80TH TRANSACTIONS ROUNDTABLE RECAP

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80th Transactions Roundtable Takeaways

Hosted by

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- Although the pace has slowed, opportunities for deal-making remain but are being viewed more cautiously considering the geopolitical and economic uncertainties caused by the Russian invasion of Ukraine. Future deals will value more familiar and stable structures to mitigate risk. Deal structures might change based on the bid/ask spread and perceived deal space. Businesses with reliable cashflows under a range of scenarios will be attractive.

- Current and future sanctions on Russia are unlikely to have a significant adverse impact on Vladimir Putin or the Oligarchs targeted. The US Congress has shown a strong affection for the Iran sanctions playbook, and it may enact legislation to coerce banks into helping corral payments for Russian commodities and limit their use to bilateral trade. Increasingly severe sanctions will mainly affect the Russian people and Global industry supply chains, and potentially bring non-aligned political actors onto the stage: for example, China who will look for ways to gain advantage from the conflict and India, a country that does not have a strong track record on supporting sanctions.

- Overall, industry pricing declines have been moderate (5-10%) with stable industries, such as fertilizers and industrial gases, benefiting from commodity prices escalating dramatically to trigger even more rampant inflation than post COVID following the release of pent-up demand. There is a general concern regarding the increasing difficulty of absorbing energy price increases and the impact on EBITDA. Global supply chains will be reconfigured as security of supply begins to outweigh comparative advantage.

- During COVID, Hydrocarbon asset sales (refineries) considerably slowed. However, in the current crisis, with price rises, and the realization that use of fossil fuels may be required for the next several decades, long-term asset owners are making up for the previous 2 years' losses to take advantage of crack spreads close to record levels.

- Pursuing and closing deals in the COVID era highlighted the need for great flexibility in due diligence (virtual site tours, use of in-region known and trusted advisors to tour assets), use of a consistent tool kit for assessing and measuring systems and risk, and immediately driving post-SPA value implementation to capitalize on deal objectives.

- The US Securities and Exchange Commission (SEC) has issued rules which will highly corral the Special Purpose Acquisition Companies (SPAC) market. These new rules will help align the process and disclosure requirements for SPAC transactions more closely to Initial Public Offering (IPOs), would affect how SPACs acquire targets, and increase the cost and complexity of compliance for SPACs and the companies that they target. Deals with "Power point" companies with only benchtop technology and speculative projected earnings have reduced in favour of corporate carve-out deals with historical financial performance. Citi is no longer underwriting SPACs until the US government rules are clearly understood. There are 682 active SPACs with $186B for potential deals so available cash greatly exceeds identified good opportunities for investment.

- At this point, some western European countries – particularly Germany – and Canada are increasingly committed to a full energy transition at an increased pace. However, a few European leaders are still committed to fossil fuels remaining a significant source of energy and are looking to The US and the Middle East to provide reliable supply.