GREY PAPER
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Increasing control of merger and acquisition risks and driving successful outcomes for every transaction.

Pilko & Associates Grey Paper

Information and insight at your fingertips. Simple, yet profound steps you can take right now to increase or grow your control of operational, EHS, and transactional value risk. Pilko brings you what you need to succeed.

Pilko & Associates is the industry leading operational and environmental, health, and safety risk advisory firm—working with clients in 59 countries and advising on M&A deals worth more than $600 billion.

Concise summaries of key operations/EHS and transaction risk challenges and how to increase control of risk for your project, assets and enterprise.

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The Science of Successful Acquisition Transactions

M&A transactions are commonplace today in the energy and chemical industries. Deals happen during times of growth to meet market, revenue and demand requirements. And during downturns—when asset prices fall and good opportunities are presented—M&A activity increases.

Much has changed in the past five years. As recently as four years ago, up to 70 percent of acquisitions were for reasons of consolidation or to achieve economies of scale and improve efficiencies. This is no longer the case. In fact, most recently more than half (54 percent) of all transactions have centered on transformation—getting access to new markets, channels, products or operations to drive the business forward.

This new emphasis changes everything.

When a deal is undertaken for transformational reasons, strategic and execution risks are very high. For example, a recent survey[1] illustrated that strategic success rates appear to have fallen 15 percent between 2013 and 2016, with only 55 percent of companies involved in M&A reporting strategic success. Moreover, only 50 percent achieved financial success and just 47 percent achieved operational success. In short, the odds of completing a successful transformational acquisition is less than 50/50. Yet the risk and costs associated with transformational deal activities are at historic highs.

Why?

Deals Fail for Six Common Reasons

Over our 35-year history, through direct transactional participation in industry M&A around the globe, we've learned that the six general reasons that energy and chemical businesses fail to achieve transaction success are:

1. Unclear Strategic Intent. Misalignment of the reasons for doing the deal; what the ideal outcomes look like; a lack of clarity on the completion and integration approach; poor communication and handoff between teams.

2. Lack of Business Alignment. Clashes of ownership and management styles; differences in organizational structures; cultural disparities; and disagreement on market or business entry.

3. Poor Executive Alignment. No common understanding or shared approaches; disconnected executives not engaged with integration; stakeholder misalignment growth.

4. Core Performance Distractions. The deal and its integration distract the business from its core functionality and performance; inappropriate or inexperienced transaction leadership; a lack of resources and alignment.

5. Underestimating Complexity. Unforeseen external (size, foreign operations or business/market risks) and internal factors (organizational style, technologies, entity structures or cultural differences) that increase risk, activity levels, communication breakdowns and process complexity.

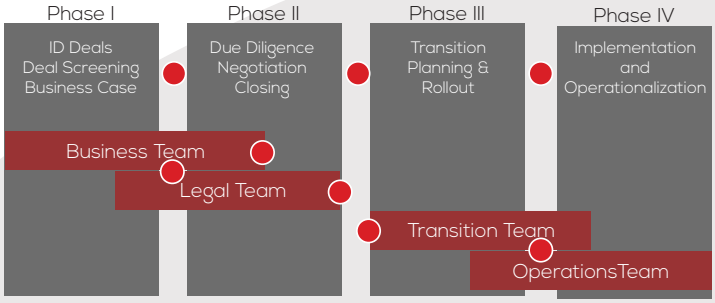
6. Overly Complex Integration Process(es). Lack of focus on key decisions; lack of priority on value drivers and risks; placing a higher priority on activity and process than outcomes/results.

Reducing Failure Requires a New Approach

M&A deal failure coupled with a focus on transformation is driving changes across the entire event chain, from initial deal screening through to integration completion and ongoing operational excellence.

Past deals stove-piped activities, rarely integrating into one unified end-to-end approach. Traditional deal making had separate teams responsible for each activity and attempted multiple "best case" handoffs to the next team, rarely having a cohesive end-to-end team and shared responsibility.

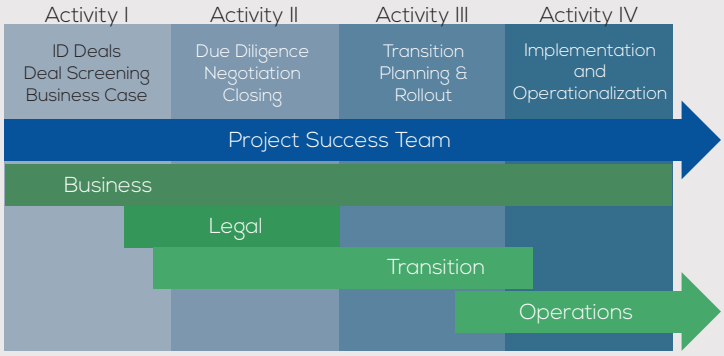
In the diagram below, one can easily see the gaps between each phase and the discrete teams focused on their area of responsibility. In this model, responsibility and risk is stove-piped and increased, with each red circle indicating a potential break point in overall project success.



With the switch to new opportunities a new way of handling them is required.

Today's energy and chemical M&A transactions require a new approach—one that is comprehensive and integrated, with shared ownership and accountability from start to finish.

This new approach is illustrated below:



In comparing the two diagrams, you'll see three significant differences:

- A single team that shares responsibility for the project, expectations, tasks and outcomes—from end-to-end.
- Aligned and integrated communication, process, tasks lists, responsibilities and performance objectives/metrics.
- Functional resources are realigned as a sub-team or support to the project team.

Today's best practices engage the integration and operational excellence teams much sooner in the M&A process. For example, in the past an integration team was largely engaged during the due diligence phase; today those responsible for integration are involved in initial deal screening and letter of intent activities.

This new approach recognizes that successful integration begins at the start of the M&A process, not in the middle and certainly not after the deal closes. In fact, current acquisition best practices contain the following:

1. Leadership Alignment. Getting to leadership selections and alignment sooner gets people and tasks working together for higher impact.
2. Stakeholder Communication. Early and full communication that drives focus, commitment, productivity and decision speed, each of which lead to confidence and attention to necessary integration detail.
3. Integration of Operating Policies. Quickly merging or integrating operating policies solidifies understanding of direction, expectations and day-to-day priorities more effectively than waiting until sometime in the future.

4. Focus on Accretive Value. Unlike past transactions that focused on cost reductions or savings, today's transactions require focus on ensuring activities and outcomes add value to the company through additional revenue, speeding time to market, increasing productivity and driving new levels of customer value.

5. Identification and Increased Control of High-Risk Areas. This process requires a deeper dive risk analysis and validation beyond common, known risk areas into "hidden" risk areas that can keep the acquisition from being successful. Knowing these potential pitfalls early drives down risk, while increasing the probability of success.

Seeing these benefits, one can start to form an idea of the path to greater transaction success. Further, it is easy to see that what used to work in the past doesn't work in today's transformation acquisition activity.

Transformational acquisitions present greater strategic, financial, and operational risk. Leading energy and chemical companies know this and work hard at not just managing incremental risk, but also at substantially increasing control of risk and maximizing the possibility of success.

How does a company get greater control of risks, details and success in acquisitions? The answer may be right in front of you.

An Acquisition Success Accelerator

To overcome common challenges that lead to transactional failure, Pilko & Associates has created a unique solution that brings to every engagement:

- Complete End-to-End Transactional Oversight. From pre-acquisition opportunity identification through post-acquisition comprehensive operational/EHS excellence; one source that increases transaction and integration success from the very start.

- Exceptional Experience and Skill. From opportunity identification, business cases, deep-dive due diligence, strategy and deal execution, transition planning and implementation, integration, operational and EHS optimization, personnel leadership, project management, and end-to-end metrics and reporting, our people have "been there, done that" as senior executives with some of the largest energy and chemical companies in the world.

- Proven Process and Methods. Our proprietary **8ight Drivers®** methodology uncovers hidden and unforeseen risks to a transaction; and our field-tested processes at every transaction step eliminate accidental gaps, errors and unpredictable strategy and activity outcomes.

- Superior Communication. We operate in an environment of "no surprises" by ensuring timely and effective communication between all team members and stakeholders, every step of the way. This focus on communication enables us to remove obstacles, manage expectations and progress to success.

- Executive Leadership. Our clients have consistently recognized Pilko & Associates for bringing a leadership perspective and style that uplifts entire companies—from the plant manager, through corporate leadership, to boards of directors—easily engaging cross-functional contribution along the way.

Welcome to the Pilko **Transaction Success Accelerator** solution.

Our proven M&A solution ensures that you have the right:

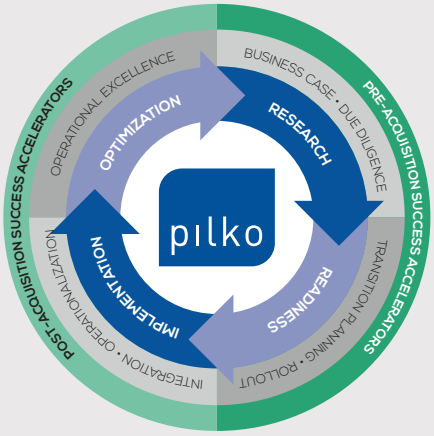
1. Research. The right information at the right time, in the right format, uncovering the right risks coupled to the right recommendations for success.

2. Readiness. Your internal transaction team has the very best practices, processes, tools, methods, and communication to manage and complete every transaction—successfully.

3. Implementation. Transitions and integration of acquired assets, operations, processes, methods, cultures and people happen more quickly and effectively than ever before.

4. Optimization. Realizing that success is measured over time, productivity and contribution, we go "beyond the event" to ensure optimized operations and EHS to maximize return on investment and achieve full strategic, financial and operational success.

Our experience has shown the Pilko Transaction Accelerator to be a recursive, circular solution where one element feeds into the next and where the optimization activities often uncover the next transactional opportunity.



Summary

Isn't it time you increased control of your transactional risk and success rate? Consider Pilko & Associates for your next transaction, from start to finish.

Pilko & Associates is the No. 1 advisor to energy and chemical companies on operations/EHS and transaction risk control for ongoing operations as well as acquisitions, mergers, joint ventures and divestitures.

We have worked with the largest energy and chemical clients in 59 countries, advising on more than $600 billion in transactions and ongoing operational value.

Only Pilko & Associates addresses each of the obstacles and opportunities described, bringing greater control of operations/EHS and transaction risk.

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ABOUT PILKO & ASSOCIATES

Pilko & Associates provides industry-focused advisory services in three core areas —Transactions, Operational Excellence and Governance & Assurance —to enhance value for our clients and their stakeholders in the chemical and energy sectors. We deliver innovative solutions for publicly and privately-held companies, helping them to identify, understand and manage their Operational Risk and Environmental, Health & Safety needs. For more information, visit www.pilko.com.

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[1] M&A Integration: Choreographing Great Performance, PwC, March 2017