

Insights at the Early Stage of M&A: REMOTE SENSING®

Remote Sensing® gives your company behind-the-scenes information and analysis that can make your next deal a winner.

What if you could remove some of the risk from your company's next merger, acquisition or divestiture? And at the same time, gain information and awareness that gave you the upper hand in negotiations?

Knowledge, as they say, is power. And understanding the potential downsides of a deal – in advance of due diligence – can help you lower your risks, increase your leverage and ultimately, negotiate a better agreement.

Perhaps more importantly, the right insight can give you the freedom to walk away from a pending deal – and wait for a better fit.

Gaining that type of in-depth intelligence early in the M&A process can be difficult. Many companies simply don't have the staff resources to dig deep and fully investigate potential targets in advance of negotiations, other than reviewing material provided by Sellers. Even when organizations do have the capacity in house, gathering credible information while maintaining confidentiality can be tricky.

In addition, it's often in the target's best interest to keep certain information out of plain sight. And companies involved in a merger or acquisition are usually extremely sensitive about leaks; they naturally want to limit the number of individuals involved in discussions or data gathering.

That's why so many companies involved in energy and chemical M&A utilize Remote Sensing® by Pilko & Associates. Remote Sensing® gives you valuable, *actionable intelligence* that enables your M&A team to better understand its target and its major risks and liabilities – early in the process, while there is still time to decide whether to pursue a deal.

Our proven process delivers background and analysis that provides unique insights into your target company or asset – and the potential issues that can cause your company problems down the road.

M&A: Getting it right is critical

In the energy industry, M&A continues to be a major driver of growth. In 2015, the upstream, oil field services, midstream and downstream businesses collectively saw 379 M&A deals with a total value of \$286 billion¹.

Across North America, deals in the downstream, midstream and upstream businesses are remaking the industry as companies maneuver to position themselves for success in the current price environment. In this environment, the pressure on energy companies to do a deal to stay competitive can be intense.

Of course, the right deal at the right price can provide a substantial platform for growth for years to come, and help your company sharpen its focus on their chosen assets. But the wrong deal can be a waste of time and valuable capital.

And in a worst-case scenario, a bad deal could be disastrous, adding expensive, long-term liabilities and absorbing your management's time and attention.

Since 1995, energy and chemical companies across all sectors of the industry have relied on Remote Sensing® by Pilko & Associates to help them make informed, calculated decisions. In some cases, Remote Sensing® is utilized to prepare a "first pass" screen of potential acquisition targets. In others cases, Remote Sensing® is used to learn more about a specific asset or company that is currently in play.

With Remote Sensing®, Pilko & Associates works confidentially, without the knowledge of the target, to:

- Identify fatal flaws or deal breakers that may be hidden from easy view
- Help you understand "license to operate" issues facing your target, including community conflicts, potential expansion constraints, past or pending regulatory impacts, etc.
- Quantify operational and employee, safety and health (ESH) risks and liabilities – including potential future risks

¹ Source: Oil and Gas Journal - 02/01/2016



- Benchmark against other companies within the target's peer group
- Provide a focused list of issues for continued investigation during the formal due diligence process.

Because it is most often conducted prior to formal negotiations or fact finding, and involves independent research and analysis, Remote Sensing® actually supports, streamlines and strengthens the due diligence review phase through the early identification of key issues. In addition, by bringing to light gaps in critical information prior to due diligence, Remote Sensing® can help M&A teams push for disclosure on problems and issues that might otherwise go unaddressed, and gives you a checklist of items to pursue at future management briefings or site visits.

Gaining such valuable information early in the process enables you to properly value assets based on real-world conditions rather than on what the target wants you to know. It eliminates major surprises. And it gives your company negotiating leverage that can make the difference between a good deal – and a bad one.

More than just information

Over the years, our Senior Deal Advisors have worked on numerous energy industry deals, of all sizes, and our ability to analyze and prioritize the information we uncover gives you a significant competitive advantage.

Through Remote Sensing®, we investigate and scrutinize data and information, then present you with independent, unbiased input. We look for meaningful factors that could change your valuation; dramatically impact transition planning and company integration or, in some cases, kill the deal.

Our Senior Advisors then help your M&A team put the data and information we've gathered into perspective – to maximize your advantage and enable you to make an informed decision on how best to proceed.

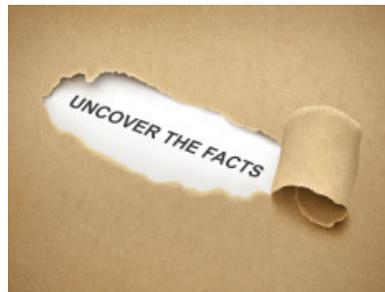
Plus, external and internal confidentiality is maintained. We work quickly and quietly – often completing assignments in 2-4 weeks – without alerting competitors, your target or your own employees of our efforts.

And because different deals require different approaches, we can customize our investigation to fit your company's particular needs. The acquisition of a major refinery, for example, requires a different focus than a large multi-national merger.

We can even pull together a roundtable of independent experts from disciplines such as environmental, legal and operations to meet confidentially to discuss potential acquisition issues and provide insights into what the future may hold. With the combined wisdom of our experts, we put together a risk/probability analysis that a client can use to develop a strategy or make a decision.

Remote Sensing®: How it works

Pilko & Associates conducts Remote Sensing® in a multi-step, interactive process, working hand-in-hand with our clients along the way. It's like peeling the layers of an onion – we dig deeper with each "Peel" and build intelligence as we go. Our time-tested approach enables us to identify the core information you need to make a strategic, well-thought-out business evaluation.



For each step, we define and agree upon our approach with the client. The results are reported, and those results help us define the next Peel.

Each level of effort enables us to uncover a new set of insights. And each Peel builds upon the one before, allowing you to agree on the actions and pace for each level.

This stepped approach also enables you to assimilate the information we gather with other due diligence efforts that may be under way, such as those conducted by your legal or finance functions.

We use both proprietary sources – including our extensive network of industry contacts – and public sources to collect information and data. We scour publicly available information released by the target company; securities agency filings; releases and statements by community and environmental/non-governmental organizations; media coverage and analysis; and regulatory agency databases and websites. When appropriate, we file Freedom of Information Act requests for permits, applications, orders and other filings.

We can also interview regulatory agency personnel and seek information from industry trade groups to gain insights and information.

Research of this depth requires specialized skills and knowledge that many companies simply don't have access to internally.



Our staff knows where to look, how to look and how to overcome the obstacles involved in gathering, combining and analyzing public and private data and information.

Case Study: Upstream acquisition

An upstream client hired Pilko & Associates to help investigate expansion opportunities in a region of North America where it had no current assets.

Because of its limited experience in the region, and the board's concern with potential environmental liabilities, the client was uncertain about acquisition prospects. Though company management had several prospects in mind, the board wanted substantial assurances about any target prior to authorizing a potential acquisition.

Pilko & Associates performed an in-depth Remote Sensing® investigation on a number of potential targets, ranking the operational risks and environmental liabilities associated with each one. The effort included information gathering from both public and private sources, along with detailed "pass/fail" recommendations on the targets evaluated.

This screening process enabled company management to narrow its focus and provide the board assurances that its top targets presented no significant issues. Remote Sensing® gave company management the confidence and knowledge to present an informed case to the board, and enabled the board to make a decision based on hard facts and analysis.

How can we help you?

Over the years, the Pilko & Associates transaction team has advised on energy/chemical M&A deals worth >\$600 billion, using Remote Sensing® to help management teams and boards of directors make better, more strategic decisions and deals.



We provide value that goes above and beyond the information we collect, by sharing our analysis and independent thinking that can help you make sense of the issues and complications surrounding your target.

With our expertise in research, valuable confidential contacts and understanding of the energy/chemical industries, we give you the knowledge to determine which deals are worth pursuing, and the guidance and confidence to turn a good deal into a great one.

Call us today at 713-357-1000 to learn more about Remote Sensing® and how we can strengthen and support your M&A activities. Or visit our website at www.pilko.com.

GEORGE PILKO
george@pilko.com
W +1 713.357.1000

about Pilko

Pilko & Associates is the No.1 advisor to energy and chemical companies on Operational / EHS Risks during ongoing operations as well as acquisitions, mergers, joint ventures and divestitures.

Since 1980, we have served energy and chemical clients in more than 59 countries, advising on over \$600 billion in transactions and ongoing operations. In addition, we have developed an excellent reputation advising companies on the integration of new or improvement of existing operations and the governance of Operational / EHS Risks. Our global experience, combined with extensive knowledge and capabilities, is invaluable to firms in mitigating their most significant Operational / EHS Risks and liabilities, thereby maximizing value and optimizing business performance.

For more information about our services and capabilities, please visit us at www.pilko.com.