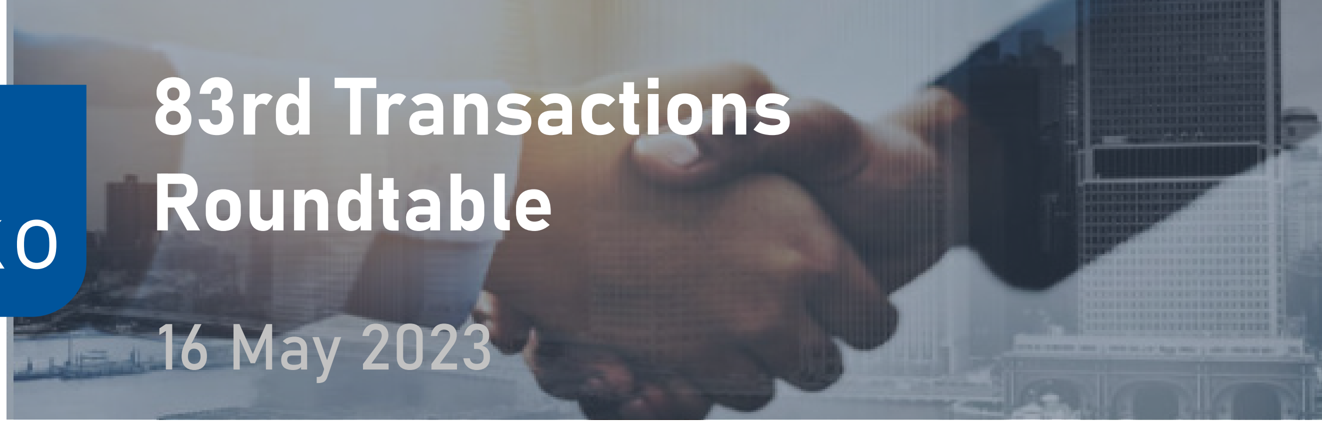

83rd Transactions Roundtable

16 May 2023

83rd Transactions Roundtable Key Takeaways Co-Hosted By:

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Overview

Dealmaking has become increasingly volatile and dynamic in the last 18 months. The focus on ESG during and immediately after COVID-19 ensured that ample funds were available for ESG investment. However, in 2022 the emphasis shifted to energy security and in 2023, the challenges of inflation and high interest rates have been added to this mix. While this has not necessarily reduced the number of transactions and projects being pursued in the market, it has made valuations and deal terms more challenging, which when coupled with the post-COVID turnover of experienced deal leads and teams, has resulted in a lack of confidence and conviction within deal teams in assessing and accepting risk, protracted negotiation periods and a lower number of deals being completed. Another notable trend is the increase in strategic partnerships, collaborations, and JVs (particularly in the context of strategics seeking access to new energy transition technologies) and Private Equity (PE) largely absent from the energy and chemicals markets.

Topic 1 - Impact of Higher Interest Rates

1. Infrastructure deals are struggling to compete for funds, but margin driven businesses have more inherent protection. Access to capital is key and therefore, PE players are sitting on their capital and those who have no or little financing needs are advantaged.

2. Inflation impacts greenfield projects with long lead times which are a lot riskier to undertake both from a budget and timeline perspective.

3. JVs involving disproportionate partnership between small companies (struggling financially) and "deep pocket" strategics, are challenged to maintain a balanced structure. Dilution, or temporary dilution, may be options, but the negotiating position of the smaller partner can be stronger than anticipated as their irreversible exit is often not in anyone's interest and there is a dilemma on the right strategy to price a buy-back option (and its duration) without creating an expectation that the "deep pocket" will always assume financial risk for partners.

Topic 2 - Refinery of the Future

Integration with chemicals production is helpful. Large scale operation may militate against flexibility to diversify into biofuels or waste oil recycling. Trading value and capability is important, and location adjacency to feedstocks and markets is key for biofuels investment or conversion. Hydrogen production and possibly CCUS (Carbon Capture Utilisation and Storage) are increasingly studied although the timeline to profitability seems increasingly elastic. Jury is out on facility repurposing to produce pyrolysis oil.

Topic 3 - Value Chains (Combined with Topic 7 - How far can value chain integration extend before synergies are outweighed by the need for different skills and competencies)

1. Investment in China by EU and US companies is projected to be less intensive - especially supply chain investments for export. Domestic market presence and production to satisfy internal demand will remain attractive and relevant.

2. The current generation of low-cost labourers in China may now be near to retirement and the younger generation has the option to work in higher paid and less physically demanding jobs. So, in 10 years' time, low-cost large industrial projects may no longer be available in China.

3. Is there a "green premium" for products?: Still no reliable track record of customers paying extra for "green" but via banks and 'Nature-based task forces', new standards will be introduced that will have an impact in 3-5 years through a combination of economic and reputational impacts.

Topic 4 - Improve Assets before Sale?

1. There is value in looking at business/operational improvements ahead of a sale and involving the management team to develop attractive options, but generally do not 'waste' time executing these if the market is good and there is deal space. It is more important to catch the window of opportunity provided the Vendor Due Diligence will create buyer confidence in reliable asset performance.

2. If a seller seeks to obtain value for projected 'improvements', it is likely to lead to discussion around deferred consideration or earn-out to bridge valuation gap.

3. On the buy side, conducting remote due diligence ahead of engaging the target makes sense and prepares you to act more quickly and be better informed when the project starts. It can also help you achieve exclusivity and negotiate on a bilateral basis.

Topic 5 - Buy vs Build

1. Buying is increasingly a better value option, but in some highly valued renewables businesses, it is cheaper to build at present!

2. Projects are difficult to manage in the current inflationary and material constrained business environment so possibly some distressed sale opportunities will arise.

Topic 6 - Inflation Reduction Act (IRA)

1. IRA is potentially a game changer and attention grabber in the US. It has led to the cancellation and/or deprioritisation of projects outside the US, but maybe the excitement will pass, and we will look at this later as something similar to IMO which was much hyped but did not lead to material dislocations.

Topic 7 - See Topic 3

Topic 8 - Role of ESG

1. ESG investment back on the table after focus on energy security in 2022. Cost of capital for non-ESG will go up but data quality and transparency are still very poor and EU IOC's remain in a difficult position managing the need to transition vs shareholder value/expectation. Scope 3 emission calibration is still awaiting an emerging consensus on measurement.