

45th Anniversary

pilko

88th Transactions Roundtable

October 9, 2025

88th Transactions Roundtable Key Takeaways

Co-Hosted By:

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Moelis



Moelis provided a brief overview of the current economic outlook and energy scene:

- ▶ A time of serious complexity.
- ▶ US economy continues to show resilience.
- ▶ Acute tariff angst apparent in company leaders.
- ▶ Inflation has moderated but remains above Federal Reserve target rates; pushed upwards by tariffs and immigration policy changes.
- ▶ Labour market is adversely affected by new immigration policy and evolving immigration rules and visa costs.
- ▶ AI is the fastest integration of a new technology in history.
- ▶ M&A market remains cool with few deals making it to completion.

Main Topics Discussed:

1. Tariffs & the U.S. Economy

- ▶ **High uncertainty:** U.S. government policy unpredictability and economic instability are key themes.
- ▶ **Supply chain shifts:** Tariffs are forcing companies to reassess supply chain strategy; consolidating within single regions feels safer than global exposure but unravelling existing chains takes time and is expensive. Leading to costly repositioning of assets and contracts, and making long-term planning more difficult.
- ▶ **De-risking:** Cost elimination and simplification of supply chains continue aggressively.
- ▶ **Manufacturing slowdown:** Recessionary pressures and reduced volumes are evident in manufacturing sectors.
- ▶ **Global repositioning:** The world is adapting to less U.S. investment and influence — transitioning from a “unipolar” to “multi-polar” order.
- ▶ **U.S. government dysfunction:** Perceived inconsistency and lack of practical understanding add cost and uncertainty for businesses.
- ▶ **Investment paralysis:** Major investments are on hold due to tariffs and economic uncertainty.
- ▶ **M&A market:** Chemical sector M&A also largely “on hold;” synergies are becoming more difficult to identify.
- ▶ **Outlook:** Continued uncertainty, ideological U.S. policy decisions, and unstable fiscal footing are expected to persist. Consensus that uncertainty around tariffs, immigration, and regulatory changes is causing companies to delay major investments, with some choosing to invest outside the US due to perceived instability.

Topics (cont'd)

2. Technical Due Diligence

- ▶ **Shift in focus:** Concern has moved from environmental compliance towards operational reliability and unit availability.
- ▶ **Aging workforce:** “Silver tsunami” of retirements threatens the experience base and leadership continuity of the industry.
- ▶ **Operational reliability:** Primary buyer focus has shifted from environmental compliance to asset operability and reliability via maintenance spend and capex discipline.
- ▶ **Site evaluations:** Leadership and culture now recognized as “must-do” part of due diligence; site visits alone to view infrastructure are necessary but insufficient.
- ▶ **Claims data:** Insurance claims tend to arise from very old or newly built facilities.
- ▶ **Reliability indicators:** Can be forward-looking as early warning (or reassurance) on the path to catastrophic incidents, current environmental focus areas (flaring, leaks and carbon footprint) and positioning on the cost curve. Many environmental indicators remain material but are lagging metrics looking at existing liabilities.
- ▶ **New plants/sites:** Check if built for low cost rather than operability, or first of its kind novelty as potential red flags. Undercapitalization and cost cutting leading to operational challenges that may not be immediately visible in financial data.
- ▶ **Regulatory uncertainty:** Prolongs deal closures and erodes value.
- ▶ **Talent shortage:** Recruitment and retention of qualified engineers are top concerns, along with technical skill base erosion. Younger generation are less interested in industry roles and more attracted to technology companies. This demographic shift is hollowing out critical expertise.
- ▶ **Knowledge transfer:** Reducing information asymmetry between buyer and seller is vital to closing attractive deals.

3. Reps, Warranties & Insurance (RWI)

- ▶ **Purpose:** Designed to give buyers comfort and sellers speed of transaction; transfers post-closing liability to insurers.
- ▶ **Challenges for Buyers:** In some industries, perceived coverage limits, poor claim satisfaction statistics, and high costs remain challenges for buyers.
- ▶ **Deal impact:** Can shorten timelines and bridge negotiation gaps if structured properly.
- ▶ **PE trends:** Private equity sellers increasingly rely on RWI; buyers use it when disadvantaged in seller’s jurisdiction or concerns exist on longevity of seller.
- ▶ **Underwriter influence:** Good underwriters and brokers shape diligence focus and expectations for buyers.
- ▶ **Exclusions:** Compliance and legal breaches are often excluded; diligence findings are rarely insurable.
- ▶ **Experience:** Still early in adoption curve and limited number of firms have successfully collected claims.
- ▶ **Use:** Increasing use in deals reported compared to prior Transaction Roundtable discussions, specimen policies appearing in data room sometimes with options for buyers both to accelerate deals and to set expectations on exclusion of indemnities.

Topics (cont'd)

4. M&A Trends

- ▶ **Backdrop:** Volatile regulation, tariffs, and inflation define the current environment.
- ▶ **Cost of capital:** Improving modestly but still elevated compared to 2020–2021 levels.
- ▶ **Market stance:** Most participants are delaying portfolio moves, except when driven by activism or strategic urgency.
- ▶ **Sector shifts:** Momentum in clean fuels and green products has cooled after five years of hype.
- ▶ **Downstream assets:** Expected pickup in next 12 months; cash-flow-based valuations dominate.
- ▶ **Buyer segmentation:** Emerging-market and Middle Eastern NOC buyers favor uncontested auctions.
- ▶ **Seller strategy:** Opportunistic sellers seek bilateral or uncontested processes; strategics focus on selective, value-accretive growth and are comfortable with contested auctions.
- ▶ **Retention of minority shareholding:** Discussed as a way of signaling assurance to buyer and retaining an upside in subsequent value but not much use currently seen.

5. Activist Investors

- ▶ **Objective:** Create value by targeting inefficient capital allocation and asset underperformance.
- ▶ **Common tactics:** Leadership turnover, strategy reset and balance sheet optimization.
- ▶ **Outlook:** Are driving consolidation and strategic changes, but the thin margin between winners and losers makes synergy-driven deals harder to justify.
- ▶ **Themes:**
 - ESG is fading as a dominant narrative.
 - ROCE now emphasized.
 - Shareholder value growth seen as imperative.
- ▶ **Trends:**
 - Concentrated in U.S. and some UK public companies, but rare in Asia/Europe.
 - Increasingly influence corporate strategies even without formal campaigns.
 - Activist are driving behavior of strategics too.
 - Employees sometimes welcome activism when company performance lags.

6. Artificial Intelligence

- ▶ **Usage:** Expanding rapidly in due diligence for document review and data analysis.
- ▶ **Limitations:** Subject to confirmation bias, hallucination, and data accuracy challenges; lacks true judgment (especially where emotion/creativity is relevant) or decision-making ability.
- ▶ **Compliance issues:** Data confidentiality, security, and IP risks remain unmitigated.
- ▶ **Productivity gains:** Effective for organizing large datasets and structuring information when used by knowledgeable analysts.
- ▶ **Human skill evolution:** Raises questions about how to assess skill, valuation of skills, and trust in AI-produced outputs.
- ▶ **Impact on workforce:** Will reshape training, hiring, and task allocation for new engineers and analysts. Especially awareness of “prompt engineering” and the importance of asking the right questions in the right order.
- ▶ **Outlook:** Real value lies in automating cognitive processes and accelerating innovation through new ways of working and accelerated pattern recognition.

Topics (cont'd)

Key Trends to Watch:

- ▶ Impact of tariffs or their reversal
- ▶ Reduction of asymmetry in information shared by Buyer/Seller.
- ▶ Shift in warranty risk
- ▶ Inflection point in M&A
- ▶ Rapid adoption of AI

Many of the above topics are helpfully set in context by the Pilko sponsored M&A podcast:

How to do Better Deals and How to do Deals Better <https://www.pilko.com/m-and-a-podcasts>

If you wish to discuss further any of these topics, please feel free to contact:

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