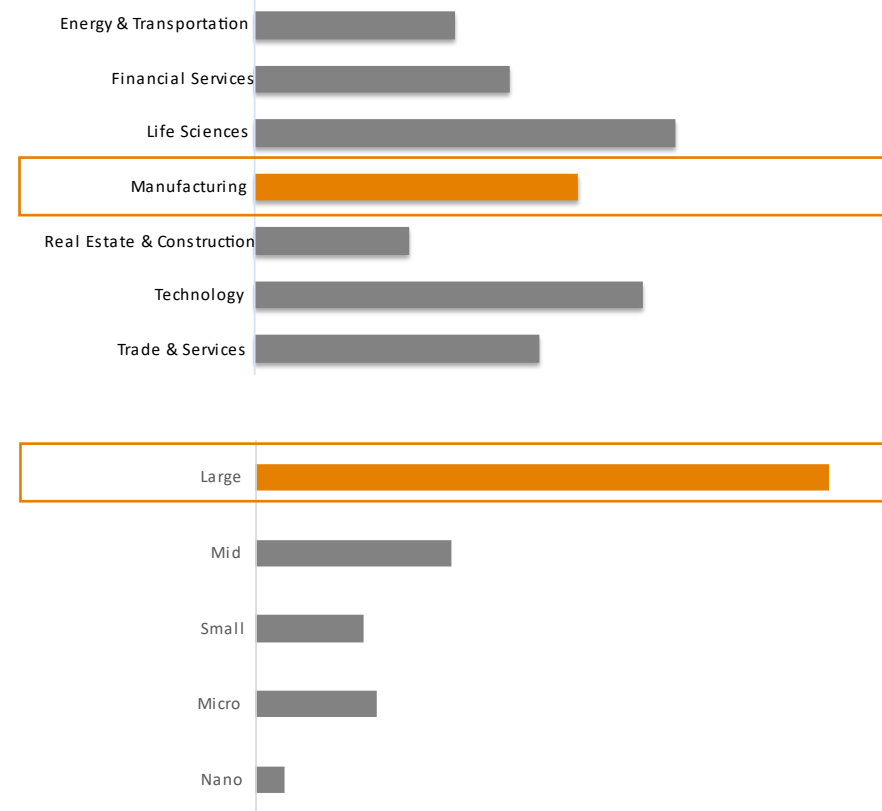
Peer Group of Interest

SEC Industry Sectors	FINRA Market Cap Tranches				
	<\$50M	\$50M-\$250M	\$250M-\$2B	\$2B-\$10B	\$10B+
Energy & Transportation	Energy & Transportation Nano	Energy & Transportation Micro	Energy & Transportation Small	Energy & Transportation Mid	Energy & Transportation Large
Financial Services	Financial Services Nano	Financial Services Micro	Financial Services Small	Financial Services Mid	Financial Services Large
Life Sciences	Life Sciences Nano	Life Sciences Micro	Life Sciences Small	Life Sciences Mid	Life Sciences Large
Manufacturing	Manufacturing Nano	Manufacturing Micro	Manufacturing Small	Manufacturing Mid	Manufacturing Large
Real Estate & Construction	Real Estate & Construction Nano	Real Estate & Construction Micro	Real Estate & Construction Small	Real Estate & Construction Mid	Real Estate & Construction Large
Technology	Technology Nano	Technology Micro	Technology Small	Technology Mid	Technology Large
Trade & Services	Trade & Services Nano	Trade & Services Micro	Trade & Services Small	Trade & Services Mid	Trade & Services Large

5-Year Recency-Weighted Filings Trend

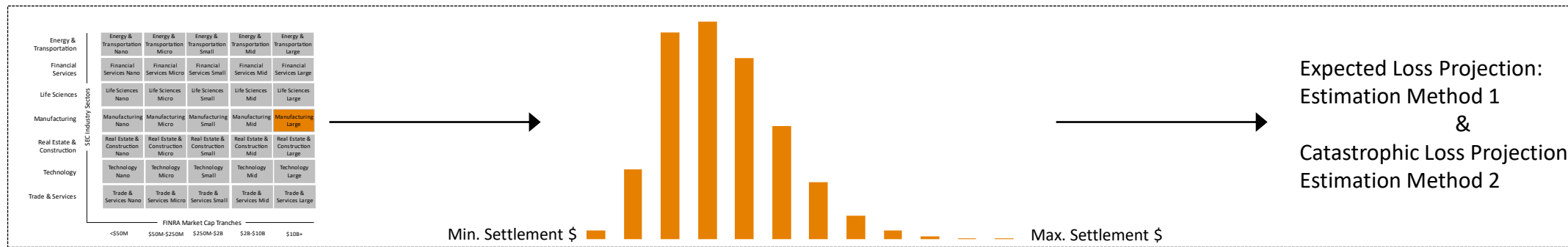


2-Tier Comparative Frequency Assessment



General Logic of Peer Benchmarking: Severity of Shareholder Litigation

SCA Settlements for Sector-Market Cap Tranche Framed Peer Group



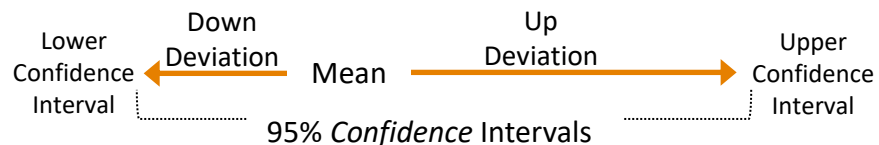
Expected Loss Projection:
Estimation Method 1
&
Catastrophic Loss Projection:
Estimation Method 2

Estimation Method 1: Distribution Derived Projection
(also known as frequentist approach)

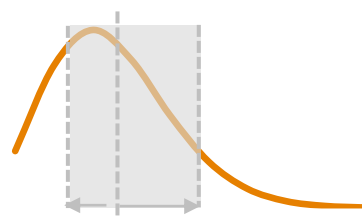
Estimation Method 2: Marginal Likelihood Optimization
(also known as empirical Bayes)

Mean \pm Averaged Up and Down Variance
(trimmed mean; separately estimated up and down variance)

(Minimum value: Smallest 2.5%) – (Maximum value: Largest 2.5%)

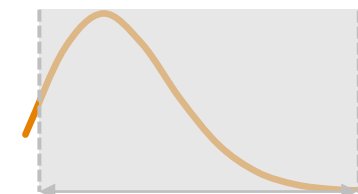


Captures the *Most Likely* Loss Range



Expected Scenario

Captures the *Maximum Probable* Loss Range



Catastrophic Scenario