Thinking differently about value
Private Equity in Natural Resources
Private equity (PE) has targeted the natural resources industry before. What’s different this time?

M&A activity in Natural Resources is on the up
The first couple of months of 2017 saw the highest ever year-to-date amount on record for global oil and gas transactions(1, 2)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>46</td>
</tr>
<tr>
<td>2016</td>
<td>59</td>
</tr>
<tr>
<td>YTD Feb 2017</td>
<td>98</td>
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Private Equity has been here before
Between 2007 and 2014, PE averaged 70 oil and gas deals per year(3). While some have been successful, many have failed to maximise value.

What is PE doing differently this time around?
Apart from smaller-sized deals, the focus has shifted from higher-risk early stage exploration plays to later life assets. **Production upside and cost efficiencies are now the primary levers driving greater value**

You’re adopting a new approach to unlocking value. But is it enough to make a difference?
A global survey of Upstream operators(4) shows that cost reductions of up to 24% have been achieved in 2016, with more to come in 2017.

But the same survey revealed that operators thought only 7% - 14% of the reductions were sustainable in the long-run.

What can PE buyers learn from others to generate outperformance?

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3 Capitalising on opportunities: Private equity investment in oil and gas. Mergermarket and EY, Q1 2016
4 Wood Mackenzie: Cost Management in Upstream Oil and Gas
Its time to think beyond traditional ways of generating value from your natural resource investments. We can help.

Supplier rationalisation. Design standardisation. Renegotiating contract terms. Downsizing. In their quest to unlock value, your NR portfolio companies have done it all. And probably done it well.

But we think there's more they can do.

We understand the intersection of Risk and People, and in this space we find that traditional approaches to optimising costs often fall short of real value release.

Take Risk. Your targets might have secured lower rates on their risk transfer programme. But why stop there? Their risk profile is now different, as a part of your wider portfolio. You have the opportunity to think in aggregate about their retention and transfer strategies – potentially transferring more at even better rates.

Or People. Conventional wisdom stops at rationalising workforces and enacting layoffs. We think you can go further and truly understand what the remainder of the workforce really wants, and in doing so, optimising your compensation bill while increasing employee satisfaction at the same time.

There is more value to be unlocked at every stage in the deal cycle. Now is the time to think differently.
Your people and your risk really do make a difference. 
Doing nothing is not an option

We reiterate our firm belief – thinking differently about your risk and people can lead to a step change in value from your natural resource investments. But there’s more to it. Sticking to traditional approaches could see your investments leaking value. Here are six reasons why

1. Bad risk management is getting costlier.
   Regulation like the EU’s GDPR and China’s cyber-security law could result in harsh financial penalties if you aren’t able to demonstrate robust risk management in your acquired assets

2. Not revisiting risk transfer arrangements is a value opportunity squandered.
   Insurers may view NewCo’s risk profile differently as part of a different asset portfolio, and be willing to offer better rates. Without re-engaging the market, you could leave significant value on the table.

3. Risk incidents impact reputations. Your investors care
   Investors are increasingly measuring value both from a commercial and a reputational perspective. To manage the reputational exposure, they expect nothing short of best-in-class risk management.

4. The Natural Resources skill pool is shrinking.
   Experienced workers are ageing and millennials no longer find the industry attractive. Without demonstrating a meaningful employee experience you could lose out on the best talent.

5. Competition for staff is set to escalate.
   Energy-related industries already have the highest paid engineers in the UK(5), a sign of increasing competition as the skill pool depletes. If your best employees do not see a pathway through the deal-driven uncertainty, they could leave.

6. Staff anxiety through the deal process is very real.
   Without effective leadership, only 10% of staff remain highly engaged. And 68% in directly affected jobs say they must leave to advance careers(6). Strong leadership development and robust communications are critical to deal success.

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6 Willis Towers Watson 2016 Global Workforce Study
Risk and People value levers exist at every stage of the deal cycle. But how do you get to them?

Intricate supply chains, complex operating structures, deep technical expertise, an ever-changing risk landscape. Natural resource companies have all the conditions for significant untapped Risk and People value.

### Pre-deal “mitigating risks”
- Assess risk profile fits to your existing portfolio
- Understand risk transfer options & your balance sheet exposure
- Understand risk landscape impact on potential exit routes

### During the deal “optimising value”
- Robust, fact-base due diligence to understand the insurance upside
- Building the financial impact of risk into the target’s fair value
- Optimising the cost of transaction insurance during the deal cycle

### Post-close “propelling growth”
- Deep analytics to optimise risk retention vs. transfer
- Reducing risk transfer costs by leveraging your wider platform
- Enterprise-wide view of emerging risks and mitigation options

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**Unlocking value in Risk**
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**Unlocking value in People**
- Understand the hot spots in your targets’ HR landscape
- Get on the human capital front foot with a HR integration playbook
- Assess the role of the workforce in driving deal goal success
- Align senior executives incentives to deal timeframes
- Identify and ensure the right talent accompanies the carve-out
- Identify pensions & benefit synergies across your portfolio
- Deeply engaging NewCo’s staff to build momentum and morale
- Building a top-class employee experience to boost productivity
Piper Alpha, Texas City, Deepwater Horizon...the list goes on. Our data shows that energy industry losses have cost almost $160 billion(?) since the turn of the century, and human factors play a fundamental role. Yet we find that our PE clients could do much more to understand the risk and people landscape as they evaluate targets. Here are some ways in which we can help

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<th>Pre-deal “mitigating risks”</th>
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**Operational risk review**
Conducting a high-level review of your targets’ risk transfer arrangements compared to their risk profile, to assess gaps in cover and uninsured risks

**Pre-deal**

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**Transaction risk transfer advisory**
Providing advice, tailored to your deal situation, around obtaining transaction insurance solutions (warranty & indemnity, tax, contingent risk etc.)

**Risk management and culture assessment**
Understanding the depth and quality with which risk is embedded into decision-making at your targets

**Pre-deal**

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**HR playbook development**
Establishing a robust approach and process for managing the human capital aspects of the deal, to ensure maximum retention of required staff and no loss in productivity

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7 Estimate of loss amount at the time of loss occurrence. Data from Willis Energy Loss Database (WELD) for the period 01-2000 to 07-2017. Only individual losses over $1m considered. Includes property, Business Interruption and OEE losses only.
The role razor-sharp due diligence plays in achieving a robust valuation. Or how integration planning could make or break long-term outperformance. We understand these considerations implicitly. So our suite of deal-based solutions are designed to provide strategic insights on areas traditionally considered transactional. We think this gives our clients an edge in unlocking value.

During the deal “optimising value”

<table>
<thead>
<tr>
<th>Insurance due diligence</th>
<th>Transaction-based risk transfer solutions</th>
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<tbody>
<tr>
<td>Identifying risk and insurance issues prior to an acquisition, ensuring that financial implications are included in the negotiation, modelled or mitigated</td>
<td>Providing a range of flexible risk transfer options necessary to operate in a transaction environment - warranty &amp; indemnity, tax, contingent risk, environmental and public offering of securities</td>
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<table>
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<tr>
<th>Executive compensation and total reward optimisation</th>
<th>Pension and Benefits harmonisation</th>
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<tr>
<td>Assessing existing executive compensation programmes to align with deal targets and time frames. Harmonising the compensation programme to effectively manage talent at the right cost</td>
<td>Identifying and managing employee benefit costs and risks, and driving employee engagement by developing a successful benefits strategy for NewCo</td>
</tr>
</tbody>
</table>
Two thirds of senior PE leaders believe their primary importance to oil and gas companies is to provide capital for growth\(^8\). But translating growth into tangible value outperformance at your portfolio companies is not easy. Are your growth priorities compromising your risk profile? Have your people signed up to the growth journey? We can help answer these questions.

### Post-close

**“propelling growth”**

<table>
<thead>
<tr>
<th>Risk analytics</th>
<th>Risk transfer solutions</th>
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<tr>
<td>Strategically evaluating NewCo’s risk profile and recommending optimal levels of risk retention vs. transfer</td>
<td>Using our deep insurance market leverage to provide the best pricing on cyber protection, general liability, workers compensation, property and casualty, environmental, directors and officers and other risk transfer products</td>
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<th>End-of-life risk management and transfer</th>
<th>Organisational design strategy</th>
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<td>Facilitating a “clean” exit by understanding residual exposures at the end of your fund’s life in areas such as warranties, tax, titles and environment, and devising tailored solutions to mitigate their risks</td>
<td>Aligning NewCo’s business and support functions to deal goals, while balancing day-to-day operational needs</td>
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<th>Change management and communications</th>
<th>Employee experience</th>
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<td>Ensuring that NewCo’s workforce believe in, engage and feel a sense of ownership with the transition</td>
<td>Crafting a meaningful end-to-end experience for NewCo’s employees that boosts productivity, keeps morale high, and works towards short and long term deal targets</td>
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\(^8\) Capitalising on opportunities: Private equity investment in oil and gas. Mergermarket and EY, Q1 2016
Why Willis Towers Watson? We bring together risk, people and industry insight in a way that no one else can

Our starting point, at the intersection of risk and people, is in itself a powerful perspective on your target investments. But add in our unrivalled experience in natural resources, and you have a unique advisor who is willing to partner with you through your deal journey in a volatile and turbulent industry

We understand the natural resources industry
We work with over 70% of the top 100 global oil, gas and chemicals companies, including all of the supermajors. If your counterparty is a trade seller, chances are we know them well

We understand the deal environment
We have acted as people and risk advisors to over 85 PE firms through all stages of the deal cycle. Globally, we advise on over 1,000 PE transactions and an equal number of M&A deals annually

Our risk and people advice is very real and tangible
We go well beyond generic, high-level risk frameworks and operating model designs. Our experts will partner with you to devise and implement real solutions that work on the ground

Our outlook is global
We bring seamlessly-integrated global solutions to address our clients’ global portfolios. But with a deeply embedded presence in over 140 countries, we don’t lose sight of unique local nuances
Creating value through a platform risk transfer solution

Our client had recently closed on a portfolio of global oil and gas assets.

Individual assets in the portfolio were making premium and coverage decisions locally. As a result, the portfolio was losing out on economies of scale and running a complex programme with high overheads.

WTW were asked to:
- suggest consolidation approaches to the insurance programme
- reduce the cost of the programme
- advise on de-risking the separation of risk transfer arrangements from the seller’s wider portfolio to the standalone NewCo

WTW’s Energy team worked closely with the insurance markets to devise a platform solution that leveraged the risk profile of the PE client’s existing assets.

We put forward a:
- **25% discount** on NewCo’s current insurance rates
- comprehensive coverage, incorporating all major Exploration & Production (E&P) risk transfer products
- flexible mandate, allowing our client to **select coverage across the asset portfolio** on a ‘menu’ basis
- structure that seamlessly allowed **newly acquired assets to be added** to the programme
- **bespoke coverage for enhancements** such as cyber and North Sea financial responsibility

Though the 25% rate reduction was a significant value-add to our client, we didn’t stop there.
- Our detailed transition plan was underpinned by a dedicated transition manager situated at the client’s offices
- Noting the client’s priority around setting up a standalone insurance team, we offered a part-time secondee to build a solid foundation, at **no extra cost** to the client
- Our simplified and homogenous full perimeter cover opened the door to **further rate reductions** as our client’s portfolio expands
- Our proposal vastly simplified internal administration for the client, **lowering their overheads**

Identifying employee pensions and benefits upside in a global JV transaction

Our client was looking to contribute business units into a Joint Venture (JV) with a large publicly owned chemical company

The objective was to run the JV as a standalone entity and ultimately buy-out the business partner. Our client needed help:
- Assessing employee benefit liabilities and their impact on the deal valuation.
- Assessing any hidden risks associated with the transferring employee benefit plans
- Understanding the practical process for business segmentation

Our global M&A team worked closely with local management and in-country experts

Our work helped to:
- Identify missing and under-reported liabilities
- Negotiated and agree a common approach to valuing benefit plan liabilities
- Agree the pensions section of the agreement which protected our client against potential unknown risks
- Identified employee benefit issues and coordinated the segregation of transferring plans

The above supported the creation of a successful JV that ranks among the top three producers of their kind worldwide, with over 4,000 employees in ten countries.

We continued to support our client by:
- Supporting the subsequent shareholder buy out to become a wholly owned standalone entity
- Facilitating the subsequent separation of plans as a result of the buy out
- Coordinating the IAS19 reporting requirements for the remaining defined benefit plans – providing consistency and efficiency
- Establishing ongoing plan and liability governance for NewCo
Deep people and risk insight, extensive natural resource industry knowledge and years of experience working in a deal-driven environment. Our team brings all of this together.

Thorsten Querfurt is the Global Industry Leader for Natural Resources at Willis Towers Watson, responsible for bringing the best of the firm’s capabilities together to address our Natural Resources clients’ needs globally.

Prior to joining Willis Towers Watson, he was a Partner in Oliver Wyman’s Energy practice, where he advised large NR clients on their key human, operational and strategic risk challenges.

Alessandro Guerrini-Maraldi is the founder and Managing Director of Willis Towers Watson Global Solutions International, providing tailored human capital and risk management advisory services & solutions to over 100 PE clients and investment firms.

Prior to founding the Global Solutions practice, he was the Global Deputy Chairman of the Aerospace division.

Alessandro has 20+ years of deep risk and insurance markets experience.

Jana Mercereau leads Willis Towers Watson’s Human Capital Transaction Advisory practice in the UK, covering all aspects of advice from pre-deal planning through due diligence and implementation execution.

Jana has supported many of the world’s largest deals and has deep corporate and PE advisory experience.

Alex Keville leads Willis Towers Watson’s Transactional Risks M&A team, providing bespoke transactional insurance products to clients globally.

Prior to joining Willis Towers Watson, Alex helped build the M&A team at a global insurance brokerage.

Alex is a corporate lawyer by background, having spent 11 years practicing corporate and insurance law at major UK-based and global law firms.

Our 125+ dedicated energy professionals around the world work with over 70% of the top 100 global oil, gas and chemicals companies.
About Willis Towers Watson

Willis Towers Watson (NASDAQ: WLTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 40,000 employees serving more than 140 countries. We design and deliver solutions that manage risk, optimize benefits, cultivate talent, and expand the power of capital to protect and strengthen institutions and individuals. Our unique perspective allows us to see the critical intersections between talent, assets and ideas — the dynamic formula that drives business performance. Together, we unlock potential. Learn more at willistowerswatson.com.