

# PILKO & ASSOCIATES

## How Companies Inadvertently Destroy Shareholder Value During Deals

*...and what can be done about it?*

*Presented to  
USAE  
June 12, 2008*

# Topics

- ■ EHS issues in Energy Deals
- ■ Destroying Value and Creating Value
- ■ Remote Sensing<sup>®</sup>
- ■ The Three Buckets<sup>SM</sup>

# EHS Issues in Deals

## *Brief History*

- ■ **1960s** – Environmentalism launched with Rachel Carson’s “Silent Spring”
- ■ **1970s** - The first Earth Day and Love Canal becomes known
- ■ **1980s** - Buyers avoid getting the liabilities with the assets, largely CERCLA-driven (Superfund)
- ■ **1990s** - Sellers seek to understand their liabilities as a defense against buyer’s DD
- ■ **2000s** - Use DD as a proactive strategy to obtain competitive advantage and create value

# EHS Issues in Deals

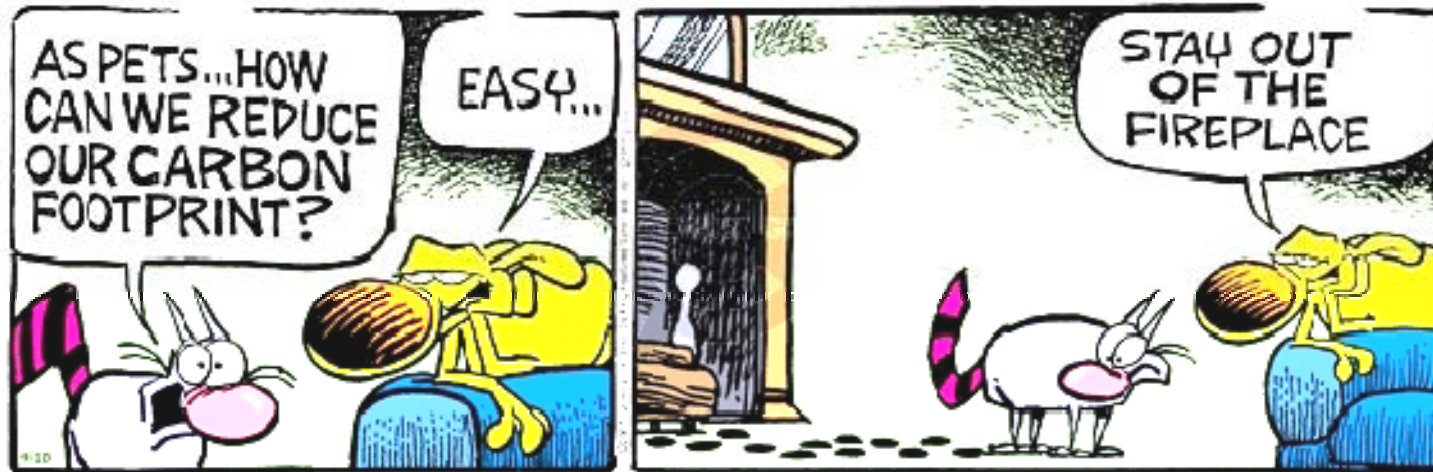
## *What are Today's EHS Drivers?*

- ■ Operations Excellence / Process Safety
  
- ■ Climate Change
  
- ■ REACH in Europe  
(Registration, Evaluation, Authorization and Restriction of Chemicals)



**Big Spring, TX Refinery  
Explosion – February 2008**





# EHS Issues in Deals

## *Importance*

- These issues typically represent 5% to 30% of selling price in energy deals
- Usually among the Top 3 issues to negotiate during a transaction
- Often the longest section of the Purchase and Sale Agreement
- Most Deal Leaders are ill-equipped to negotiate these issues well

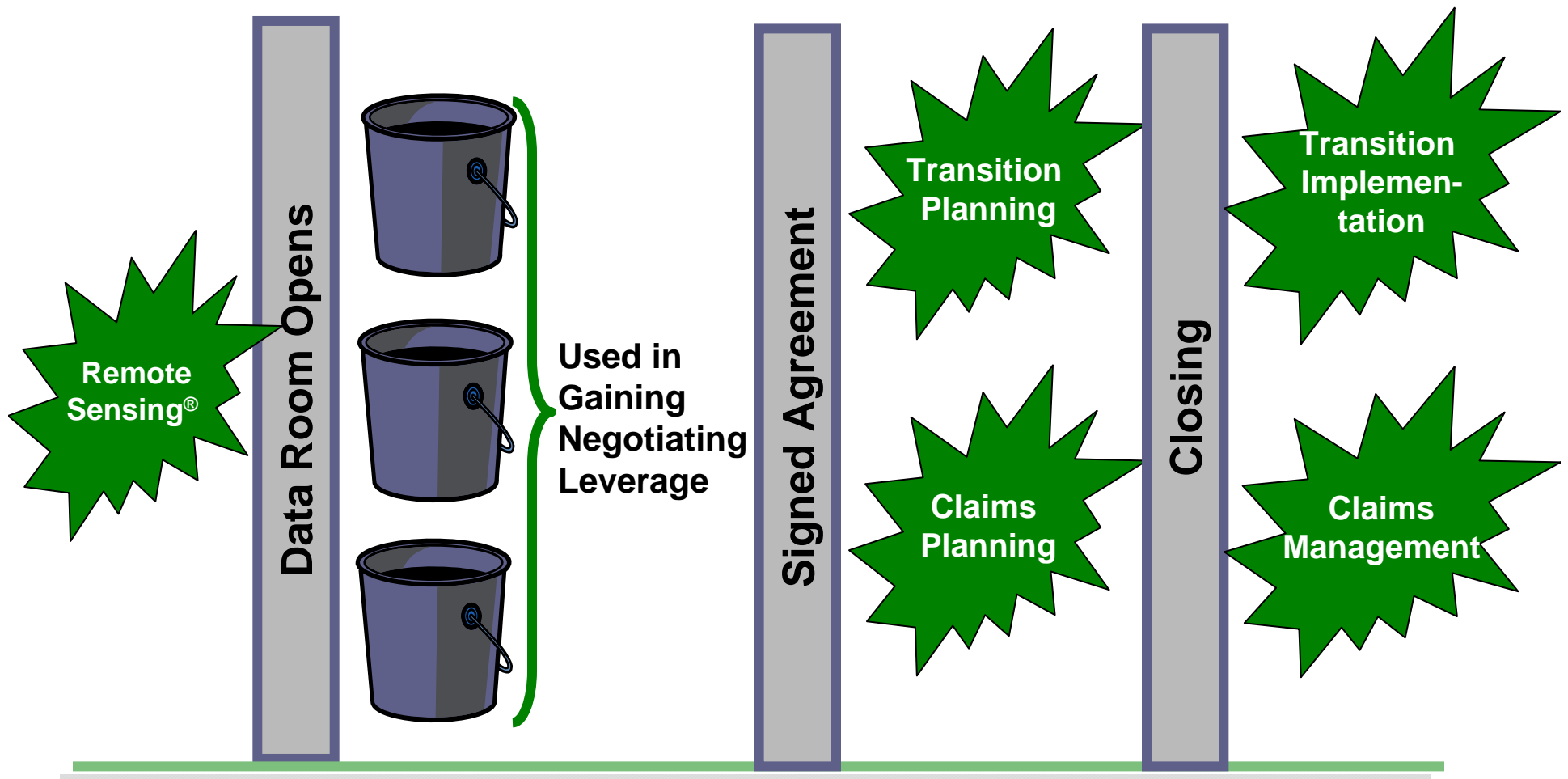
# Common Mistakes

## *Lead to Value Creating Opportunities*

- Deal Leaders who don't understand the EHS issues facing the business
- Failure to understand the difference between Operational Issues and Transactional Issues
- EHS Advisors who are technocrats and are operating in functional silos
- Taking a narrow view of EHS



# Stages of EHS Activities in Deals



# Remote Sensing<sup>®</sup>

## *What is it?*

- Identify major risks and liabilities and other key information about the target company before the Data Room opens
- Value is created by generating actionable intelligence
- Performed without the knowledge of the target
- Key is to know where to look and what to ask for

# Remote Sensing®

## *How is it used?*

Remote Sensing® is used to assist Deal Leaders to credibly communicate EHS issues with the Board when the following situations arise:

- In advance of large corporate acquisitions
- Deals involving JV partners and the partner is concerned about confidentiality
- Need for confidentiality within the acquiring organization.

# Three Buckets

*Each Can Dramatically Impact Value*



# Key Take Away

For Energy Deals, EHS issues can be a strategic weapon for companies who recognize the value of:

- Remote Sensing<sup>®</sup>
- Three Buckets<sup>SM</sup>

# Pilko & Associates

## *Business Driven EHS Advisors to Executives & Boards*

- Management Consultants specializing in EHS matters in the Chemical and Energy Sectors
- Consultants have an average of 27 years experience
- Advisor to Boards and Senior Management
- Specialize in three major practice areas:
  - Large transactions, advising on \$425+ billion in transactions in 48 countries
  - Governance and Board Issues
- Industry leader in strategic positioning of EHS matters in Acquisitions and Divestitures
- Organized 23 Client Roundtables since 2000 to benchmark Best Practices in global chemical and energy transactions



# Contact Pilko

- ■ Eric Dietert
  - 713-357-1000 office
  - 713-299-3691 cellular
  - [eric@pilko.com](mailto:eric@pilko.com)